

Prospects of Islamic Financial Services towards Sustaining Nigerian Economy

Adenigba, Sikiru Atanda¹
Olaitan, Abdulkabir Oladapo²

ABSTRACT

Nigeria is deemed as Africa's largest economy with numerous wealth, bounties, and a plethora of resources. But the fact that many Nigerians still live in drastic poverty has raised concerns among scholars and researchers. The Nigerian economic sustainability records low growth due to corruption which is inflicted by dealings in interest, gambling, and other unethical conducts. Therefore, this paper aims at investigating the prospects of Islamic Financial Services in the Nigerian economic sustainability. The paper also explores Islamic financial services and how they can be used for their purposes. The study finds that many Nigerian citizens see the Islamic financial institutions as ordinary religious organisations that only cater for the welfare of the Muslim populace. It also finds that the Nigerian government pays little spotlight to Islamic financial industries in comparison to its conventional counterpart as a way to sustain the economy. The paper, therefore, concludes that Islamic financial services could be employed to rescue the current situation of the Nigerian economy if properly supervised and utilized. The paper recommends that the Nigerian government should fortify and key into the operations of Islamic financial institutions as these will bring about an equitable distribution of income and resources, poverty alleviation, and discovery of employment opportunities in the country.

Keywords: *Prospects, Islamic financial services, economy, Nigeria*

INTRODUCTION

The concept of economic sustainability implies the processes that aid long-term effects on a country's economic growth without negatively influencing the country's environmental, social and cultural atmosphere. It is a crucial part of a country's sustainability which is actualized by safeguarding and sustaining human and material resources to produce long-term values through optimal recovery and usage.³ A stable economy procures the basis for all other sustainable growth in the country. Without a solid economic basis, there would be no means to invest in the well-being of citizens. A sustainable economy will also assist to confront new challenges, such as increasing security and the health sector.⁴

¹ Department of Islamic Studies, Faculty of Humanities and Social Sciences, Al-Hikmah University, Ilorin. adenigba69@yahoo.com; saadenigba@alhikmah.edu.ng

² Postgraduate Student Department of Islamic Studies Faculty of Humanities and Social Sciences Al-Hikmah University, Ilorin

³ R. Marie "Economic Sustainability," Retrieved from <https://www.hig.se/Ext/En/University-of-Gavle/About-the-University/Environmental-Work/Whs-sustainable-development-at-HiG/Economic-sustainability.html#:~:text=Economic%20sustainability%20is%20an%20integrated,optimal%20use%2C%20recovery%20and%20recycling>. Accessed on 18/08/2022.

⁴ ACCIONA, "Economic Sustainable Development" Retrieved from <https://keke.bc.fi/Kestavakehitys/english/economic-sustainable-development/> Accessed on 18/08/2022.

Looking at the present Nigerian economic context from the standpoint of sustainable growth, it is observed that the country is not able to substantiate a defined level of tentative economic production. Many economic advancement obstacles are found in different sectors within the country. The transformation process is full of economic crises. Most of the citizens are enmeshed in poverty, seasonal unemployment, recession, inflation, and endemic corruption has become the order of the day.⁵

However, the present government has set up different economic sustainability plans that will robustly respond to the challenges of the economic crises majorly caused by the COVID-19 pandemic and create a financial stimulus package to boost the economy. In view of all these plans, the economy of nature is yet to mark any step of progress but rather getting worse.⁶ The whole economy of the nation is being handled by the capitalist financial expert, without giving normal consideration to the alternative system of finance as employed by many developed countries in the world.

Islamic finance could rescue the current situation of the Nigerian economy due to its nature of being ethical. Islamic finance has attained momentum ground and acceptability in the global market; it has documented substantial advancement and growth in previous decades. According to the Research and Market, the cumulative Islamic finance assets across the globe surpassed US\$ 24 trillion in 2017.⁷ These assets that are more than 500 Islamic financial institutions are projected to attain US\$ 3 trillion by 2023.⁸ Apparently, the significance of Islamic financial services has been discerned mainly during the 2008 global economic recession, which is because of its stability to economic and financial trauma.

Islamic financial institutions and their investment depositors share risk and as such are less likely to crumble. The institutions promote financial stability and macroeconomics during periods of economic crisis by injecting more financing modes into the real sector for investment. The relative stability of Islamic finance, coupled with its alarming development during recent crises, has attracted global interest in *Shari'ah*-compliant financial institutions from finance analysts and policymakers.⁹ In addition, researchers and academics are drawn to cover the reality of this emerging financial segment of the global economy.

In Nigeria, the Islamic financial system has encountered crucial transformation and development among private organisations over the years. Presently, the country has the fastest growth in Islamic finance assets and continues to experience rapid expansion in deposits and investment assets financing.¹⁰ The presence of a sizeable Muslim population is an important factor that encourages the development of Islamic finance in Nigeria. Nigeria is home to the largest Muslim population in West Africa and it has the potential to become the hub of Islamic finance in the African continent. It is ranked among the most vibrant emerging Islamic financial systems in the world.¹¹

⁵ I. E. Okoye, "Surviving the Present Economic Situation in Nigeria: the role of the university and the alumni" Festschrift in honour of prof pita NwabuezeEjiofor. Faculty of management siene, NamdiAikwe University, 2017.

⁶ M. Obaidullah, "Islamic Financial Service". (Jedah: Jedah publishing house, 2005). Retrieved from https://www.researchgate.net/publication/266149378_P.49-502005. Accessed on 18/08/2022

⁷ Research and Market "Global Islamic Finance Market - Growth, Trends, and Forecast" Retrieved from https://www.researchandmarkets.com/research/bq7pb4/global_islamic?w=12 Assessed on 15/06/2022.

⁸ T. Reuters, "Islamic Finance Development Report, 2018 Building Momentum" Retrieved from <https://repository.salaamgateway.com/images/iep/galleries/documents/20181125124744259232831> Assessed 15/06/2022.

⁹ M. I Tabash, and R. S Dhankar, "Islamic banking and economic growth: An empirical evidence from Qatar," in *Journal of Applied Economics and Business*, 2014. 2(1), 51.

¹⁰ T. S, Zaher, and M, Kabir, "A Comparative Literature Survey of Islamic Finance and Banking," *Financial Markets, Institutions & Instruments*, 10(4), 155- 199.

¹¹ Zaher, and Kabir, "Islamic banking and economic growth: An empirical evidence from Qatar,"... 67

However, the Islamic finance and growth nexus has received little attention in comparison to its conventional counterpart. The Nigerian government pays little attention to Islamic finance industries, while many Nigerian citizens see it as an ordinary religious organisation that only caters for the welfare of the Muslim populace. Based on this background, this study aims at bringing to the fore the enabling prospects of Islamic financial services in the development of the Nigerian economy, especially at this time when the economy is being faced with numerous challenges.

SCOPE AND METHODOLOGY

The scope of this study covered prospects of Islamic financial services towards sustaining Nigerian economy and the methodologies adopted were historical and descriptive in nature. The historical method was used to highlight key events in both conventional and Islamic financial systems in Nigeria, while descriptive method was used to elucidate the prospects of Islamic financial services.

NIGERIAN DEMOGRAPHY

Nigeria is situated in the west Africa Sub-region with an estimated population of 225,082,083 (2022 est.) according to the 2022 CIA World Factbook.¹² About 53.5% are Muslims, 45.9% are Christians while about 0.6% belong to African traditional religion. The governmental system adopted in Nigeria is democracy¹³.

OVERVIEW OF THE NIGERIAN ECONOMY

It is worth beginning that the current Nigerian Economy is not much promising as expected. Several economic indicators such as the rising rate of inflation; Interest and Foreign Exchange Rates; the Balance Of Payments Deficit; the unemployment rate, and the global decline in the price of Crude Oil are only a few of the multiple indicators that foreshadow economic impoverishment.¹⁴

Coupled with all these, the economy also faced several socio-political issues, including insecurity, poor infrastructure, development, and the devastating effects of the COVID-19 pandemic. Nevertheless, it is a well-rooted position that the Nigerian economy is one of the largest in Africa. It ranked the 27th-largest economy in the world in terms of nominal GDP, and the 24th-largest in terms of purchasing power parity.¹⁵

The Crude Oil

There has been an over-reliance on crude oil as the mainstay of her economy. It is reported that the Oil Sector accounts for more than 80% of her exports. In 2018, 40% of Nigerians lived below the poverty line, while another 25% were vulnerable.¹⁶ In the 1970s, Nigeria's revenues from petroleum remained constant not until fluctuations occurred in the prices of the world oil market and the mass-growing population of the country. To solve these awful

¹² CIA World Factbook (2022). Nigeria. Retrieved 04 November, 2022

¹³ CIA World Factbook (2022). Nigeria. Retrieved 04 November, 2022

¹⁴ S. Tasiu, and A. Muhamad, "Islamic Financial Development and Economic Growth in Nigeria: A Bounds Testing Approach," in *Journal of Islamic Monetary Economics and Finance*, 2020, 6, (3). 597-620 ISSN: 2460-6146, e-ISSN: 2460-6618

¹⁵ WorldBank, Retrieved from <https://www.worldbank.org/en/country/nigeria/overview>. Accessed on 12/06/2022.

¹⁶ Britannica, Retrieved from <https://www.britannica.com/place/Nigeria/Resources-and-power>. Accessed on 12/06/2022.

trends, Nigeria continued to face a decline in revenue growth. Hence, the government attempted to counter this by borrowing from international sources and introducing various austerity measures.¹⁷

Remarkably, the country benefited from a 2005 debt-relief plan by which the majority of its debt to a group of creditor countries known as the Paris Club would be forgiven once it meets certain conditions which were successful for Nigeria. This was done to cushion the economy and regain stability. Adding to the above, the country produced about 780.69 million barrels of crude oil in 2015 which was the highest between 2015 and 2017. It fell to 668.58 million in 2016 but significantly increased again in 2017 to 686.67 million. Consequently, there has been a constant decrease in the price of crude noting the periods between 2015 and 2017.¹⁸

It, therefore, becomes imperative and incumbent to make it known at this juncture that there are other sectors of the economy, generating revenues for the country, apart from the crude.

The Agriculture Sector

Another key sector of the Nigerian Economy is the agricultural sector in the time past, even during the colonial eras, agriculture was the mainstay of the geographical entity now known as Nigeria. The agriculture sector contributed largely to the Nigerian economy not until the late 1970s when it was substituted with crude oil.¹⁹ The reason for this chill was a result of considering the agricultural sector as a means of survival and not contributing to the nation's economy. Presently, the sector is accounting for over 25% of the Nation's Gross Domestic Product (GDP) and it is also responsible for over 30% of the existing employment in the country.²⁰

On the contrary, the agricultural sector is laced with some challenges not limited to the fast-increasing population of the country, urbanization acceleration, inaccessibility to lands, inadequate funds, poor infrastructural facilities, among others. The food shortage continues to deteriorate despite the efforts of the government to regulate the crisis. There have been countless government interventions to rescue the agricultural sector from the shackles of setbacks. Programmes like Operation Feed the Nation of 1976-80 were a giant stride that sought to increase food production in the country and most targeted at reducing food importations. The clarion calls helped Nigerians to produce what they eat being a producing nation than a consuming one.

FINANCIAL SECTOR

The Central Bank of Nigeria inaugurated some comprehensive banking sector reforms in the Nigerian banking industry to address poor corporate governance and immoral practices in the industry. Coming under the lists are:

- i. The newly created Asset Management Corporation of Nigeria (AMCON) to buy non-performing loans in exchange for government bonds to help improve their

¹⁷ Budgit, Retrieved from <https://yourbudgit.com/economy/> accessed Assessed on 12th/06/2022.

¹⁸ AFDB, Retrieved from <https://www.afdb.org/en/countries-west-africa-nigeria/nigeria-economic-outlook>. Accessed on 12/06/2022.

¹⁹ O, Muiywa, The future of agriculture in Nigeria Retrieved from <https://legalpages.com.ng/the-future-of-agriculture-in-nigeria-from-cutlasses-to-drones/>. Accessed on 12/06/2022

²⁰ O, Clifford, "Islamic financing and banking in the Nigerian economy, Is it workable? A review of related issues and prospects," Retrieved from www.emeraldinsight.com/1753-8394.htm. Assessed on 14th June 2022

- capital and liquidity, restore confidence, and revive lending in the Nigeria's banking sector.²¹
- ii. The Central Bank of Nigeria (CBN) has established a 500 billion naira Infrastructure Fund to assist corporations in the power, aviation, and manufacturing sectors in its bid to stimulate economic growth and infrastructure development. The funds are protected by a government guarantee and would be channelled through the Bank of Industry (BOI) lending to banks and eligible end-users.²²
 - iii. CBN has established a 200 billion naira Small and Medium Enterprises Credit Guarantee Scheme to provide credit to factories and small and medium businesses in Nigeria for the advancement of small and medium enterprises and the manufacturing sector. The scheme is 100% funded and supervised by the Central Bank.²³
 - iv. CBN has established a 200 billion naira Commercial Agriculture Credit Fund to provide credit facilities to commercial agricultural enterprises and to fast-track the growth of the agricultural sectors.²⁴

PREVIOUS MEASURES TAKEN FOR ECONOMIC SUSTAINABILITY

From the time past, the federal government of Nigeria has come up with different programmes, plans and strategies to reform the economy of the nation. These economic reform programmes are the government's conscious formation of economic policies and programmes aimed at strengthening the performance of the various sectors of the economy. Examples of some of the economic reform programs are the consolidation of financial institutions, privatisation, commercialisation, indigenisation, nationalisation, and deregulation. The rationales for this are to build an enviable economy for Nigeria that will accrue a competitive advantage to the country. It is also meant to invest and equip Nigerians by driving social inclusion, job creation, youth empowerment, and improved human capital.²⁵

Below are the trends analyses of major economic reform programmes that have been embarked on to sustain the Nigerian Economy.

i. First National Development Plan (1962-1968)

The first National Development Plan was from 1962-1968 and was prepared by the Minister of Economic Development in collaboration with the United Nations and Ford Foundation experts. It aimed at creating cooperation between public and private sectors, as well as between federal and regional governments with emphasis on technological advancements, education, agriculture, and government industries. It also aimed at a high level of growth which was required to displace the colonial before it. It needed a practical study of the economic viewpoints of both public and private sectors in the country.²⁶

²¹ Asset Management Corporation of Nigeria (AMCON), Retrieved from <https://amcon.com.ng>. Accessed on 20th August, 2022

²² Asset Management Corporation of Nigeria (AMCON), Retrieved from <https://amcon.com.ng>. Accessed on August, 2022

²³ Central Bank of Nigeria (CBN), Retrieved from <https://www.cbn.gov.ng>. Accessed on 20th June, 2022

²⁴ Asset Management Corporation of Nigeria (AMCON), Retrieved from <https://amcon.com.ng>. Accessed on 12 August, 2022

²⁵ AFDB, Retrieved from <https://www.afdb.org/en/countries-west-africa-nigeria/nigeria-economic-outlook>. Accessed on 12/06/2022

²⁶ Nigeria National Development Plan 1962-1968: <https://documents.worldbank.org>. Accessed on 12th June, 2022

ii. Second National Development Plan (1970-1974)

The Second National Development Plan covers the period 1970-1974 with a capital expenditure of 3 billion naira. The Plan was unveiled to regulate some of the drawbacks of the first development plan. This development plan was also referred to as the oil-boom development plan because it coincided with the period when Nigeria made high earnings from the sales of crude oil products.²⁷

iii. The Third National Development Plan 1975-80.

This plan also cuts down within the oil-boom periods and was regarded as the largest and most ambitious of all the plans ever launched.²⁸ The plans were long in term and their objectives were to increase per capita income, equal distribution of income, reduce unemployment rate, increase the supply of high-level manpower, diversify the economy, ensure balanced development, and indigenisation of economic activities.²⁹

iv. The Fourth National Development Plan 1981-1985.

This development plan reaffirmed the long-term National objective of the proceeding plan. The plan was launched simply to strengthen the third national development plan with much more commitment to oil reserves. The objectives of this plan were for the promotion of export-oriented industries, and the enhancement of local firms through the development of small and medium scale businesses. It is the first plan to be developed by a democratically elected government under a new constitution founded on the presidential system of government. Furthermore, the plan is broadly enormous than the previous plan with a projected capital expenditure of 82 billion.³⁰

v. National Poverty Eradication Programme (NAPEP)

National Poverty Eradication Programme (NAPEP) is a 2001 programme by the Nigerian government aimed at poverty reduction, in particular, the reduction of absolute poverty. NAPEP coordinates and oversees various other institutions, including ministries, and develops plans and guidelines for them to follow with regard to poverty reduction. The objectives of the programme include maintaining employment in the automobile industry, training Nigerians in vocational industries, supporting internships, and supporting micro-credit.³¹

vi. The 2004 National Economic Empowerment and Development Strategy (NEEDS)

The 2004 National Economic Empowerment and Development Strategy (NEEDS) concentrates on poverty reduction and commitment to sustainable growth in the country. The programme is based on enhancing social service delivery, empowering people, stimulating

²⁷ Nigeria National Development Plan 1962-1968: <https://ibrahimgco.blogspot.com>. Accessed on 15th August, 2022

²⁸ Institute of Developing Economies: <https://www.ide.go.jp> Accessed on 6th September, 2022

²⁹ Institute of Developing Economies: <https://www.ide.go.jp> Accessed on 6th September, 2022

³⁰ Fourth National Development Plan: <https://pubmed.ncbi.nlm.nih.gov>. Accessed on 10th September, 2022

³¹ NAPEP, National Poverty Eradication Programme in Nigeria: <https://ideas.repec.org> . Accessed on 9th August, 2022

economic growth, and enhancing the effectiveness and efficiency of government and the system of governance in Nigeria.³²

REFORMATION OF THE NATIONAL BUREAU OF STATISTICS (NBS)

The reformation of the National Bureau of Statistics (NBS) came into existence with the merging of the National Data Bank (NDB) and the Federal Office of Statistics (FOS). The creation is part of the implementation of the Statistical Master Plan, a programme created by the Federal Government of Nigeria. The goal of the entire reform programme for the National Bureau of Statistics is to modify the agency into a standard National Statistical Office which will generate adequate, high-quality, and timely data relevant to the Nigerian markets for users in Government, private sector organisations, international agencies, universities, and research institutes.³³

Finally, in 2008, President Yar'adua introduced the Seven-Point Agenda as a short-term measure to address some critical issues of the time but was not fully implemented because of the death of Yar'adua. President Jonathan also took over the government and introduced the "Transformation Agenda" to address the economic crises of the state, while President Muhammad Buhari who happened to be the current President of Nigeria introduced the 10-Point Road Map of Economic Recovery and Growth Plan.³⁴

CHALLENGES OF THE PREVIOUS DEVELOPMENT –PLANS IN NIGERIA

Nigeria had embarked on or launched several National Development plans to achieve an all-around development. Unfortunately, the development plan was unable to achieve its aims to the fullest. Therefore, the following challenges have been identified as some of the factors that militated against the full actualisation of the previous economic development plans.

a. Corruption

Corruption is the most challenging problem that has eaten deep into the bone marrow of Nigerian leaders. The funds that would have been used for the commissioning of the development plans have been mismanaged and converted into personal bank accounts.³⁵

b. Political instability

The period before 2000 was characterised by frequent transitions of governments by military coups in Nigeria. These were the exalted time when these economic development plans were launched. The political atmosphere was unstable and successive administrations were not interested to continue or implement projects that were initiated by their predecessors. The military coups and counter coups as well as the change of government to civilian administration destabilized the implementation of all the development plans in Nigeria.³⁶

³² NEEDS, National Economic Empowerment and Development Strategy: <https://www.walyben.com> Accessed on 6th July, 2022

³³ National Bureau of Statistics: <https://www.nigeriastat.gov.ng> . Accessed on 22nd June, 2022

³⁴ National Bureau of Statistics: <https://www.nigeriastat.gov.ng> . Accessed on 22nd June, 2022

³⁵ Garba I. Sheka, Introduction to Islamic Microeconomics. Kano, Bayero University Press, 2013. 31

³⁶ Garba I. Sheka, Introduction to Islamic Microeconomics. 31

c. Lack of discipline

Indiscipline became pronounced in the execution of most of the previous reform plans. Also strategies as these programmes were being handled by those who are not capable of the task.³⁷

d. Lack of commitment

Lack of commitment toward adequate planning and proper implementation is responsible for the failure of previous economic plans in Nigeria. The planners did not carry out intensive feasibility studies and extensive statistics about the cost of the project before including them in the development plans as this transpired to littering the country with abandoned and incomplete projects.³⁸

ISLAMIC FINANCIAL SERVICES

Banking operations of the conventional system involve "debt-related riba" and "sales-related riba" which is vividly prohibited by Allah and His messenger. They borrow and lend in exchange for particular and specified paid revenue. These conventional products and services are not found in many classes of fairness relevant to the proper well-being of humanity such as freedom from coercion, freedom from impulse, the right to equal bargaining power, and the right to trade at efficient prices.³⁹ Therefore, Islamic scholars have embarked on an extensive analysis of relevant verses from the Noble Qur'ān and the traditions of the Prophet coupled with a study of conventional financial services to present some Financial Services that meet the basic principles of Islamic commercial law. These services are ethical, free from interest, gambling, and excessive uncertainties, and are entitled to adequate and equal Information.⁴⁰ These services are discussed as follows;

i. *Mushārah*

Mushārah is an Arabic word that implies sharing in the context of Islamic commercial law. It means a communal investment in which all the partners share the profit or loss of the joint enterprise. It is a distinguished recourse for interest-based financing with far-reaching impacts on both production and distribution. In conventional economic policy, Interest is the only instrument indiscriminately used in project financing. Since Islam has outlawed interest, this instrument cannot be utilised for procuring funds of any kind.

The financier in *Mushārah* suffers a loss if the joint venture fails to yield. The return in it is based on the original profit earned by the mutual venture and does not conjure a fixed rate of return, unlike the conventional setting where the financier of an interest loan cannot suffer loss and get a fixed rate of return on a loan evolved irrespective of the profit obtained or loss suffered by the debtor.⁴¹

ii. *Mudārah*

Mudārah is a unique partnership business mode where one partner gives money to another for commercial investment. The investment comes from the *rabb-ul-mal* who is the first

³⁷ Garba I. Sheka, Introduction to Islamic Microeconomics. 31

³⁸ Garba I. Sheka, Introduction to Islamic Microeconomics. ... 31

³⁹ T. U. Muhammad, An Introduction to Islamic Finance, (Karachi, 1998) 17. Retrieved from <https://muftitaqiusmani.com>. Accessed on 12/06/2022.

⁴⁰ M. Ayub, *Understanding Islamic Finance*, (England: John Wiley & Sons Ltd), 307.

⁴¹ M. Ayub, *Understanding Islamic Finance...*, 308

partner, while the work and management are exclusive responsibilities of the other partner, who is called *mudârib*.

The *rabb-ul-mal* may designate a particular enterprise for the *mudharib*, in which case he shall invest the capital in that particular business only. This is called *al-mudharabah al-muqayyadah (restricted Mudârabah)*. But if the business content is left open for the *mudarib* to venture into whatever he desires, the *mudârib* shall be authorised to invest the capital in any business he speculates. This type of service is called *al-mudârabah al-mutlaqah (unrestricted mudârabah)*.

The *mudârib* is authorised to do anything which is typically done in the course of the business. However, if they want to do extraordinary work, which is beyond the normal formality of the traders, they cannot do so without consent from the *rabb-ul-mal*.⁴²

iii. *Diminishing Mushâarakah*

Another Islamic financial service utilised in recent times is the form of *mushâarakah*, which was developed by scholars of Islamic finance in the near past, popular known as ‘diminishing *mushâarakah*. According to this concept, a financier and his client partake either in the joint ownership of a property or a piece of apparatus or in a collective commercial enterprise. The share of the financier is further divided into several units and it is believed that the client will purchase the units of the share of the financier one by one occasionally, thus intensifying his share till all the units of the financier are obtained by him to make him the sole owner of the item, or the commercial enterprise.⁴³ The diminishing *mushâarakah* based on the above concept has taken various shapes in different transactions. an example of this transaction is bellowed:

It has been employed predominantly in house financing. A client wants to acquire a house for which he does not have adequate funds. He collaborates with the financier who agrees to join him in acquiring the property. 10% of the price is paid by the client and 90% of the fee by the financier. Thus the financier owns 90% of the house while the client owns 10%. After acquiring the property together, the client utilises the house for his residential requirement and reimburses rent to the financier for making use of his share in the property. At the exact time, the share of the financier is further broken into nine equal units, each unit representing 10% ownership of the house. The client convinces the financier that he will acquire one unit after some months. He purchases one unit of the share of the financier after the first term of three months by paying 1/10th of the price of the house. It diminishes the share of the financier from 90% to 80%.

Hence, the money owed to the financier is also decreased to that extent. At the end of the second term, he purchases another unit expanding his percentage in the property to 50% and reducing the share of the financier to 70%, and consequentially reducing the rent to that proportion. This procedure gets on in the same manner until after the end of two years, the client purchases the whole share of the financier decreasing the share of the financier to ‘zero’ and extending his share to 100%. This agreement allows the financier to claim rent according to his percentage of possession in the property and at the same time enables him a periodic return of a part of his dividend through purchases of the units of his share.⁴⁴

⁴² M. Ayub, *Understanding Islamic Finance...*, 308

⁴³ M. Ayub, *Understanding Islamic Finance...* 308

⁴⁴ M. Ayub:, *Understanding Islamic Finance...* 308

iv. *Murābaha*

Murābaha is a term of Islamic jurisprudence that refers to a particular kind of deal having nothing to do with financing in its actual perception. A renowned Hanafi scholar Al-marghinani has defined *murābaha* as “the sale of anything for the fee at which it was acquired by the seller and an addition of a fixed sum by way of profit”. *Ibn-qudama*, a Hanbali scholar also defined it as “the sale at capital cost plus an assumed profit; the knowledge of capital cost is a precondition in the transaction. In the opinion of Imam Malik, *murābaha* is conducted and finalized by exchanging goods and prices including a mutually agreed profit margin. The basic component of *murābaha* is that the seller reveals the substantial price he has incurred in obtaining the item and then adds some profit thereon. The payment in the case of *murābaha* may be a spot and may be on a subsequent date agreed upon by the parties.

The only characteristic distinguishing it from other types of sales is that the salesperson in *murābaha* expressly notifies the purchaser of how much cost he has incurred and how much profit he is going to charge in addition to the actual cost. However, this kind of service is being used by Islamic banks and other financial institutions by adding some other concepts to it as a mode of financing.⁴⁵

v. *Ijārah*

Ijārah is a term of Islamic *fiqh*. Technically, it means ‘to offer something on rent’. In Islamic commercial law, the term *ijārah* is used for two different circumstances. In the first place, it means ‘to utilize the services of a person on compensations given to him as an appreciation for his hired services. The employer is known as *musta’jir* while the employee is called *ajir*.⁴⁶

Therefore, if Z is employed by Y in his office as a manager or as a clerk on a monthly salary, Y is a *musta’jir*, and Z is an *ajir*. Similarly, if A has hired the services of a driver to carry his baggage to the airport, A is a *musta’jir* while the driver is an *ajir*, and in the two cases, the transaction is referred to as *ijārah*. This type of *ijārah* includes every agreement where the services of a person are hired by another. He may be a farmer, a lawyer, a teacher, a labourer, or any other person who can render some practical services.

The second type of *ijārah* relates to the usufructs of properties and not to the services of human beings. *Ijārah* in this regard means transferring the usufruct of a particular property between two parties in exchange for a rental fee. In this case, the term *ijārah* is equivalent to the English term ‘leasing’. The lessor is called *mu’jir*, while the lessee is referred to as *musta’jir*.⁴⁷

vi. *Sukuk*

Sukuk is an interest-free financial certificate representing the ownership portion of its holder in eligible existing or future assets. It is usually issued by Government and Corporate entities. The issuer of a *Sukuk* tenders ownership certificates of an underlying asset, service, or business venture to the intending investors as these certificates are a representation of undivided ownership of the investor in the property. The investment proceeds are utilized for

⁴⁵ M. Ayub, *Understanding Islamic Finance...* 308

⁴⁶ L.W. Adeyemo & AbdulSukor *An Examination of the Mode of Asset Acquisition through Islamic Banking Products of Ijarah-wa-Iqtina and Jaiz Ijarah Services of Jaiz Bank PLC, Nigeria*. (Kano, International Institute of Islamic Banking and Finance, Bayero University. 2013), 110

⁴⁷ L.W. Adeyemo & AbdulSukor ,.... 289

an underlying service or business venture while the investors will be entitled to profits generated by the investment.⁴⁸

vii. *Wakâlah*

Wakâlah is formulated to suit customers who want to stabilize returns and periodic earnings on their investments. Under the Agency (*wakâlah*) mode of finance, an Islamic financial institution makes arrangements and acts as an agent to invest a customer's funds in an ethical and profitable business venture which is mutually agreed upon by the two parties. Financial institutions who serve as agents will indicate the expected profit rate during the agreed period for the investment to the customer.⁴⁹

viii. *Tawarruq*

Tawarruq is derived from the word *al-waraqâ* which means minted money or anything issued to serve as a medium of exchange, in this concept; it is designated to someone who possesses an abundance of silver coins. Technically according to Dusuki, *tawarruq* is the purchasing of a commodity on credit by the seeker of cash and selling it to a person other than the initial seller for a lower cash price. According to Maliki and Shafi', *tawarruq* means "selling something on deferred payment and then buying it back in cash, at a lower price than the deferred price." Furthermore, the Hanbali explained the concept of *tawarruq*, as when someone bought something on credit or he did not pay the price, it then becomes forbidden and the sale is invalid to its buyer by cash purchase less than the first price.⁵⁰

In its arrangement, a buyer buys an asset from a seller on deferred payment and subsequently sells the assets to a third party for cash, with a price lesser than the deferred price. It is called *tawarruq* because when the item is purchased by the buyer on deferred payment, the buyer's intention is not to utilize the benefit of the asset, but rather to facilitate him to attain liquidity by reselling it instantly. In modern banking settings, *tawarruq* is organized as a financial service to generate liquidity among Islamic banks that are short of funds rather than requesting an interest loan. It is also used to finance cooperative organizations, firms, and other agencies that need funds.⁵¹

ix. *Salam*

Salam is a type of business deal whereby the seller of a specific commodity promises to supply it to the customer at a future period in trade for an advanced payment that is paid on the spot. It simply refers to the purchase of a commodity for deferred delivery in exchange for an immediate fee. Thus, in this contract, the fee is paid in full and in advance while the property is delivered at an agreed future date.⁵²

Salam is an exception to the general rule of Islamic commercial law that prohibits selling what is not yet available, however, it was allowed by the Prophet subject to certain conditions which facilitate mutual agreements among the parties involved.⁵³ The fundamental purpose of this transaction was to meet the needs of the local farmers who needed money to

⁴⁸ Umar Idris: *Sukuk: Meaning, structure and standards*, (Kano, International Institute of Islamic Banking and Finance, Bayero University. 2013), 110

⁴⁹ M. Ayub: *Understanding Islamic Finance...*, 308

⁵⁰ Obaidullah, *Islamic Financial Services (N,P, n.p)...*156.

⁵¹ Obaidullah, *Islamic Financial Services ,...* 156.

⁵² S, Abdulfatah, *Challenges and Prospects of Islamic Finance in Nigeria*, (M.A Dissertation , Ahmadu Bello University, Kano, 2020.)

⁵³ S, Abdulfatah, *Challenges and prospects of Islamic finance in Nigeria*,

develop their crops and to support their families up to the time of their harvest. After the outlawing of *riba*, they could not result in loans, which are majorly characterized by interest. Therefore, it was authorized for them to sell farming products in advance.

Furthermore, the Arab traders used to engage in exports and imports of goods from other places to their homeland. They needed money to embark on this type of business. They could not borrow from interest loans after the prohibition of *riba*. It was, therefore, permitted for them to sell the goods in advance. Both parties in the transaction benefit, the seller, benefits because he earned the fee in advance, and it was beneficial to the buyer as he gets the commodity at a lower price and in a rapid delivery model.

Salam is an Islamic Financial Alternative service for agricultural sustainability which can address the problem of capital and fund. This type of service has been used in many Islamic financial institutions today. In its arrangement in the financial sector, *Rabbu- 'l-salam*, which can be any Islamic financial institution pays cash to a *Muslim-ilaihi* who is the farmer with the agreement of delivering a certain and agreed farm product at an agreed future date. The buyer will earn from the cheap price while the farmer will have the capital to execute his project.⁵⁴

x. *Qard*

Qard is a benevolent loan that frees from all forms of interest. As a financial service, the borrower in need of a specific amount of money borrows it from a lender as *qard-ul-hasan* with or without a clear stipulation of the maturity date. The loan is repaid on maturity without an increment or interest. The loan is reimbursed when no maturity is stipulated without any increment. The early loan schemes introduced by many interest-free financial agencies when the modern Islamic bank was yet to come into existence were based on this concept. The lender is authorized to ask for an asset as collateral that is governed by the *fiqh* rules of *al-rihn*. The lender is also permitted to charge the borrower the actual administrative expenses incurred in the operation of the mechanism.⁵⁵

xi. *Takaful*

Takaful is an instrument developed with the aid of *Ijtihād* to protect the wealth of the Muslims. It is an institution that was developed to replace conventional insurance. It was initiated in the global Islamic financial market and is now adopted by Nigerian financial institutions. Its development came up through the principle of *maqasidu 'l-Shari'ah* and *maslaha* and was structured with *mudāraba* and *wakālah* contracts. The key distinguishing feature of Islamic insurance is cooperation, whereby the policyholders take up the role of ownership and bear the risk, while the *takaful* operator performs the managerial function. *Takaful* industries would play an important role to enhance resilience among industries, big organizations, and industries and positively contribute to economic growth.⁵⁶

⁵⁴ Mahmoud & Farida, "On the Sustainable Development Goals and the Role of Islamic Finance,"...3

⁵⁵ D.A. Mustapha & A.A. Adewale, "Towards Poverty Alleviation: Islamic Social Security Measures and Distributive Justice as Panacea", International Journal of Islamic Finance, Maiden Edition Bayero University, Kano,(2014, 111

⁵⁶ Idris Mukhtar & Azrul Azlan Bin Iskandar Mirza: The Influence of Customers' Awareness on the Acceptance of *Takaful* Products in Nigeria. (Kano, International Institute of Islamic Banking and Finance, Bayero University. 2017)., 125.

IMPLEMENTATION OF ISLAMIC FINANCIAL SERVICES AND THEIR DIFFERENCES FROM THE CONVENTIONAL FINANCIAL INSTRUMENTS

Islamic financial institutions are governed and controlled by divine laws derived from the Qur'an, *Hadith*, and *Ijmā'*. Their operations, regulations, and policies are usually drawn from divine laws. Unethical business dealings such as cheating in products and prices, abnormal profiting, hoarding, private monopoly and deceits have been outlawed in Islam. However, these restrictions are sourced from the divine laws that are non-existent under the conventional financial system, these form the basis of discrepancies between both institutions.⁵⁷

Conventional financial services have limited contractual rules and principles while Islamic financial services embody several fundamental principles. These principles include abstinence from *riba*, *gharar* and contracts covered by uncertainties. Conventional institutions generally transfer risk to the clients alone while Islamic financial services are built on risk-sharing arrangements. The services are built with fairness and equity among the parties involved in transactions.⁵⁸

PROSPECTS OF ISLAMIC FINANCIAL SERVICES IN NIGERIA

The underlining prospects of Islamic finance in Nigeria may emerge from the following:

The incredible impact of Islamic financial institutions in the cooperative social responsibility will contribute enormously to the growth of the Nigerian social-economic sector as this will stimulate the provision of free services to the communities, advancement of acquisition for youth, creation of empowerment for women, and improvement of small and medium scale enterprises in the community.⁵⁹

Eradication of economic exploitation in Nigeria is another featuring prospect of Islamic finance for the nation's economic growth since Islamic finance is run on an interest-free model. It intends to relieve people of the high interest charged by conventional financial institutions. Many Nigerians do not save money in conventional banks because their money is seemingly laying idle without a guarantee of return and improper share of returns on investments, however with the advent of Islamic finance, people will rest assured that their wealth is wed for momentous ventures. Ethical investors have more chances to get access to direct financial opportunities without interest which will consequently provide better opportunities for businessmen and create job opportunities.⁶⁰

Islamic finance services have the potential for mainstreaming the vast number of unbanked citizens in the country who flout the conventional banking system because of their being religiously conscious. Interest which is the major element of conventional financial institutions is forbidden among Muslim adherents, so many of them find it difficult to patronize conventional banks and other conventional financial institutions. However, the advent of Islamic finance in Nigeria would consequently make these people bankable as it suits their aspired financial system being an ethical financial model. More significantly, mainstreaming the unbanked Nigerians into the economic mainstream through the financial

⁵⁷ Idris Mukhtar & Azrul Azlan Bin Iskandar Mirza: The Influence of Customers' Awareness on the Acceptance of Takaful Products in Nigeria, ... 126

⁵⁸ Idris Mukhtar & Azrul Azlan Bin Iskandar Mirza, ... 126

⁵⁹ Idris Mukhtar & Azrul Azlan Bin Iskandar Mirza, ... 127

⁶⁰ S, Ramla and M, Afia, "The Role of Islamic Finance in Sustainable Development," *Journal of Islamic Thought and Civilization* Spring. 2015. Retrieved from <https://www.google.com/url?sa=t&source=web&rct=j&url=https://ejournal.stiesyariahbangkalis.ac.id/index.php/iqtishaduna/article/download/135/135&ved=2ahUKEwi5neLp8t75AhUpXgIHHfZ8AOwQFnoECACQAQ&usq=AOvVaw3Dz2bmfrkYrmSQoY-I-tL5>. Accessed on 7th August, 2022.

intermediation process would contribute remarkably toward job creation, poverty alleviation, and more unprejudiced economic growth.⁶¹

Another prospect of Islamic finance is the enhancement of the efficient capacities of the poor through the institutions of *Zakat* and *waqf*. *Zakat* and *waqf* can procure support and enhance the activities of non-profit organizations and commercial enterprises to expand their outreach to the poor. *Zakat* and *waqf* could also be used to circulate wealth to the poor by creating a non-profit financial arbitrator that provides loans to the poor. Based on this, the capital would come from *waqf* monies donated to Islamic financial institutions by the affluent Muslims in the country.⁶²

The Islamic financial services would also benefit the Nigerian economy by providing risk-mitigating services such as Islamic insurance that would be generally accepted by the citizens unlike the conventional mode of insurance that encounters a low level of patronage due to the unscrupulous dealings that are found in it, as the selling of unbundled risk is prohibited by *Sharī'ah*, risk mitigation from an Islamic perspective focuses on risk-sharing rather than risk transferring mechanisms. The key distinguishing feature of Islamic insurance is cooperation, whereby the policyholders take up the role of ownership and bear the risk, while the *takaful* operator performs the managerial function. *Takaful* industries would play an important role to enhance resilience among industries, big organizations, and businessmen and positively contribute to Nigerian economic growth.⁶³

Islamic financial services also have the potential of contributing immensely to Nigerian infrastructural development. Infrastructure facilities enhance competitiveness in the market, provide the basic foundations for commercial activities, and are important determinants of the long-term economic growth of a particular nation. Considering the effect of preferences for risk-sharing modes of financing and the real economy, Islamic finance could come up with many ingenious ways in which financier players can subscribe to the development of infrastructure in Nigeria. The *Sukuk* could be issued by the federal government to raise funds for the development of roads, rails, and other crucial infrastructural projects that will contribute immensely to Nigerian economic development.⁴⁶ *Sukuk* in Nigeria can provide opportunities to the household sector to take part in capital market investment products and accordingly boom financial inclusion in the country. The Nigerian government issued retail *Sukuk* in 2014 and 2021 to raise funds for some infrastructural development projects such as road construction schools and others bought by different investors, including private-sector employees, self-employed, civil servants, and, many others. This would eventually promote financial inclusion and consequently contribute to Nigerian economic growth.⁶⁴

The advent of Islamic finance services in Nigeria will create an enabling atmosphere for enticing the huge global projects offered by the international Islamic finance industries for the betterment of the citizen. The existence of Nigerian Islamic banks will also reinforce the development funds from the World Islamic financial system, especially the projects offered by the Islamic Development Bank (IDB) which provides development funds for economic and infrastructural projects in member countries, Nigeria's Government would also have

⁶¹ C, Prescious, and D, Anayo, "The prospects of Islamic banking in Southeast of Nigeria" - Journal of Islamic Marketing. (2019),

⁶² S, O, Alexander, and A, Meshack, "Islamic Banking In Nigeria: Prospects And Challenges" International Journal of Social Sciences & Educational Studies, 2017, 4, (1), 4.

⁶³ Idris Mukhtar & Azrul Azlan Bin Iskandar Mirza: The Influence of Customers' Awareness on the Acceptance of Takaful Products in Nigeria..... 127

⁶⁴ Idris Mukhtar & Azrul Azlan Bin Iskandar Mirza,..... 128

access to investment and advancement funds available in the international community to finance other domestic projects.⁶⁵

The emergence of Islamic finance in Nigeria as an alternative to conventional finance would allow Nigerians to have access to varieties of credit choices among numerous types of financing modes available in the country, and this would eventually deepen the financial system for the general benefits.⁶⁶

Islamic finance would also contribute relatively to the development of micro-credit schemes which tends to improve the public welfare in the country. Interest-free Micro credit schemes have a greater tendency in eradicating poverty by promoting income-generation activities and curtailing unemployment rates in Nigeria.⁶⁷

CONCLUSION

It can be observed from the above findings of the study that the research discussed the prospects of Islamic financial services in Nigeria. The study finds that many Nigerian citizens see the Islamic financial institutions as ordinary religious organisations that only cater for the welfare of the Muslim populace. The research discovered that if the Nigerian government could give room for full implementation of Islamic banking and financial services in her financial system, the grieving Nigerian economy will sustain a promising advancement and transformation in all sectors, as these services will bring about an unbiased distribution of income and resources, poverty alleviation, and discoveries of employment opportunities in the country. It is, however, recommended that the governing council of Islamic financial institutions should provide enough skilled personnel as there is an apparent inadequate workforce and experienced financial expertise in Nigeria as far as Islamic Finance is concerned.

The Nigerian government should also grant tax exemption for non-resident Islamic Financial experts, to facilitate the build-up of experts in the sector. Likewise, the National Universities Commission (NUC) should consider a review of the curriculum for Islamic studies and Islamic Law programs in various universities, to equip their graduates for the new resources and challenges in the Islamic financial sector.

⁶⁵ Idris Mukhtar & Azrul Azlan Bin Iskandar Mirza: The Influence of Customers' Awareness on the Acceptance of Takaful Products in Nigeria...129

⁶⁶ Umar Idris: Sukuk: Meaning, structure and standards,....., 110

⁶⁷ K, Ishaq, S, Benkalis and P, Dosen, "The Role of Islamic Finance in Economic Development" Retrieved from

<https://www.google.com/url?sa=t&source=web&rct=j&url=http://admin.umt.edu.pk/Media/Site/UMT/Subsites/jitc/FileManager/JITC%2520Spring%25202015/04->

[Role%2520of%2520Islamic%2520Financial%2520Institutions.pdf&ved=2ahUKEwj3tfJ8975AhWP0YUKHankCH4QFnoECAwQAQ&usg=AOvVaw1wQMNqapb71b3D8SMqOyDE](https://www.google.com/url?sa=t&source=web&rct=j&url=http://admin.umt.edu.pk/Media/Site/UMT/Subsites/jitc/FileManager/JITC%2520Spring%25202015/04-Role%2520of%2520Islamic%2520Financial%2520Institutions.pdf&ved=2ahUKEwj3tfJ8975AhWP0YUKHankCH4QFnoECAwQAQ&usg=AOvVaw1wQMNqapb71b3D8SMqOyDE). Accessed on 07/08/2022.

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