

**AN ASSESSMENT OF NIGERIAN REGULATION AND  
POLICIES ON FINANCIAL INCLUSION: A CASE FOR  
ISLAMIC EQUITY FINANCING FOR NORTHERN  
NIGERIA**

**BY**

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## ABSTRACT

The promotion of planned and balanced economic development was enjoined on the Federal Government of Nigeria by Section 16(2) of the Constitution of the Federal Republic of Nigeria, 1999 (as amended) as one of the fundamental objectives and directive principles of State policy. This objective aligns with the objectives of the Shari'ah and the Sustainable Development Goals (SDGs). The Central Bank of Nigeria (CBN) pursued this objective through the financial inclusion initiative, among others, and in the process utilized its delegated legislative powers to license the operation of Islamic banking in Nigeria in 2011. The CBN aimed to financially include the largely Muslim northern Nigeria and achieve 80% financial inclusion by the year 2020. The access to finance survey report of 2023 reveals that 56% are formally financially included, while 11% are informally financially included. This results in a total of 67% financially included and indicating a shortfall of 13% from the 2020 financial inclusion target. Extensive use of debt-based financing contracts by Islamic banks in Nigeria is said to continue to keep away the conservative northern Nigerians from accessing the available financing products, despite the financial inclusion efforts by the CBN. This situation arises because most northern Nigerians see little or no difference between conventional and Islamic banks in their financing operations. This study thus appraises the regulation and policy development for financial inclusion in the northern states of Nigeria and how Islamic equity financing can deepen the financial inclusion in these states. The study relies on primary data sourced from interviews, and official publications, as well as secondary data from working papers, articles, e-books, websites, and online resources. ATLAS.ti 24 software is used for coding and in analysing interviews' results. This study adopts qualitative research approaches which consist of content analysis of relevant literature, and qualitative analysis of interview outcomes. The content analysis is used to define the status of financial inclusion in Nigeria, regulation and policy development around financial inclusion in Nigeria, the preference for and suitability of Islamic equity financing contracts as veritable tools for furthering financial inclusion in northern Nigeria. The interviews provide insights on: (i) the effectiveness of the regulations and policies on financial inclusion in northern Nigeria; and (ii) the wider preference for and suitability of Islamic equity financing contracts for financial inclusion in the northern region of Nigeria. The main findings of this study are: (i) due to CBN's efforts and initiatives there is an appreciable awareness about financial inclusion, but more efforts are still needed to be done in northern Nigeria; (ii) Islamic equity contract is used mostly for deposit mobilization, but sparsely used for financing; and (iii) there is positive perception of, and preference for Islamic equity financing contract in northern Nigeria. Thus, this study recommends that Islamic Banks in Nigeria should increasingly use Islamic equity financing contracts in their financial asset creation. Furthermore, the CBN, as the key regulator of Nigeria's financial industry, should issue and enforce regulations and guidelines that will facilitate the expansion of the country's financial inclusion drive, which can be done through Islamic equity financing and contracts.

## ملخص البحث

تنص المادة 16(2) من دستور جمهورية نيجيريا الاتحادية لعام 1999 (المعدل) على أن الحكومة الاتحادية ملزمة بتحقيق تنمية اقتصادية متوازنة ومخططة، بوصفها أحد الأهداف الأساسية ومبادئ السياسة التوجيهية للدولة. ويتماشى هذا الهدف مع مقاصد الشريعة الإسلامية وأهداف التنمية المستدامة. وقد سعت المصرف المركزي النيجيري إلى تحقيق هذا الهدف من خلال مبادرة الشمول المالي، من بين مبادرات أخرى، حيث استخدم سلطته التشريعية المفوضة لترخيص تشغيل المصارف الإسلامية في نيجيريا عام 2011. وهدفت هذه الخطوة إلى دمج مناطق شمال نيجيريا، ذات الأغلبية المسلمة، في النظام المالي الرسمي، وتحقيق نسبة شمول مالي تصل إلى 80% بحلول عام 2020. إلا أن تقرير "الوصول إلى التمويل" لعام 2023 كشف أن 56% فقط مشمولون مالياً بشكل رسمي، و11% بشكل غير رسمي، أي بمجموع كلي قدره 67%، مما يعني وجود عجز بنسبة 13% عن الهدف المقرر لعام 2020. ويُعزى ذلك - جزئياً - إلى اعتماد المصارف الإسلامية في نيجيريا بشكل كبير على عقود التمويل القائمة على الدين، مما يؤدي إلى عزوف العديد من سكان شمال نيجيريا المحافظين عن استخدام المنتجات المالية المتاحة، نتيجة لانطباعهم بغياب الفارق الجوهرى بين المصارف التقليدية والإسلامية في عمليات التمويل. لذلك، تهدف هذه الدراسة إلى تقييم التنظيمات وتطور السياسات الخاصة بالشمول المالي في ولايات شمال نيجيريا، وتوضيح كيف يمكن أن يساهم التمويل الإسلامي القائم على الأسهم في تعميق الشمول المالي بهذه المناطق. اعتمدت الدراسة على البيانات الأولية المستخلصة من المقابلات، والوثائق الرسمية، إضافة إلى البيانات الثانوية من الأوراق البحثية، والمقالات، والكتب الإلكترونية، والمصادر الإلكترونية. كما استخدم برنامج ATLAS.ti 24 لتحليل وترميز نتائج المقابلات. اتبعت الدراسة منهجية بحثية نوعية، شملت التحليل النصي للمصادر ذات الصلة، والتحليل النوعي لنتائج المقابلات. وقد استخدم التحليل النصي لتحديد وضع الشمول المالي في نيجيريا، وتطور السياسات والتنظيمات المتعلقة به، بالإضافة إلى دراسة مدى تفضيل وجدوى عقود التمويل الإسلامي القائم على الأسهم كأدوات فعالة لتعزيز الشمول المالي في شمال نيجيريا. أما المقابلات، فقد أظهرت: (1) فعالية التنظيمات والسياسات المالية في شمال نيجيريا؛ و(2) وجود تفضيل واسع وقبول ملحوظ لعقود التمويل الإسلامي القائم على الأسهم في المنطقة. وتتمثل أبرز نتائج الدراسة في الآتي: (1) وجود وعي متزايد بالشمول المالي نتيجة جهود المصرف المركزي، مع استمرار الحاجة إلى بذل مزيد من الجهود في شمال البلاد؛ (2) يُستخدم عقد المشاركة في الغالب لجذب الودائع، ونادراً ما يُستخدم في التمويل؛ (3) وجود نظرة إيجابية وتفضيل كبير لهذا النوع من التمويل في شمال نيجيريا. وبناءً عليه، توصي الدراسة بأن تُكثف المصارف الإسلامية في نيجيريا من استخدام عقود

التمويل القائم على الأسهم ضمن أنشطتها التمويلية. كما ينبغي على المصرف المركزي النيجيري، بوصفه الجهة الرقابية العليا للقطاع المالي، إصدار وتفعيل أنظمة وإرشادات من شأنها توسيع نطاق الشمول المالي في البلاد من خلال التمويل الإسلامي القائم على الأسهم.



## **APPROVAL PAGE**

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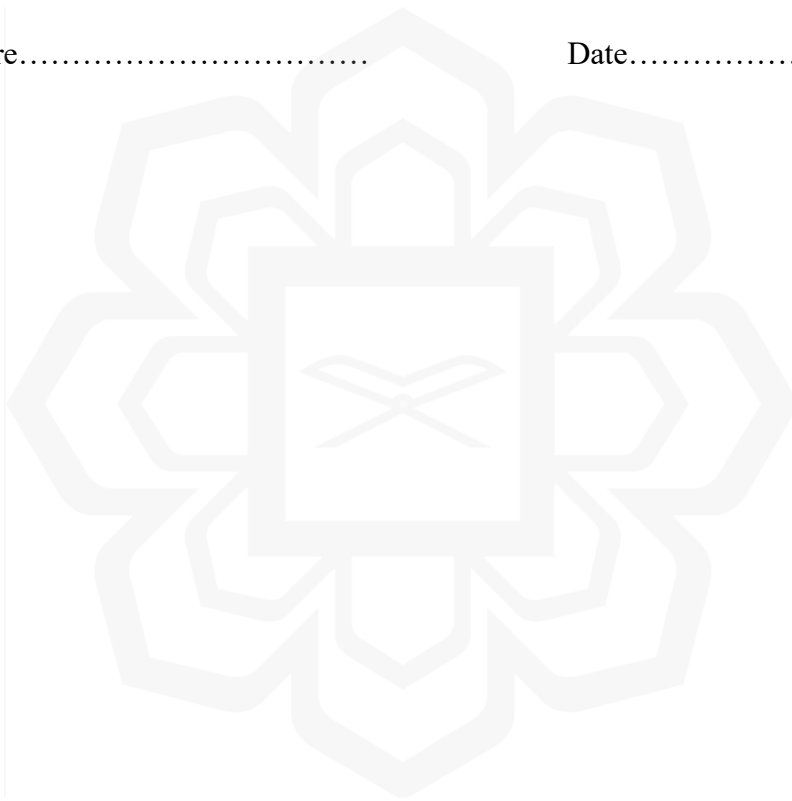
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*This thesis is dedicated to Allah (SWT) for His unceasing guidance, mercies and bounties.*

قُلْ إِنِّي هَدَانِي رَبِّي إِلَى صِرَاطٍ مُسْتَقِيمٍ دِينًا قَدِيمًا مِلَّةَ إِبْرَاهِيمَ حَنِيفًا ۚ وَمَا كَانَ مِنَ الْمُشْرِكِينَ

قُلْ إِنَّ صَلَاتِي وَنُسُكِي وَمَحْيَايَ وَمَمَاتِي لِلَّهِ رَبِّ الْعَالَمِينَ

لَا شَرِيكَ لَهُ ۚ وَبِذَلِكَ أُمِرْتُ وَأَنَا أَوَّلُ الْمُسْلِمِينَ

*“Say, “My Lord has guided me to a straight path, an upright religion, the creed of Abraham the Monotheist, who was not a polytheist*

*Say, “My prayer and my worship, and my life and my death, are devoted to God, the Lord of the Worlds*

*No associate has He. Thus, I am commanded, and I am the first of those who submit”*

*[Suratul Anam, Q6 v. 161 – 163].*

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So give thanks to Me, and to your parents. To Me is the destination [Suratu Luqman, Q31 v. 14]. All glories, praises and thanks are due to Allah (SWT). May peace and blessings be upon His noble Prophet Muhammad (SAW), members of his household, his companions and those that follow them in the path of righteousness until the day of resurrection. Thereafter, I thank my parents Alhaji Isa Ade Akosile and Alhaja Maryam Joke Ibrahim and importantly, my uncle Musa Akosile (late) for chalking my path in life, since my young and innocent days.

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وَأَخِرُ دَعْوَاهُمْ أَنْ الْحَمْدُ لِلَّهِ رَبِّ الْعَالَمِينَ

And the last of their call is, “Praise be to God, Lord of the Worlds” [Suratu Yunus, Q10 v. 10].

## TABLE OF CONTENTS

Abstract.....	ii
Abstract in Arabic.....	iii
Approval Page.....	v
Declaration.....	vi
Dedication.....	vii
Acknowledgements.....	ix
Table of Contents.....	x
List of Tables.....	ii
List of Figures.....	iii
List of Cases.....	vi
List of Statutes.....	ii
List of Abbreviation.....	ii
<b>CHAPTER ONE: INTRODUCTION.....</b>	<b>1</b>
1.1 Background.....	1
1.2 Statement of Problem.....	8
1.3 Objectives of the Study.....	12
1.4 Research Questions.....	12
1.5 Scope and Limitation of the Study.....	12
1.6 Hypotheses of the Research.....	13
1.7 Significance of the Study.....	13
1.8 Operational Definitions.....	15
1.9 Organization of the Study.....	17
<b>CHAPTER TWO: LITERATURE REVIEW.....</b>	<b>18</b>
2.1 Introduction.....	18
2.2 The Concept of Financial Inclusion.....	19
2.3 Islamic Finance as a Financial Inclusion Initiative.....	23
2.3.1 The Global Islamic Finance Industry.....	24
2.3.2 Islamic Finance in Nigeria.....	26
2.3.2.1 Legal Framework for Islamic Finance in Nigeria.....	26
2.3.2.2 Historical Development of Islamic Finance in Nigeria.....	29
2.3.3 Islamic Finance as A Tool for Deepening Financial Inclusion... ..	31
2.3.4 Islamic Finance and Sustainable Development.....	35
2.4 Islamic finance as a tool of financial inclusion for underserved and marginalized communities.....	38
2.4.1 Financial Regulator’s Role in Financial Inclusion Through Islamic Finance.....	40
2.4.2 Financial Inclusion Strides in Nigeria.....	43
2.4.2.1 Financial Inclusion Goals in Nigeria.....	43
2.4.2.2 Economic and Financial landscape of Northern Nigeria .....	44
2.4.2.3 Religious Factors in Northern Nigeria.....	45

2.5 The Crucial Gap of Knowledge: Islamic Equity Financing as Important Financial Inclusion Product .....	45
2.5.1 Role of Islamic Equity Financing in Engendering Effective Financial Inclusion .....	48
2.5.2 The Balances Against Islamic Equity Financing .....	49
2.5.3 Policy and Regulation Supports for Islamic Equity Financing ...	51
2.6 Theoretical Underpinning of the Study.....	53
2.7 Conclusion .....	54
<b>CHAPTER THREE: CONCEPTUAL FRAMEWORK.....</b>	<b>56</b>
3.1 Introduction.....	56
3.2 Financial Inclusion in Nigeria: Law, Regulation & Islamic Finance .....	56
3.2.1 Nigerian Legal System .....	56
3.2.2 Law and Regulation .....	59
3.2.3 Islamic Finance .....	64
3.3 Islamic Finance Contracts.....	66
3.4 Islamic Equity Financing .....	68
3.4.1 Mušhārahkah .....	69
3.4.2 Muḍārahbah.....	71
3.4.3 Diminishing <i>Mušhārahkah</i> .....	73
3.4.4 Wākālāh Bil- Istiḥmār .....	74
3.5 Relevance of Islamic Equity Financing to Northern Nigeria.....	76
3.6 Nigerian Regulation and Policies on Financial Inclusion.....	77
3.7 Conclusion .....	79
<b>CHAPTER FOUR: RESEARCH METHODOLOGY .....</b>	<b>80</b>
4.1 Introduction.....	80
4.2 Research Paradigm.....	80
4.3 Research Methodology .....	80
4.4 Research Design.....	82
4.4.1 Exploratory Research Design.....	83
4.4.2 Descriptive and Survey Research Design .....	83
4.5 Source of Data.....	84
4.6 Population .....	84
4.7 Sample and Sampling Technique.....	86
4.8 Interview .....	88
4.9 Methods of Data Analysis.....	96
<b>CHAPTER FIVE: QUALITATIVE DATA ANALYSIS AND PRESENTATION OF THE RESULT.....</b>	<b>101</b>
5.1 Introduction.....	101
5.2 Profile Analysis of Respondents .....	101
5.3 Analysis and Interpretation .....	106
5.3.1 Insights on Regulatory Approaches or Policies for Financial Inclusion in Nigeria.....	107
5.3.2 Insights On Issues in The Practice of Islamic Equity Financing by Islamic Banks in Nigeria .....	118

5.3.3 Insights On the Perception of Selected Stakeholders Towards the Role of Islamic Equity Financing in Improving Financial Inclusion in Northern Nigeria .....	125
5.3.4 Insights On Proposed Possible Regulatory and Policy Adjustments to Improve Financial Inclusion in Northern Nigeria Through Islamic Equity Financing.....	143
5.4 Chapter Summary .....	151
<b>CHAPTER SIX: DISCUSSION OF RESEARCH FINDINGS .....</b>	<b>152</b>
6.1 Introduction.....	152
6.2 Research Findings and Interpretation .....	152
6.2.1 Research Objective One .....	152
6.2.2 Research Objective Two .....	154
6.2.3 Research Objective Three .....	158
6.2.4 Research Objective Four .....	160
6.3 Hypotheses Testing.....	164
6.4 SWOT Analysis of Islamic Equity Financing Contracts Based on Research Findings.....	165
6.5 Chapter Summary .....	168
<b>CHAPTER SEVEN RECOMMENDATION AND CONCLUSION .....</b>	<b>170</b>
7.1 Introduction.....	170
7.2 Research Contribution .....	170
7.2.1 Literature Contribution.....	170
7.2.2 Practical Contribution .....	171
7.2.3 Methodology Contribution.....	173
7.3 Recommendation .....	173
7.3.1 Policy Makers.....	173
7.3.2 The Regulator.....	174
7.3.3 The Islamic Banks and Industry Practitioners.....	176
7.4 Limitations .....	177
7.5 Recommendations for Future Research.....	178
7.6 Conclusion .....	179
<b>REFERENCES .....</b>	<b>180</b>
<b>APPENDIX 1: PRE-TEST QUALITATIVE INTERVIEW QUESTIONS VALIDATION.....</b>	<b>201</b>
<b>APPENDIX 2: PILOT STUDY INTERVIEW QUESTIONS .....</b>	<b>205</b>
<b>APPENDIX 3A: BANKERS' VERSION INTERVIEW QUESTIONS.....</b>	<b>208</b>
<b>APPENDIX 3B: CORPORATE CUSTOMERS' VERSION INTERVIEW QUESTIONS .....</b>	<b>211</b>
<b>APPENDIX 3C: INDIVIDUAL CUSTOMERS' VERSION INTERVIEW QUESTIONS .....</b>	<b>214</b>
<b>APPENDIX 4: EXCERPTS OF CODING PROTOCOL.....</b>	<b>217</b>

## LIST OF TABLES

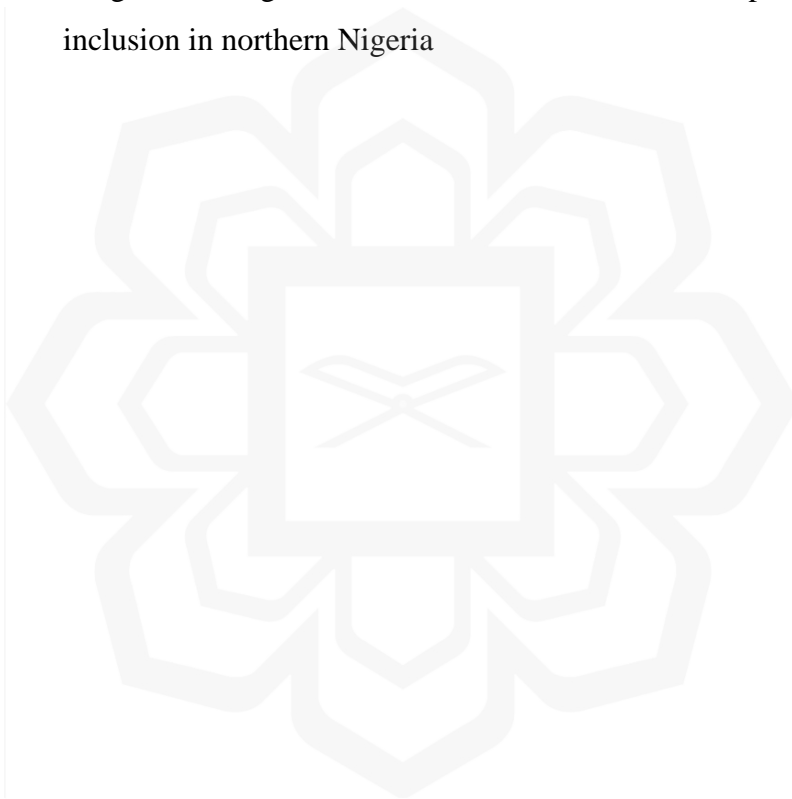
Table 1.1. Percentage of Financial Inclusion milage by geopolitical regions in Nigeria	6
Table 3.1. Areas of distinction and similarities between Mušhārah & Muḍārah	72
Table 3.2. Areas of similarities & distinction between Wākālāh & Muḍārah	75
Table 4.1. Proposed Semi-structured Interview Schedule	85
Table 4.2. Strength and Weakness of Qualitative Interview	90
Table 4.3. Mitigating Steps for Weaknesses of Qualitative Interviews	91
Table 4.4. Pre and Post pilot test list of themes	94
Table 5.1. Profile analysis of banker respondents	101
Table 5.2. Profile analysis of individual business owners and corporate customer respondents	103
Table 5.3. Primes reason for low financial inclusion in northern Nigeria despite NFIS	130
Table 6.1. Key to Research Objectives & Questions	162
Table 6.2. SWOT analysis on the areas of strength and weakness of the Islamic equity financing as financial inclusion enabler in northern Nigeria	165

## LIST OF FIGURES

Figure 1.1.	Financial Inclusion milage by geopolitical regions in Nigeria	7
Figure 1.2.	Financial Access by Geopolitical Zones in Nigeria Financial Access by Geopolitical Zones in Nigeria	11
Figure 3.1.	How financial inclusion addresses CBN objectives	61
Figure 3.2.	Financial Inclusion tools, frameworks and strategies by the Central Bank of Nigeria	62
Figure 3.3.	Connection between financial inclusion and Islamic finance	66
Figure 3.4.	Diagrammatical presentation of <i>Shirkah</i> and <i>Muṣhārah</i>	70
Figure 4.1.	Procedure for the construction and validation of the qualitative interview questions	93
Figure 4.2.	The Methodology Diagram of this study	99
Figure 4.3.	Research flow of the study	100
Figure 5.1.	Insights on awareness about financial inclusion policy by individual business owner customers	107
Figure 5.2.	Insights on awareness about financial inclusion policy by corporate customers	108
Figure 5.3.	Descriptive representation of awareness of Individual & Corporate customers	109
Figure 5.4.	Insights on financial inclusion in Nigeria generally and north specifically by individual respondents	110
Figure 5.5.	Insights on financial inclusion in Nigeria generally and north specifically by corporate respondents	111
Figure 5.6.	Insights on adequacy of regulations & policies on access to finance for financial inclusion by Individual respondents	113
Figure 5.7.	Insights on adequacy of regulations & policies on access to finance for financial inclusion by corporate customer respondents	114
Figure 5.8.	Descriptive representation of adequacy of regulation & policies on access to finance for financial inclusion	115
Figure 5.9.	Insights on Determinants for individuals obtaining bank facility as a means for financial inclusion	116

Figure 5.10. Insights on determinants for business entities obtaining bank facility as a means for financial inclusion	117
Figure 5.11. Insights on perceptions about Islamic equity financing contracts	118
Figure 5.12. Distribution of perceptions about Islamic equity financing contracts	120
Figure 5.13. Insights on most preferred financing contract in northern Nigeria	121
Figure 5.14. Segmentation of Banker respondents on most preferred financing contract in northern Nigeria	122
Figure 5.15. Insights on regulatory & policy issues with Islamic equity finance as a financial inclusion tool for northern Nigeria	123
Figure 5.16. Insights on banker responses on reasons for low financial inclusion in northern Nigeria	126
Figure 5.17. Insights on Individuals' responses on reasons for low financial inclusion in northern Nigeria	128
Figure 5.18. Insights on reasons for low financial inclusion in northern Nigeria despite NFIS	129
Figure 5.19. Reasons for low financial inclusion in northern Nigeria despite NFIS	130
Figure 5.20. Insights on need to review NFIS to facilitate financial inclusion in northern Nigeria	131
Figure 5.21. Insights on Bankers' response on steps for CBN to enhance financial inclusion in northern Nigeria	132
Figure 5.22. Insights on Individuals' response on steps for CBN to enhance financial inclusion in northern Nigeria	133
Figure 5.23. Insights on Corporate customers' response on steps for CBN to enhance financial inclusion in northern Nigeria	134
Figure 5.24. Insights on regulatory patronage of Islamic equity financing contracts for financial inclusion in northern Nigeria	137
Figure 5.25. Insights on suitability of Islamic equity financing contracts for individual businesses	139
Figure 5.26. Insights on suitability of Islamic equity financing contracts for corporate customers	140
Figure 5.27. Insights on regulatory and policy adjustments on Islamic financing contracts for financial inclusion in northern Nigeria	141

Figure 5.28. Insights on regulatory and policy adjustments on Islamic financing contracts for financial inclusion in northern Nigeria	142
Figure 5.29. Insights on appropriate Islamic financing contract to drive financial inclusion in northern Nigeria	145
Figure 5.30. Views on appropriate Islamic financing contract to drive financial inclusion in northern Nigeria	146
Figure 5.31. Insights on effect of Islamic equity financing on northern markets and stakeholders	147
Figure 5.32. Insights into essential inclusions in the NFIS	149
Figure 5.33. Insights on regulation of Islamic finance to deepen financial inclusion in northern Nigeria	150



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Region Muslim Bank (Revocation of Licence) Order of 1968  
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## LIST OF ABBREVIATION

A2F	Access to finance survey reports
AADS	Accelerated Agricultural Development Scheme
AAOIFI	Accounting and Auditing Organization for Islamic Financial Institutions
ADB	Asian Development Bank
AFI	Alliance for Financial Inclusion
ACGS	Agricultural Credit Guarantee Scheme
AGSMEIS	Agri-business, Small and Medium Enterprises Investment Scheme
APEC	Asia-Pacific Economic Cooperation
ASEAN	Association of Southeast Asian Nations
BOFIA	Banks and Other Financial Institutions Act
CACS	Commercial Agricultural Credit Scheme
CAMA	Companies and Allied Matters Act
CBN	Central Bank of Nigeria
CCT	Conditional Cash Transfer Programme
CRMS	Credit Risk Management System
D-8	The Developing-Eight Organization for Economic Cooperation
EFInA	Enhancing Financial Innovation & Access
G20	Group of Twenty (Countries) Forum
GEEP	Government Enterprise and Empowerment Programme
GFDR	Global Financial Development Report
HGSF	Home Grown School Feeding Programme
IFSB	Islamic Financial Services Board
JSC	Justice of Supreme Court of Nigeria
KYC	Know Your Customer
LFN	Laws of the Federation of Nigeria
MDG	Millennium Development Goals

MOMO	Mobile Money
MSMEs	Micro, Medium and Small Enterprises
NAICOM	National Insurance Commission
NAPEP	National Poverty Eradication Programme
NDIC	Nigeria Deposit Insurance Corporation
NFIS	National Financial Inclusion Strategy
NIFIs	Non-Interest Financial (Islamic) Institutions
NIRSAL	Nigeria Incentive-Based Risk Sharing System for Agricultural Lending
NSIP	National Social Investment Programme
OECD	Organisation for Economic Co-operation and Development Countries
OSSAP	Office of the Senior Special Adviser to the (Nigerian) President
RBS	Risk-Based Supervision
SDGs	Sustainable Development Goals
SEC	Securities and Exchange Commission
SME	Small and Medium Enterprise
SMEDAN	Small and Medium Enterprises Development Agency of Nigeria
UNCDF	United Nations Capital Development Fund
UNSGSA	United Nations Secretary-General's Special Advocate for Inclusive Finance for Development

# CHAPTER ONE

## INTRODUCTION

### 1.1 BACKGROUND

At the core of financial inclusion is the bid to drive access to financial products and services to all strata of the society in efficient, effective, and sustainable manner. This is relevant in relation to people's overall socio-economic wellbeing. As a matter of fact, securing the common economic wellbeing of the citizens are one of the priorities of every sovereign country in the world, including Nigeria. As can be seen from the wordings of section 16 (2) of the Constitution of the Federal Republic of Nigeria 1999 (as amended), sections 1(3) and 2 of the Central Bank of Nigeria Act 2007 (CBN Act 2007) which imply to the effect that the State shall direct its policy towards ensuring inclusive and balanced economic development; harness and distribute national resources to serve the common good. At the same time, the State shall ensure that the national economic system is operated in a style that will not permit the concentration of wealth or the means of production and exchange in the hands of few individuals or of a group. This is consistent with the Islamic socio-economic teachings as enshrined in the noble Qur'an (59:6)<sup>1</sup> and the ideal objectives of the *Sharī'ah* (*Maqāṣid-ul-Sharī'ah*) which strives to engender goodness, while allaying harm from humanity (Chapra, 1979; Maududi, 1947).

In achieving this end, the Central Bank of Nigeria (CBN), in its revised National Financial Inclusion Strategy (NFIS) policy document posited that “financial inclusion is achieved when adult Nigerians have easy access to a broad range of formal financial services that meet their needs at affordable costs” (CBN, 2018). Meanwhile, the CBN

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<sup>1</sup> The Qur'anic injunction in Suratul Hashr, Q59 v. 6; كَيْ لَا يَكُونَ دُولَةً بَيْنَ الْأَغْنِيَاءِ مِنْكُمْ ؕ “...so that it (i.e., wealth) may not circulate solely between the wealthy among you.” Syed Abul ‘Ala Al Maududi in his Tafheemul Qur’an noted that “This is one of the most important verses of the Quran, which lays down the basic principle of the economic policy of the Islamic community and government. ... This gives a clear hint to the effect that an Islamic government should manage its revenues and expenditure and the financial and economic affairs of the country on the whole in such a manner that the wealthy and influential people are not allowed to have their monopoly over the means and resources of wealth, and the flow of wealth is neither turned from the poor to the rich nor it should remain circulating only among the rich”.

had in 2011 issued guidelines for the regulation and supervision of institutions offering non-interest financial services in Nigeria, in pursuant of its mandate, and delegated legislative powers, under CBN Act 2007, Banks and Other Financial Institutions Act 1991 (BOFIA, 1991)<sup>2</sup> and Companies and Allied Act 1990 (CAMA 1990). The move to licence and regulate Islamic financial institutions, known in Nigeria as non-Interest financial institutions (NIFIs), was stated to be “consistent with the CBN objective of promoting financial inclusion in Nigeria” (CBN, 2011), targeted at providing the Muslim compatriots with equal economic opportunities.

On the global stage, the world continues to grapple with the realities of economic inequities that have exacerbated widespread poverty and financial exclusion. Economic inequities have led to a campaign for economic equality (Squires, 1977; Thurow, 1975). However, the Islamic approach focuses on economic ‘equity’ and not ‘equality’(Maududi, 1947). The foregoing is premised on the fact that total equality of humans in terms of resources, capacities or wealth (including economic opportunities) have been ruled out by Allah. This can be understood from verses of the Qur’an such as can be seen in 6:165 and 43:32<sup>3</sup>, which are in furtherance of divine wisdom. This wisdom includes opportunities for human interactions and trade transactions to complement the disparity in resources and abilities of people (Maududi, 1984).

In response to the concern on economic inequities, the world leaders adopted the Millennium Development Goals (MDGs) under the auspices of the United Nations in the year 2000 (Nations, 2020). The first of the goals was to eradicate extreme poverty and hunger. Certain other goals touched on the issues of economic inequities<sup>4</sup>, with financial inclusion as a key driver towards achieving those goals. At the expiry of the

<sup>2</sup>Section 33 (1) (b) of the CBN Act 2007; Sections 23(1) 52; 55(2); 59(1)(a); 61 of Banks and Other Financial Institutions Act (BOFIA) 1991 (as amended) and Section 4(1)(c) of the Regulation on the Scope of Banking Activities and Ancillary Matters, No. 3, 2010

<sup>3</sup>Suratul An’aam v. 165 “... وَهُوَ الَّذِي جَعَلَكُمْ خَلَائِفَ الْأَرْضِ وَرَفَعَ بَعْضَكُمْ فَوْقَ بَعْضٍ دَرَجَاتٍ لِيَتْلُوَكُمْ فِي مَا آتَاكُمْ” Meaning: “It is He who made you successors on the earth, and raised some of you in ranks over others, in order to test you through what He has given you...” and Suratul Zukhruf v. 32

أَهُمْ يَقْسِمُونَ رَحْمَتَ رَبِّكَ نَحْنُ قَسَمْنَا بَيْنَهُمْ مَعِيشَتَهُمْ فِي الْحَيَاةِ الدُّنْيَا وَرَفَعْنَا بَعْضَهُمْ فَوْقَ بَعْضٍ دَرَجَاتٍ لِيَتَّخِذَ بَعْضُهُمْ بَعْضًا سَخِرِيًّا وَرَحْمَتُ رَبِّكَ خَيْرٌ مِمَّا يَجْمَعُونَ

Meaning: “Is it they who allocate the mercy of your Lord? It is We who have allocated their livelihood in this life, and We elevated some of them in rank above others, that some of them would take others in service. But your Lord’s mercy is better than what they amass”.

<sup>4</sup>The goals relating to economic inequities include goals number 7 (Ensure environmental sustainability), and number 8 (Develop a global partnership for development).

MDGs in September 2015, the world leaders once again gathered to endorse the Sustainable Development Goals (SDGs) bearing 17 goals. Here, again, ‘No Poverty’ becomes one of the prime goals for universal sustainable development agenda. They also have other goals that are targeted at addressing other issues such as combating climate change, unemployment, inequity, instability, diseases and poverty (Nations, 2020). Financial inclusion is generally believed to be the chief enabler of the SDGs (UNCDF, 2022). Additionally, the progress of the SDGs is best ignited by financial inclusion (UNSGSA, 2018). However, the initiatives towards achieving SDGs are largely influenced by the capitalist system, which is suggested to be fraught with imbalances and socio-economic injustice (McCloskey, 2015).

In assessing the MDGs, Bello (2013) and McCloskey (2015) believed that the fundamental causes of global socio-economic inequity between the global North and South were not critically analysed. Hence, a one size fit all application of the goals was pursued, thereby undermining or outrightly isolating the real socio-economic needs of the global South, which principally include unfair trade rules, illicit financial flows, and debts. They surmised that if the real issues were not addressed by the SDGs, it is doomed to fail just like the MDGs. Davidson (2005) believed that the concept of ‘sustainable development’ is a politically attractive tool by which several global players (i.e., governments, organizations and entities) sustained the dominant mainstream ideology, that is, the neoclassical economic theory. He argues that the current global trend continues to be based on capital accumulation and consumption by the global North that ignores the tension between environmental, social and economic forces in the global South, and thus might not be providing solutions for a sustainable future. Likewise, Redclift (2013) surmised that to achieve sustainability, the behaviour, economic and social institutions of the global north needed a radical overhaul.

Decades before the Brundtland Report of 1987 that set the tone for the MDGs and subsequently the SDGs, Maududi (1947) had identified several factors such as untamed avarice, materialism, heartless extravagance, and other socio-economic injustice fuelled by unbridled capitalism, to be the undoing of the current global economic order. He noted that viable solutions to global socio-economic challenges may not be proffered by the capitalist, the communist or even the fascist systems. Apparently, only the Islamic economic order is equipped to deliver an all-inclusive and balanced economic and financial system for humanity (Maududi, 1947). Lately,

Mccloskey (2015) identified that absence of a critical consciousness that considered the structural causes of poverty has diverted attention from more significant issues fuelling the unjust socio-economic order. Inspired by Maududi's thoughts, Dr. Muhammad Nejatullah Siddiqi had copiously advocated Islamic equity financing as the Islamic alternative to the conventional banking system (Siddiqi, 1983; Siddiqi, 1985; Siddiqi, 2004). Islamic equity financing has further been argued by jurists to be a potent tool for effective financial inclusion, especially when it involves micro-entrepreneurs, small businesses and start-ups (Akosile & Zain, 2023; H. Khan, 2015; Shaikh et al., 2017; Shinkafi et al., 2019a). Also, Islamic equity financing advances the Islamic ideal of economic and financial inclusion, equitable resource distribution, and socio-economic justice which may be practically elusive in various development goals (Iqbal & Mirakhor, 2012; Sadiq et al., 2020).

In its end-point report on Nigeria's MDG journey, the Office of the Senior Special Assistant to the (Nigerian) President (OSSAP) on MDGs recounted facts and figures on how the country fared in terms of achieving the MDGs (Office of the Senior Special Assistant to the President on Millennium Development Goals, 2020). The report noted that the Nigerian authorities had not effectively reduced poverty and economic inequities because they had not been able to adequately achieve successful economic growth in the country. It noted further that the way to go was for the authorities to work on a more inclusive economic growth and generate more employment through endeavours that include effective financial inclusion. This verdict of OSSAP was made, despite the involvement of social development institutions such as Small and Medium Enterprises Development Agency of Nigeria (SMEDAN), and the National Poverty Eradication Programme (NAPEP). These institutions have been in existence since 2003 and 2001 respectively. From the report, it is clear that Nigeria did not meet the paramount MDG in eradicating extreme poverty and hunger. This is owing to their inability to engender effective financial inclusion (OSSAP MDGs, 2020).

With the introduction of SDGs and in a renewed bid to reduce poverty, hunger and engender financial inclusion in the country, the Nigerian Government in 2016 initiated the National Social Investment Programme (NSIP). There were several sub-programmes introduced which included the N-power programme, Conditional Cash Transfer (CCT) programme, Government Enterprise and Empowerment Programme (GEEP) and Home-Grown School Feeding Programme (HGSF) (The State House,

2020). Regrettably, despite the billions of naira expended on the social investment programme, analysts have expressed concerns that the programme does not seem to be inclusive enough, and may not be lifting about 112 million of poor Nigerians out of poverty (Taiyese, 2019). Their concern is premised on the fact that the most financially excluded sections of the country that require most of the funds would prefer to access the funds through modalities that align with their Islamic faith (Ringim, 2014). They therefore argued that the programme needed to be redesigned in order to, more effectively, address socioeconomic difficulties. That same will deepen financial inclusion, and increase the possibilities for solutions to the dire financial inclusion from all angles, including social, political, and especially economic (Taiyese, 2019). The idea of a deepened financial inclusion speaks to emphasis on sustainable wealth creation and entrepreneurial development in an inclusive manner. This is basically beyond a mere access to financial services via a network of non-bank touchpoints<sup>5</sup>. This study is hoped to be a good response to the call in expanding the boundaries of solutions to the challenges around financial inclusion in Nigeria as articulated by Taiyese (2019) in his call for a rethinking of National Social Intervention Programmes (NSIP) in Nigeria.

About a decade after the onset of the millennium, Nigeria witnessed a chequered re-introduction of Islamic finance into the firmament of her financial industry (Latona, 2020). This is at a point when the CBN sought to explore alternative financial models that would aid financial inclusion of the excluded sections in the country. The required patchworks in the existing legal and regulatory framework were carried out to accommodate Islamic finance and to further expand inclusive financial offerings (Abdullahi, 2016). Islamic finance seems to offer viable solutions in addressing the challenges relating to financial inclusion. These can be seen from two suggested mechanisms: (a) promotion of risk-sharing contracts (Mohieldin et al., 2012), and (b) wealth redistribution instruments (Raimi, Saibu & Shokunbi, 2015). In support of the first mechanism, Sadiq et al. (2020) advocated the imperative for Nigerian financial industry regulators to consider the Islamic equity financing contracts as monetary policy instruments. These monetary policy instruments can be used to complement available government economic policies and monetary instruments for financial inclusion. They

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<sup>5</sup> This has been observed by the author of this thesis, in his capacity as a person who works at an Islamic Bank in Nigeria.

are also important to be used in various intervention schemes, such as social investment programmes and NSIP, which are geared towards financing and developing the micro, medium and small enterprises (MSMEs) around the country.

Thus, this research will examine the offerings of Islamic finance that can be leveraged by the Nigerian Banks and the CBN as a veritable tool to, not only enhance, but deepen financial inclusion, particularly in the Muslim majority northwest and northeast regions of Nigeria. These regions used to house the Sokoto Caliphate to the northwest, and Kanem Borno Empire to the northeast. They are known as centres where Islamic culture and civilization flourished prior to the British colonialism (Hiribarren, 2016; Munir & Odeh, 2015). These are the regions which consistently recorded dismal financial inclusion, where religious belief is one of the influencing factors as identified by (Ringim, 2014). It has been suggested that these regions continue to post dismal financial inclusion despite the advent of Islamic finance since 2011 due to their suspicion of the largely debt financing modes adopted by the Islamic financial institutions. They view the debt-like structure of financing by Islamic banks to be akin to the ‘*riba*’ system to which they are sensitive, as against the Islamic equity contracts to which they had been familiar and comfortable with, considering their Islamic and cultural antecedents (Sadiq et al., 2020; Shinkafi et al., 2019b). The Enhancing Financial Innovation and Access (EFInA) reports also highlighted religious reasons as one of the material reasons for consistent dismal financial inclusion especially in northern Nigeria (EFInA, 2019, 2021).

Table 1.1. Percentage of Financial Inclusion milage by geopolitical regions in Nigeria

	2012	2014	2016	2018	2020
North West	37%	44%	30%	38%	16%
North East	41%	31%	39%	46%	16%
North Central	68%	68%	62%	69%	24%
South South	70%	67%	69%	77%	23%
South West	76%	75%	82%	81%	22%
South East	74%	74%	72%	71%	16%

Source: Author’s own, extracted from EFInA 2012/2014/2016/2018 & 2020’s Surveys Reports.

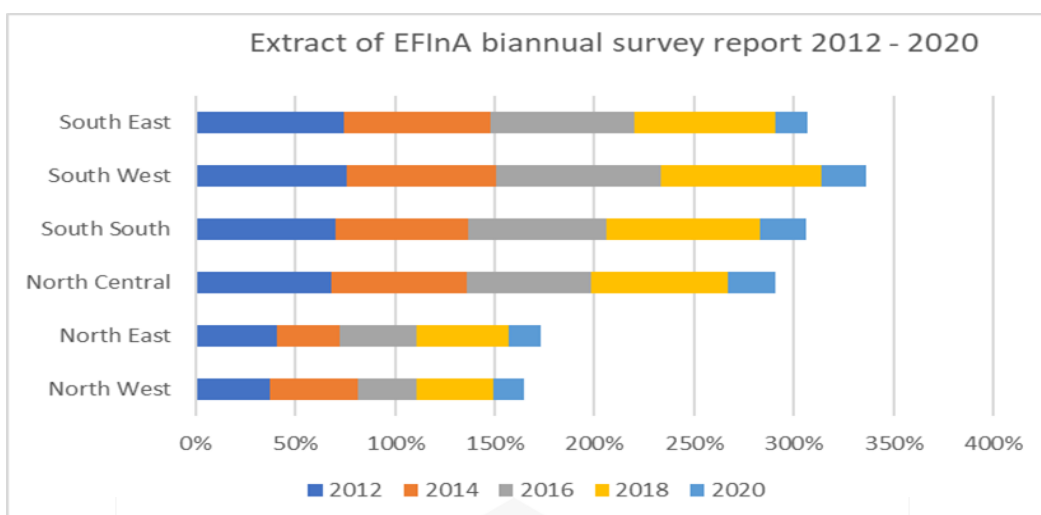


Figure 1.1. Financial Inclusion mileage by geopolitical regions in Nigeria  
 Source: Author's own, extracted and illustrated from EFINA 2012/2014/2016/2018 and 2020's Surveys Reports.

EFINA (2021) noted that although the COVID-19 impacted its 2020 survey, “Stubborn access gaps have persisted since 2008 for the most excluded groups: women, Northern Nigerians, Nigerians in rural areas, and youth”. It also identified one of its key findings that “The main barriers to financial inclusion remain institutional exclusion, affordability, access, and low awareness”. Institutional exclusion, according to the report, includes among others: financial institutions not offering products/services that meets the financial aspirations and needs of their customers, or lack of awareness and suitability of products that meets their needs. It can be inferred that Islamic equity financing constitutes a major financing product class that most Islamic financial institutions shy away from deploying for risk asset creation. By implication, it may be one of the institutional exclusions which is one of the banes of financial inclusion. This study therefore, aims to explore, to validate or otherwise place the argument that Islamic equity financing could be a solution to the dismal financial inclusion in the northern Nigeria.

Islamic equity financing is suggested to be one of viable products in improving financial inclusion in the society (Akosile & Zain, 2023; Khan, 2015; Shaikh et al., 2017; Shinkafi et al., 2019a). In Nigeria, not much of Islamic equity financing is deployed by the Islamic financial institutions in their financing activities or risk asset

creation. The institutions prefer the debt-based financing due to its similarity with the conventional loans. Some scholars believed that equity financing arrangement has a way of bringing down the cost of accessing financing on the demand side, while instilling some bit of ownership and entrepreneurial growth support from the supply side (Ayayi, 2012; Azmat & Ghaffar, 2021). Other advantages of Islamic equity financing include being a source of cheaper business start-up cost, and that it promotes the spirit of responsible and responsive investment by investors (Hamid, 2020). On the other hand, some scholars posited that the idealization of the Islamic equity financing mode as the main *Sharī'ah* compliant contracts is questionable. They based their argument on that fact that Islamic equity financing is not explicitly mandated in Islam's primary texts, that it was a mere juristic interpretation that evolved in response to the prohibition of *riba*, which is commonly equated with modern day interest (Farooq, 2007a; Yusof et al., 2009). It is in the light of the above understanding, that this study sets out to explore the possibility of a regulatory mandate for more utilization of the Islamic equity financing by Islamic financial institutions. The study further intends to provide insights on the subject vis-à-vis the literature on what the ideal Islamic banking paradigm should be, as discussed by Kaye (2012), Siddiqi (2004), and Usmani (1998). In doing so, the study hopes to validate or otherwise, several literatures on the fact that Islamic equity financing should be the mainstay of Islamic bank's financial intermediation. It would equally test the accuracy or otherwise of the proposition that the northern Nigeria is best financially included through the extensive deployment of Islamic equity financing by Islamic financial institutions.

## **1.2 STATEMENT OF PROBLEM**

Socio-economic inequity is the reverse of socio-economic inclusivity. Socio-economic inequities are perhaps parts of the major issues that the Brundtland Report of 1987 was trying to address when discussing sustainable development across the globe. The recommendation made in the report led to the evolution of the MDGs and subsequently the SDGs. In their studies, Bello (2013) and McCloskey (2015) highlighted the imperatives of addressing the imbalances and systemic causes of socio-economic inequities between the global North and South, if the development goals were to be effectively achieved. Eradication of socio-economic inequities has been a daunting

challenge, especially in the developing nations, including Nigeria. A strong way in achieving economic equity and inclusivity in Nigeria is to have comprehensive financial inclusion of all members within the community, as they should deserve it and have the wherewithal to manage it. The MDGs and subsequently SDGs strengthened the emphasis to have the initiatives for financial inclusion in society.

The requirement for economic inclusivity can be understood from the Constitution of the Federal Republic of Nigeria 1999 under section 16(2)(a) which stipulates “The State shall direct its policy towards ensuring: (a) the promotion of a planned and balanced economic development”. Section 16(2)(b) & (c) further expatiate on the economic inclusivity by requiring that the State shall ensure that the “material resources of the nation are harnessed and distributed as best as possible to serve the common good”; and that the “economic system is not operated in such a manner as to permit the concentration of wealth or the means of production and exchange in the hands of few individuals or of a group”. It is in this light that the CBN has, among other endeavours, in pursuant of its mandate to promote a sound financial system in Nigeria, articulated National Financial Inclusion Strategy in 2012, and subsequently revised the same in 2018 and 2022. To this end, there were several programmes carried out by the CBN and Nigerian authorities such as N-power programme, Conditional Cash Transfer (CCT) programme, Government Enterprise and Empowerment Programme (GEEP) and Home-Grown School Feeding Programme (HGSSF). A third-party impact monitoring report of these programmes recorded that the programmes positively impacted over 2.1 million Nigerian. The report noted that those programmes were relevant, although they may not likely be sustained for long, except with effectively developed strategy and policy (ActionAid Nigeria, 2018).

Even though these initiatives for financial inclusion were already carried out since 2010, based on the survey from EFINA which was released in June 2021, there were 38.1 million, i.e., about 36% of adult population who are still financially excluded (see Figure 1.2 below). The results showed that there is absence of records on meaningful improvement for financial inclusion of adult population in the northwest and northeast states of Nigeria (EFInA, 2021). The latest survey from EFInA (2023) reveals that the exclusion rate has dropped to 33.1 million, i.e., about 32%. These areas are occupied by Muslim-majority population. Based on findings from EFInA (2021), Ringim (2014), and Umar et al. (2019), religious reason has been identified as one of

the key factors influencing effective financial inclusion in these Muslim-majority regions. This factor, among others, were alluded to in the revised national financial inclusion strategy policy document of 2018, where it was noted that “Low or non-adoption of financial products owing to cultural and religious factors slowed down financial inclusion in the Northern parts of the country” (CBN, 2018). Yahaya et al. (2020) suggested that northern Nigerians seem to prefer financial services and products that they deem to be purer, closer to Islamic ideals of financing and cheaper to access, compared to debt-based financing. Similarity of approach by Islamic banks with conventional banks in preferring debt-based financing over equity financing tends to give a negative perception of the authenticity of their Islamic products among Muslim customers. This tends to hinder the interests of customers in these Muslim-majority regions of Nigeria to use the said financial services.

Beside religious reasons, there are also other identified factors contributing to the dismal financial inclusion in the Nigeria. They include, agency problem, liquidity risk and tax challenges, absence of secondary market, and near lack of equity financing product offerings by Islamic banks (Dar & Presley, 2000; Maikabara, 2019). Most importantly, ADB & IFSB (2015) observed that financial inclusion initiatives require efficient strategies, consistent regulatory framework, and consideration on having Islamic equity financing. The report also observed that, as a result of the current global recession, the Basel III frameworks have begun to urge more equity financing than debt financing as the preferred banking paradigm (ADB & IFSB, 2015). In this way the initiatives towards more of equity financing would address the issues and the targeted beneficiaries as highlighted in the reports of ActionAid Nigeria (2018) and EFINA (2021). It is perhaps in this light that the national financial inclusion strategy recognised “the imperative for prioritizing the foundational constraints, the importance of innovation and the need to create an enabling environment to promote financial inclusion” in Nigeria (CBN, 2018).

Thus, it is important to research on Islamic equity financing and their potentials that can engender a sound, deepened and more inclusive financial system, especially in the northeast and northwest regions of the country. At the same time, regulatory approaches or policies available for financial inclusion in the said region need to be checked. It is believed that the successful mainstreaming of Islamic equity financing into the financial system will drive, in a better way, the objectives of the provisions as

codified in the Nigerian constitution. It will also foster the objectives of the *Sharī'ah* (*Maqāṣid Al Sharī'ah*) and aid the attainment of the SDGs. It may directly or indirectly impact positively on entrepreneurships, innovation, job creation, and inhibit the upward trajectory of poverty and hunger, which may consequently cap youth restiveness and unemployment.

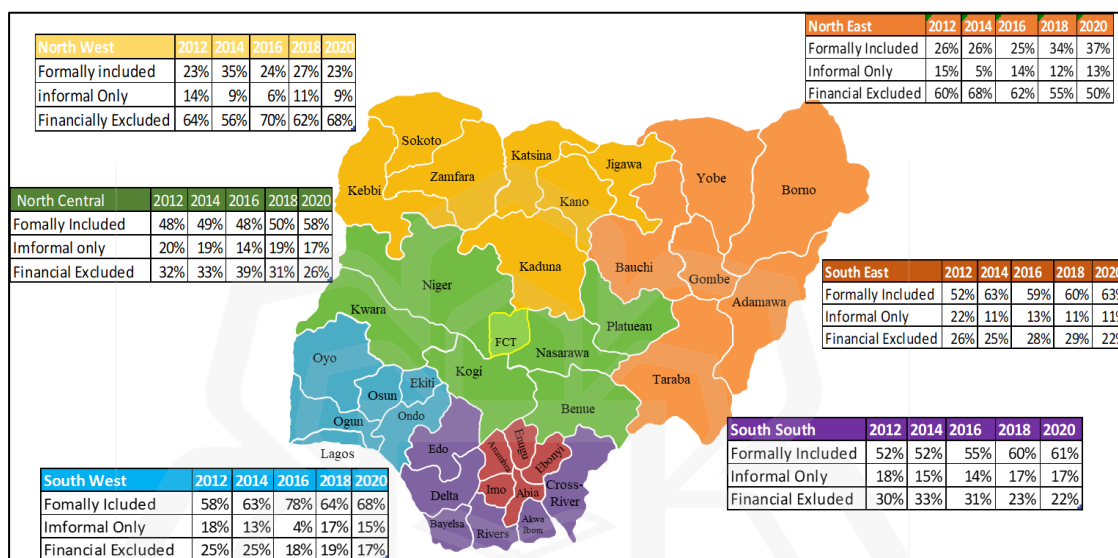


Figure 1.2. Financial Access by Geopolitical Zones in Nigeria

Source: Author's own, extracted from EFInA 2012/2014/2016/2018 and 2020's Surveys Reports

In summary, socio-economic inequity has been a global concern for which financial inclusion is seen as a key solution. In Nigeria, several programmes were initiated to engender financial inclusion, but assessment reports over time showed that sizeable population of the country are yet to be financially included. The most affected part of the country is the northern region which is a Muslim-majority area. Reports indicated that cultural and religious reasons are key factors why most northern Nigerians abstain from financial services. Essentially, some literatures seem to suggest that they prefer Islamic equity-based over debt-based financing. Likewise, they prefer Islamic financial services over conventional financial services. There is a need for a regulatory consideration for these issues in order to achieve effective financial inclusion.

### **1.3 OBJECTIVES OF THE STUDY**

There are several research objectives of this study. They are:

1. To evaluate regulatory approaches or policies available for financial inclusion in Nigeria, with a special focus on the northern States.
2. to identify the real issues in the practice of Islamic equity financing by Islamic Banks in Nigeria.
3. to gauge the perception of selected stakeholders towards the role of Islamic equity financing in improving financial inclusion in northern Nigeria.
4. to propose possible regulatory and policy adjustments to improve financial inclusion in northern Nigeria through Islamic equity financing.

### **1.4 RESEARCH QUESTIONS**

In furtherance of the objectives of this study, the following research questions are proposed:

1. How adequate are the regulatory approaches or policies for financial inclusion in the northern states of Nigeria?
2. a. How well is Islamic equity financing practiced by Nigerian Islamic Banks?  
b. What are the challenges in the practice of Islamic equity financing by Islamic Banks in Nigeria?  
c. What are the opportunities in the practice of Islamic equity financing by Islamic Banks in Nigeria?
3. What is the selected stakeholders' perception towards the role of Islamic equity financing in improving financial inclusion in northern Nigeria?
4. What are the possible regulatory and policy adjustments that will promote financial inclusion in northern Nigeria through Islamic equity financing?

### **1.5 SCOPE AND LIMITATION OF THE STUDY**

This study is focused on the non-interest (Islamic) banking sector of Nigerian banking industry. It sets out to examine how the CBN and relevant stakeholders can enhance the

legal and regulatory framework by including the model through which Islamic equity financing are promoted for adoption by Non-interest Financial Institutions (NIFIs) in their financing or asset creation activities. This is in furtherance of the CBN's bid to drive a sustainable and inclusive economic growth that will see the nation successfully mitigate social inequities, deepen financial inclusion, and stimulate entrepreneurial development and sustainable wealth creation, especially in its northwest and northeast regions.

Other sectors of the non-interest finance, such as takaful and asset management or capital market are not within the immediate focus of this study and are thus excluded from this research. Moreover, these sectors are regulated by entities other than the CBN. They are the National Insurance Commission (NAICOM) who has the responsibility to regulate takaful sector, while the Securities and Exchange Commission (SEC) regulates the asset management and capital market businesses. Geographically, this research is limited to the northern region of the federal republic of Nigeria only, which is the central focus of this research.

## **1.6 HYPOTHESES OF THE RESEARCH**

There are two main hypotheses for the research. They are:

- i. Regulation and policy adjustments in favour of Islamic equity financing may promote effectiveness and deepened financial inclusion in the northern Nigeria; and,
- ii. Financial inclusion in the northern Nigeria may be enhanced with the application of Islamic equity financing.

## **1.7 SIGNIFICANCE OF THE STUDY**

The significance of this study is premised on its bid to assess the effectiveness and extent of success of Nigeria's financial inclusion strategy, especially in the northeast and northwest geopolitical regions of the country. The country's target had been to achieve effective financial inclusion of the citizens by reducing exclusion rate which was 53% in 2008 to at most 20% by 2020. However, this target was not achieved as

evidenced by a recent survey result released by EFINA, which reveals that about 36% of Nigeria's adult population are financially excluded (EFInA, 2021).

Islamic equity financing which is risk sharing instruments of Islamic finance, contributes to inclusivity, stability and sustainability of a financial industry. This is because Islamic equity financing de-emphasises debt creation and mitigate the vulnerability of the enterprising have-nots, who are the targeted segments of the society to be included financially (Hussain et al., 2016). Studies have shown that in jurisdictions like Indonesia, which share similarities with Nigeria, Islamic equity financing performed better than debt-based financing, especially at the microfinancing level (Fianto et al., 2018; Risfandy, 2018). The foregoing and subsequent propositions for a regulatory approach with which Islamic equity financing would be effectively mainstreamed and regulated within the Nigerian financial landscape, becomes important. It is expected that the above proposition would promote a sound financial system, aside from fostering the SDG<sup>6</sup> and attainment of objectives of the *Sharī'ah (Maqāṣid Al Sharī'ah)* by the Nigerian Islamic finance industry. Furthermore, it is expected to positively impact entrepreneurship and innovation, while at the same time solving issues militating effective financial inclusion. This is very much needed in the post Covid-19 era, plagued by socio-economic and political turmoil, to support the ever-shrinking public expenditure of governments.

This research is significant to regulators and academia, because of its legal and regulatory intervention that could be reckoned as an attempt to bridge the gap between theoretical postulations by regulators, academia and the industry's practical realities of Islamic equity financing, which stands as the alternative to the conventional (debt-based) financing. It is significant to the industry practitioners because it explores the Islamic equity financing as a potent product proposition that could resolve challenges around their bid to enhance financial inclusion. In addition, the study will be of significance to stakeholders such as policy makers in their bid to evolve policies for entrepreneurship, innovation and enduring financial inclusion. It will benefit the regulators in their mandate to provide guidance, supervision and regulation. It will also benefit bankers in their product development and inclusive financial intermediation

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<sup>6</sup> Goals 1: No Poverty, 2: Zero Hunger, 8: Decent Work and Economic Growth, 10: Reduced Inequalities, 12: Responsible Consumption and Production

endeavours. Further, it will benefit Islamic finance industry players, especially seekers for pragmatic Islamic finance solutions to socio-economic challenges and financial exclusion. As a consequence of this study, developing countries and societies who are seeking for innovative and inclusive Islamic finance solutions and structures to their socio-economic developmental challenges, may also find a lead with Islamic equity financing.

## 1.8 OPERATIONAL DEFINITIONS

In the context of this study;

**Debt financing** means creation of risk assets (or the provision of financing by Nigerian Islamic banks to deserving customers) through *Shari'ah* contracts that transfers risk and create debt obligations, such as *Murabahah, Istisna'a, Salam* and *Bai' Muajjal*.

**Equity financing** means creation of risk assets (or the provision of financing by Nigerian Islamic banks to deserving customers) through *Shari'ah* contracts that engender risk and reward sharing, and do not create debt obligations, such as *Mudarabah, Musharakah, Diminishing Musharakah* or *Wakalah Bil Istithmar*.

**Financial inclusion** means the ability of adult Nigerians to have easy access to a broad range of formal financial services that meet their needs at affordable costs. The referenced financial services include, but are not limited to, payments, savings, credit, insurance, pension and capital market products.

**Financial institutions** mean entities, which may be banks, finance house or other specialised entities, licenced by the CBN to carry out receipt, management and administration of monies and related services from members of the Nigerian public.

**Financial services** mean activities carried out by entities so licenced by the CBN and other regulating agencies. These activities banking, microfinance, insurance/takaful, investment, financial advisory, fund and asset management, among others.

**Legal framework** means the system of Nigerian laws, regulations by the CBN and other empowered government entities, and institutions that govern sustainable

development and financial inclusion, and ensures that economic and financial inclusion policies are enforceable and aligned with global best practices.

**Marginalised or Underserved communities** mean communities in Nigeria that do not enjoy corresponding access to financial services compared to other parts of the country. This may be due to poverty, geographical location, gender, religious or systemic inequities.

**Policy** means a set of principles that shape the activities of the CBN towards achieving a specific goal, in this case, financial inclusion of all segments of the Nigerian society.

**Regulation** means rules, laws, or directives established by the CBN to control or manage behaviour, processes, or systems within the Nigerian banking sector. To ensure safety, fairness, efficiency, and adherence to industry standards, in line with its mandate under the laws of the Federal Republic of Nigeria.

**Regulatory framework** means coordinated system of rules, standards, implementation and enforcement mechanisms designed by the CBN or any other empowered government entity to ensure compliance with sustainable development and financial inclusion.

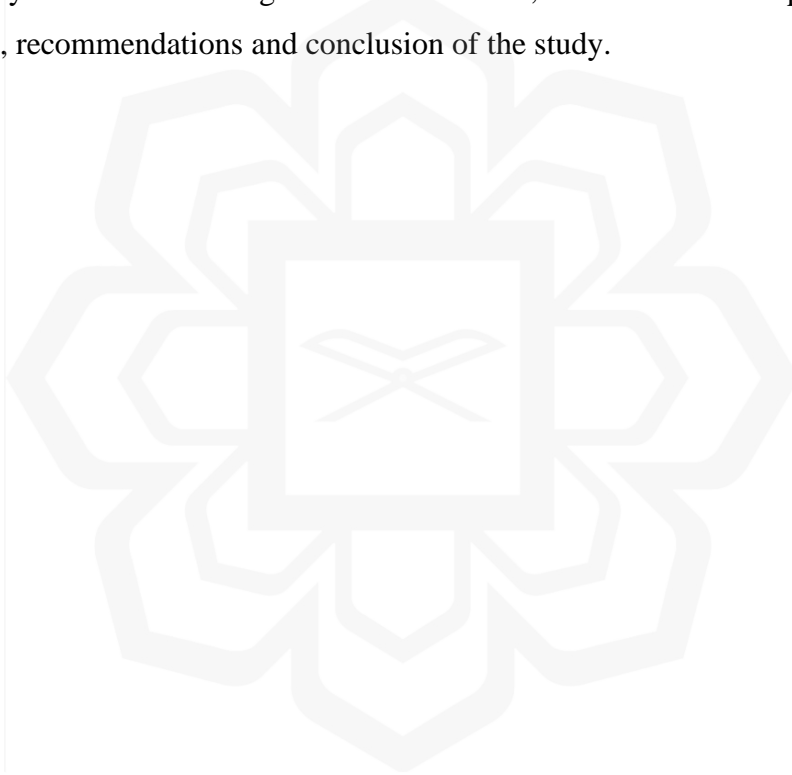
**Religiosity** means Islamic faith of the Muslim majority citizens of northern Nigeria leading to their commitment to follow principles of the *Shari'ah*, in their daily lifestyle, including economic and commercial lives. Consequently, it impacts their decision not to engage in any economic, specifically subscription to banking and financial services that is not compliant with the dictates and principles of the *Shari'ah*.

**Sustainable development** means an enduring approach to environmental, social, economic, and specifically financial wellbeing that meets the needs of the present without compromising the ability of future generations to meet their own needs.

**Unserved communities** mean communities in Nigeria that outrightly do not enjoy access to financial services compared to other parts of the country. This may be due to poverty, geographical location, gender, religious or systemic reasons.

## **1.9 ORGANIZATION OF THE STUDY**

This chapter provides an introductory overview to the research. It discusses the objectives of the study, the statement of the problem, research questions, research scopes, and significance of the study. The second chapter focuses on the review of relevant literatures on the research topic. The third chapter highlights the study's conceptual framework. Research methodology employed by this study is the focus of the fourth chapter. The fifth chapter discusses the qualitative investigation on regulatory approaches or policies on Islamic equity financing as a financial inclusion instrument. The sixth chapter presents the qualitative findings on key influencing factor of religiosity towards achieving financial inclusion, while the last chapter presents the findings, recommendations and conclusion of the study.



## CHAPTER TWO

### LITERATURE REVIEW

#### 2.1 INTRODUCTION

A review of available literature is essential to prove the relevancy of a certain research. It illustrates the expansion of knowledge and the breadth of academic literature pertinent to the research topic. In addition, it is essential to identify the research lacuna or gap that justifies the significance of the study. Therefore, a structured literature review is chosen and regarded as the most effective method for presenting the collated literature discovered by the researcher. The purpose of a structured literature review, according to Villar (2022), is to “provide a summary of the most influential, innovative, and recent research on a specified topic using systematic procedures for identifying and synthesising studies.” With this reason, the researcher employed the inverted pyramid approach, where the knowledge deficit that the research attempts to fill will be identified at the conclusion of this chapter. In discussing this strategy, Snyder (2019) explains that “the knowledge gaps and research needs identified during the critical review of the literature should be directly linked to the research objectives, which should be stated clearly and explicitly.” Previous works such as done by Adeyemi (2010), Oseni (2011) and Mohd. Zain (2018), effectively employed the aforementioned approach to the literature review. Due to its compatibility in capturing the complexity of the available literature, this method is considered suitable.

In general, there are three main categories of existing literature from which the researcher continues to refine the selection of the most relevant sources for inclusion in this chapter. These three main categories are listed as the followings:

- i. The first group of literature focuses on the financial inclusion discourse. It covers several headings such as access to basic banking services, credit and savings, takaful/insurance, financial education and literacy, digital financial inclusion, inclusion of underserved and marginalized communities, policy and regulatory frameworks, financial inclusion and sustainable development.

- ii. The second group centres on the innovative financing product discourse. It encompasses a wide range of financial instruments, approaches, and strategies that go beyond traditional forms of financing, with the goal of addressing various global challenges and achieving social, economic and environmental objectives.
- iii. The third group of literature is specially focused on the discourse of Islamic finance. As found by the researcher, the existing literature relating to Islamic finance discourse covers several headings such as Islamic banking, Islamic capital markets, Takaful, Zakat and Waqf, ethical and responsible investing, Islamic based contracts and etc. In relation to this category of literature, the researcher gives a priority on finding latest discussion on Islamic equity financing and its potentials.

Thus, the discussion of literature review as presented in this chapter is completed after a proper identification of discussion as derived from these three identified general categories of existing literature. In a matter of presentation, the researcher summarised the discussion by following certain themes which are: (i) the concept of financial inclusion, (ii) theoretical framework of financial inclusion, (iii) Islamic finance as financial inclusion initiative, (iv) Islamic finance as a tool of financial inclusion for underserved and marginalized communities; (v) The crucial gap of knowledge, which is: Islamic equity financing as an important financial inclusion product.

## **2.2 THE CONCEPT OF FINANCIAL INCLUSION**

The description of what financial inclusion is all about has been offered by a number of authors. One of them described it as enabling families and entities access financial services and products that suit their respective needs at reasonable costs (Özhan & Özparlak, 2021). Another defined it as the practise of bringing into the formal financial system people who were otherwise excluded. It is creating an access to formal financial services for people who are otherwise excluded in such a fashion that they are able to engage in economic activities that improve their economic wellbeing (Adil, 2020). Park, Cyn-Young and Mercado (2015) perceived financial inclusion as elements critical to inclusive economic growth through access to financial services. Such financial services enable a person or entity to take decisions on their long-term investment and

consumption needs, actively participate in economically productive venture and withstand sudden short-term shockwaves. Financial inclusion has been a central point of discussion in a bid to engender poverty alleviation and sustainable economic development by numerous world bodies. They are famously known, such as the Group of Twenty (G20) forum, Alliance for Financial Inclusion (AFI), Organization for Economic Cooperation and Development (OECD) countries, Association of Southeast Asian Nations (ASEAN), and the Asia-Pacific Economic Cooperation (APEC) (Wismantoro et al., 2020).

The concept of financial inclusion, when contrasted with the principle of mutuality shows that while the former is about making a pack of benefits available to the ‘General Public’, the latter is just about making the benefits available to a ‘Class of Public’ (Ghosh, 2012). The concept of mutuality presupposes a trading within a closed group who share common cause or objectives which is seen to be a way of developing the socio-economic wellbeing of members from such closed group. They are absolutely minded not to earn profits or gains from the internal commercial activities among themselves. This concept was developed in the United Kingdom in the 1800’s, and appears to get some sort of judicial endorsement in the Glasgow Corporation Waterworks Acts v. IRC<sup>7</sup>. Further, in the case of Dublin Corp. v. M. Adam,<sup>8</sup> the court deemed a mutual entity to be a single body or person, and as such should be exempted from tax liabilities under the law. When the concept of financial inclusion and principles of mutuality are compared, the two phenomena bother on utilitarian inclusivity of growth, i.e., an advancement that benefits all and sundry. Further, the two seem to be all about remoralising and engendering a humane capitalism in pursuit of sustainability (Dolan et al., 2021).

The concept of financial inclusion is said to vary from social inclusion. According to Elzahi Saaid Ali (2022), financial inclusion is essentially designed to cater to the need of low-income groups and enable them to be onboarded into the formal financial system. The disadvantaged and destitute members of the society, if they are not catered for, may continue to be excluded from accessing microcredits, skills improvement and savings. He surmised that social inclusion is the potent way to cater

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<sup>7</sup> The Glasgow Corporation Waterworks Acts v. IRC (1875) ITC 28

<sup>8</sup> Dublin Corpn. v. M. Adam (1887) 2 T.C. 387.

for the need of the destitute through Islamic social finance mechanisms like *Zakat*, *Sadaqaat* and *Waqf*. When their status is enhanced by these social inclusion mechanisms from the destitute group to low-income group, they can then be financially included. This view of Elzahi Saaid Ali (2022) is shared by Ismail & Shaikh (2017) and Shaikh (2017), among other proponents of social inclusion, who canvassed the need to further widen the scope of financial inclusion through *Takaful* and Islamic social financing mechanisms.

There are sections of the global citizens who continue to be financially excluded for numerous reasons, thus precluding them from enjoying the participation in the social and economic life. Clichici (2020) put up a study on the issues around global financial inclusion. He found that despite its positive impact on economic advancement internationally, there are disparities in financial inclusion level which requires to be addressed through advertent policy measures. While x-raying the varying tactics adopted by governments around the globe to achieve considerable financial inclusion, their rates of success or failure, and the point of strength and weakness of their respective drive, Bannigol and Hundekar (2018) had in the process described financial inclusion in present times as being all about financial markets that serve more persons through various products and services but at optimum cost. They surmised that ‘microfinance’ which was hitherto restricted in the use for providing lending to the lower class has now been expanded not to refer to loans only, but to include savings, payment and insurance for the lower income segment of a given society. While Elzahi Saaid Ali (2022), on his part went ahead to examine, to what extent Islamic microfinance can facilitate poverty alleviation in Muslim communities. He found that the conventional microfinance only caters to the need of low-income group to the exclusion of the destitute members of the society, who are often excluded from accessing microcredits, skills improvement and savings. His finding included the fact that the Islamic microfinance institutions have moved ahead of their conventional counterpart in providing not only financial inclusion, but social inclusion through Islamic social financing. Islamic microfinance institutions carry out the social inclusion first through mechanisms like *Zakah*, *Sadaqah*, and *waqf*, as direct intervention for the extremely poor to assuage their basic needs either in-kind or in cash. Thereafter, the financial inclusion is followed through by extending microcredits to them. It is noteworthy that the Indonesian experience of the *Baitul Maal wat Tamwil* (House of

Wealth and Finance or BMT) fits into Elzahi Saaid Ali (2022)'s postulation. The BMT houses two divisions; the *Baitul Mal* and the *Baitu Tamwil*. The *Baitul Mal* aggregates and administers social funds such as *zakah*, *sadaqah*, *infaq*, and cash *waqf*. The *Baitul Tamwil* acts like an Islamic micro finance institution that takes deposits, offer savings products, micro-takaful, funds transfer, mobile banking, credit financing, including *qard hassan* credit for emergency purposes or to those in need (Ascarya, 2018). Prasetya (2018) and Rahayu (2020) further detailed in their studies the roles played by the Indonesian BMT model in deepening financial inclusion, providing empowerment for women and engendering a sustainable financial and social inclusion.

In identifying some of the reasons for financial exclusion, Mhlanga et al. (2021) observed that in South Africa, factors such as age, race, education level, marital status and the total salary proxy of income impacts on financial inclusion. They opined that considering the differences in the probability of demand for financial products and services amongst the different races in South Africa, tailor-made products and services should be curated to satisfy the varying needs of the different races, (i.e., coloured and black people) to improve financial inclusion amongst them.

Agabalinda & Steel (2021) examined the reasons for financial exclusion in the Ugandan society and found that financial literacy is significantly associated to formal financial training, and that the higher usage of both formal and informal financial services is associated to higher financial literacy. He equally found out that there is a strong connection between financial literacy and usage of informal financial services. He thus surmised that informal financial services may have a more complementary role to play in achieving financial inclusion than a simple model of financial formalization. Likewise, Ezzahid & Elouaourti (2021b) interrogated the reforms within the Moroccan society aimed at improving financial inclusion and the impact of these reforms at the microeconomic level. They noted that the determinants of access to formal finance and informal financial services. They equally noted that attainment of a high education and participation in the labour market reduces the barriers leading to voluntary exclusion fosters financial inclusion. These major barriers to financial inclusion in the Moroccan society include 'remoteness' and 'high cost' of financial services, which is sought to be addressed through the development of mobile banking platforms. Importantly, they identified that a major reason for voluntary exclusion is religiosity, which is being

addressed through the Islamic finance model geared towards the inclusion of population segments excluded for religious reasons.

Similar to the Moroccan experience, religious reason is also responsible for the reason a sizeable population of Nigerians voluntarily exclude themselves from the organised conventional financial services. Abiola et al. (2019) noted that the CBN identified the fact that Islamic banking products would help bring into the banking system a huge number of the country's population that had hitherto steered away from partaking in the country's conventional financial system, due to their aversion to interest and interest-based products and services.

### **2.3 ISLAMIC FINANCE AS A FINANCIAL INCLUSION INITIATIVE**

One of the most important demands of individuals and businesses who aspire to make enough money to support their way of life is access to finance at a reasonable and practical cost. In the light of this, it helps directly or indirectly to reduce poverty (Park & Mercado, 2015). However, many people are not able to take advantage of this opportunity since financial institutions have turned them away from financial services for a variety of reasons. Such reasons include high operational costs which are brought upon low-income residents living in rural regions and a dearth of adequate collateral for loans. Many people also actively choose not to engage in the financial system in Nigeria, since it is explicitly forbidden in Islam to utilise interest and extreme uncertainty. Both of these criteria can easily be found in conventional financial institutions. This voluntary exclusion has continuously decreased since the establishment of Islamic financial institutions in various Muslim-majority countries in the middle of the 1960s and the beginning of the 1970s. Nowadays, consumers have choices of a wide range of financial services that utilising *Sharī'ah*-compliant procedures since the founding of Islamic banks. Other Islamic financial entities, such as Takaful (Islamic insurance) businesses, have developed accordingly. Muslims are now financially included thanks to these new Islamic financial organisations (Ozdemir et al., 2023).

### 2.3.1 The Global Islamic Finance Industry

Prior to the 1970s, a number of works were published on the Islamic economic system by economists and Muslim jurists (Shinsuke, 2012). In the 1940s, two ground-breaking books were published by Islamic economists focusing on the Islamic finance system. In one of the books, Anwar Iqbal Qureshi said that “Islam prohibits interest but allows profits and partnership. If the banks, instead of allowing loans to the industry, become its partners and share the loss and profit with it, there is no objection against such banks in the Islamic system” (Qureshi, 1946). It can be inferred from his comments that the most suitable financing product is the partnership-based financial instruments, such as *Muḍārabah* and *Muṣhārah* that do not seem to be widely used by most Islamic financial institutions until recently. On the same point, Mahmud Ahmad (1947) expressed his preference for partnership-based systems by saying, “The Shirakat banks would lend money to industry and commerce on the basis of Shirakat, that is, they would share the profit with their debtors rather than burden industry and commerce with a fixed rate of interest” (Mahmud Ahmad, 1947). Although both scholars and their works are prominent in the literature of Islamic economics, they left a lot of unanswered questions about banking practices as observed by later jurists who surmised that most literatures on Islamic economy and finance were written by authors who do not necessarily have hands-on experience in that field (Kahf, 2004; Siddiqi, 1981).

Subsequently, the Mit Ghamr Savings Bank was founded in Egypt in 1963 and became the first contemporary attempt in applying Islamic banking (Chong & Liu, 2009). This experiment was followed by the International Conference on Islamic Economics (also known as the Makkah Conference) which was held in Saudi Arabia on 21<sup>st</sup> to 26<sup>th</sup> of February 1976 and was attended by 180 people from various backgrounds, including economists, Muslim jurists, financiers, and journalists from all around the world (Shinsuke, 2012). The said conference sparked interests among Islamic economists on Islamic banking and they started to establish reputable Islamic economics organisations. This led to the establishment of entities like Islamic Economics Research Centre (IERC) (Ahmad, 1980). The IERC<sup>9</sup> was established at King Abdulaziz University in Jeddah, Saudi Arabia. In addition to the IERC, the Islamic

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<sup>9</sup> In 2011, the IERC evolved into the Islamic Economics Institute (IEI). The IEI aims to provide educational graduate programs and training courses for the private sector.

Development Bank (IDB), which has its headquarters in Jeddah, Saudi Arabia, established the Islamic Research and Training Institute (IRTI) in 1981. In relation to the academic community, the International Association for Islamic Economics (IAIE) was established in 1984 and is still active in planning such conferences today (Shinsuke, 2012).

Over the years, there have been significant increase in the number of players in Islamic banking. More than 50 countries across the world are practicing Islamic banking. Iran and Sudan are the only countries who stood out with fully *Sharī'ah*-compliant stock markets (Pryor, 2007). Other countries, such as Bangladesh, Egypt, Indonesia, Jordan, Malaysia and Nigeria, allowed both Islamic and conventional banking to co-exist. Muslim-majority countries are not the only players who are active in the Islamic finance industry. For an example, the Islamic Bank of Britain received its licence to conduct Islamic banking in August 2004, and became the first non-Muslim country to hold such a license (Chong & Liu, 2009). According to the Islamic Finance Recording and Sizing Tool (IFIRST) database, between the end of 2000 and the end of 2005, the global assets of Islamic retail banks increased from 102 billion to 354 billion US dollars. These numbers indicate a 5-year average annualised growth rate of 29%. In the same time frame, the asset values were almost twice generated from retail financial institutions that complied with *Sharī'ah* (Gheeraert, 2014), signifying that Islamic finance was rapidly expanding throughout the global banking industry (Hearn et al., 2012). Generally, the industry was effective in increasing performance and outperforming its conventional equivalent, thereby growing its market share within the international financial markets (Smolo et al., 2023a). Islamic finance has drawn a lot of research attention since it was proven to be resilient to the global financial crisis (Tabash & Dhankar, 2014).

Reaching towards 2025, Islamic finance has grown significantly and stands out to be an influential banking industry in many countries. Iran, Sudan, Saudi Arabia, Brunei, Kuwait, Malaysia, Qatar, Bangladesh, Djibouti, UAE, Jordan, Bahrain, Pakistan, Palestine, and Oman are among the nations that continues to develop their Islamic financial sectors, according to the Islamic Financial Services Industry Stability Report 2022 (IFSB, 2022). The total Islamic banking assets of these countries are set to exceed more than 15% of their total domestic banking sector assets. These countries are distinguished by their more successful attempts to standardise and harmonise reporting,

governance, products, and dispute resolution mechanisms, as well as their more inductive legal and regulatory frameworks for Islamic banking. The majority of these countries either fully adapt or partially adopt the international Islamic standards set by organisations like the International Islamic Financial Market (IIFM), Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI), and Islamic Financial Services Board (IFSB) (IFSB, 2022).

The industry is still expected to grow by double digits in 2021, with a projected asset value of USD 3.06 trillion, notwithstanding the COVID-19 epidemic (Smolo et al., 2023a). According to S&P Global Ratings, the global Islamic finance sector will grow up to 10% to 12% in 2021–2022. This anticipated performance is explained by the growth of Islamic banking assets in several Gulf Cooperation Council (GCC) countries, Malaysia, and Turkey, as well as sukuk issuances surpassing maturities. Despite the COVID-19 epidemic and falling oil prices, Islamic finance developed quickly in 2020, with total assets rising to 10.6% (S&P Global Ratings, 2022). Looking forward to 2025, it is forecasted that the global Islamic finance industry may grow in size to about 5 trillion US Dollars (John, 2024).

## **2.3.2 Islamic Finance in Nigeria**

### ***2.3.2.1 Legal Framework for Islamic Finance in Nigeria***

In Nigeria, Islamic finance is accepted as a system of finance that is based on the principles of *Sharī'ah* (Islamic law). It is also known as non-interest finance, ethical finance, participatory finance or responsible finance. Islamic Financial Institutions (IFIs) are frequently referred to as Non-Interest Financial Institutions (NIFIs). The Central Bank of Nigeria (CBN), a key regulator of the Nigerian financial industry, under its lawful mandate as prescribed by section 33(1)(b) of the Central Bank of Nigeria Act 2007, and section 57 of the Banks and Other Financial Institutions Act (BOFIA) 1991 (as amended), released the Guidelines for the Regulation and Supervision of Institutions Offering Non-Interest Financial Services. Under this Guidelines, a Non-Interest financial Institution (NIFI) is defined as a Bank or Other Financial Institution (OFI) engaged in the provision of financial services and products “in accordance with any established non-interest banking principles” (CBN, 2011). The referred Guidelines

further classified the non-interest banking and finance into two categories, i.e. (i) Non-interest banking and finance based on Islamic commercial jurisprudence and (ii) Non-interest banking and finance based on any other established non-interest principles (CBN, 2011). The second classification may be described as a quest by the Central Bank of Nigeria to manage sensitivities and accommodate other likely brands of non-interest finance models (Latona, 2020).

During the period of 2011 to 2012, there was a series of debates over the legality or constitutionality of Islamic finance in Nigeria, which included a lawsuit where the plaintiff requested the court to nullify the licence issued to Jaiz Bank since the bank intended to operate under Islamic commercial jurisprudence which was not known to BOFIA (Ughegbe, 2012). In *Godwin Sunday Ogboji vs CBN & Ors*, Suit No. FHC/ABJ/CS/710/2011 (Federal High Court of Nigeria), Gabriel Kolawole J. in his obiter dicta observed, among others that:

Unlike the other specialized banks, the Jaiz International Bank PLC can only be established in the country with the intervention of the National Assembly by amending the BOFI Act. If not that the plaintiff has no locus standi to maintain this action, I would have nullified the illegal license issued to the Jaiz International Bank PLC by the CBN to operate non-interest banking under the principles of Islamic jurisprudence.

The above period metamorphosed into an era of advertent positive engagement about the value propositions of Islamic finance. Few years down the line, even the courts had to brace to adjudicate on Islamic finance transaction as seen in the cases of *Lotus Capital Limited v. Alh Ibrahim Baita and 5 Ors* Suite No. K/604/2011 (High Court of Kano State 4 April 2014) and the case of *System Property Development Consortium Limited and Alhaji Idris Othman v. Jaiz Bank Plc* Suit No. CV/280/2015 (High Court of the Federal Capital Territory, Abuja 13 December 2018). In these cases, the courts were approached to adjudicate on Murabahah and Istisna transactions respectively.

On the legal framework front, between 1991 to 2002, there were amendments to the Banks and Other Financial Institutions Act (BOFIA) which included the introduction of section 39 (1) (a) which stipulates that:

- i. Except with the written consent of the Governor

- ii. No bank shall, as from the commencement of this Decree, be registered or incorporated with a name which includes the words “Central” “Federal,” “Federation,” “National”, “Nigeria”, “Reserve”, “State”, Christian”, “Islamic”, “Moslem”, “Quranic”, “Biblical”.

While at the same time, the decree recognised a profit and loss sharing bank. The Central Bank of Nigeria had in 2011, pursuant to its powers under the principal act, enacted a subsidiary legislation to fill the legislative void on Islamic finance matters (Akinlolu, 2015). The latest development in this regard is the provision for Islamic finance in the Banks and Other Financial Institutions Act (BOFIA) 2020 (as amended) and the official gazetting of the Non-Interest Finance (Tax) Regulation 2022 by the Federal Inland Revenue Service (FIRS) on 25th April, 2022, pursuant to its mandate under the Federal Inland Revenue Service (Establishment) Act of 2007.

Abdullahi (2016) observed that the wave of banking reforms in Nigeria around 2009 triggered the adoption of Islamic banking and finance, and thus triggered debates around the operationalization of the faith-based banking model. He examined the challenges of Islamic banking and finance in Nigeria, which included misconception of the model, dearth of supporting institutional infrastructure for the successful operation of the model, ignorance and corruption. He noted the opportunities to include the country’s huge population which set it as a potential hub for Islamic finance in Africa (Abdullahi, 2016). He concluded by recommending massive public awareness on Islamic finance offerings and the urgent need for institutional infrastructure that will aid the Islamic finance practise, particularly in the areas of taxation, legal framework and accounting system (Abdullahi, 2016). Another scholar i.e., Shittu (2014) approached the discourse from a theological perspective, challenging the non-Muslim (Christian)’s aversion to the practice of Interest-free banking to the point of polarizing the Nigerian society, when indeed it was a provision of their divine book. Moreover, the objective of an interest free economic system is to engender social equity and prosperity. Ringim (2014) undertook a field survey in Kano, Nigeria, to assess the Muslim public perception towards Islamic banking products and services. He found 4.91 to be the mean for personal perception with a standard deviation of 1.007, signalling a positive level of perception in favour of Islamic banking products by Muslim account holders with conventional banks. He thus surmised that Islamic banks, could among others, exploit

the perception of customers seeking legitimacy of banking facilities, efficient and convenient services, and high-quality services. Shittu (2013), similar to the position of Abdullahi (2016) believed that the inefficient banking services, corruption, insensitivity to the banking populace feelings, among others had led to reforms by the Central Bank of Nigeria that saw Islamic banking emerging as one of the solution options to the banking system that has not optimally served the banking populace. He then proceeded to examine the concept and objectives of Islamic banking, its benefits to beneficiaries from diverse religious leanings.

### ***2.3.2.2 Historical Development of Islamic Finance in Nigeria***

Islamic finance, it is opined by Akosile & Sharofiddin (2021), did not make its debut into the Nigerian society at the turn of the millennium, as history of modern Islamic banking in Nigeria had been traced to incorporation of Muslim Bank West Africa Limited in 1957. The Bank is said to have briefly operated in Lagos, Nigeria's commercial nerve centre, and subsequently had its licence revoked on 29th July 1968 by the then Federal Finance Commissioner via the Muslim Bank (Revocation of Licence) Order of 1968 (Akosile & Sharofiddin, 2021b). Around 1980s workshops, seminars, and conferences on Islamic Banking became a common occurrence. By 1999, Habib-Nigeria Bank was granted licence to operate interest free banking window, but the interest free banking window was subsequently shut down. Around year 2004, Jaiz International Plc secured an approval-in-principle (AIP) to operate Islamic banking while the final operational licence was gotten from the CBN in 2011 (Sapovadia, 2015).

A browse of pre-colonial history of Islamic finance in Nigeria revealed that sequel to the Islamic Jihad of Sheikh Usman Dan Fodiyo in 1804 until around 1903, Islamic administrative, economic and financial system was operational under the Sokoto Caliphate, in what is today regarded as northern Nigeria (Abikan, 2009). Under the Sokoto Caliphate, financial and commercial practices that include *Murabahah* and *Muṣhārahah* were prevalent (Malami, 1998). These financial and commercial practices were carried out under strict Islamic regulations and policies (Trimingham, 1959). There was also the *Baitul Mal* (Treasury) that, among other functions, administered a standardized way of collection and distribution of Zakat; one of the potent means of providing financial and social inclusion for citizens of the Caliphate (Anderson, 2013).

In more recent times, the Nigerian Islamic finance landscape has recorded positive developments. For example, in the Islamic capital market space; guidelines for placing and operating Sukuk issuances were issued by the Securities and Exchange Commission (SEC). This paved the way for issuance of a supranational Sukuk by Osun State Government and about six tranches<sup>10</sup> of national Sukuk by the Federal Government of Nigeria for the rehabilitation of economically important roads across the six geopolitical zones of the country. Worthy of note, the Sukuk issuances in Nigeria had engendered national infrastructural development, financial inclusion of retail subscribers, and liquidity management outlet for Islamic financial institutions (Bakar, 2020). In addition to been a drive for financial inclusion, Abiola et al. (2019b) noted that introduction of Islamic finance into the Nigerian financial industry enhances corporate governance, through the creation of a *Sharī'ah* supervisory layer within the firmament of every Islamic financial institution that provides self-regulation. Abiola et al. (2019b) further noted that Islamic financial products and services helps to attract foreign direct investment from the South East Asia and Middle East and where investors are waiting to invest in *Sharī'ah*-compliant financial products. Further, the Islamic banking model is also projected to deepen Nigeria's financial markets and the financial inclusion drive, through its unique products and service offerings that will include citizens who voluntarily exclude themselves from conventional financial services.

Hussain et al. (2016) assessed the growth of Islamic finance in the global international financial system, with a focus on certain jurisdictions within the global south. They observed that factors like resilience, peculiarity of features, participation of the financier and obligor in the risk and reward sharing had made Islamic finance appealing to a broad category of the social strata, hence its approximate growth of about 20% annually. Other distinctive features of Islamic finance are its robust ties with real economic activities and aversion to undue risk taking. These are said to enhance the stability of Islamic financial institutions. Closely aligned to the views of Hussain et al. (2016) is that of Desai (2016), who observed the significant growth of Islamic finance around the globe, especially in the gulf countries; in the south east Asian countries like Malaysia, Indonesia and Singapore; in African countries like Ivory Coast, Nigeria, Kenya and South Africa; and in European countries like the United Kingdom,

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<sup>10</sup> As of October 2023

Luxembourg and Germany. Desai (2016), proceeded to highlight challenges bedevilling Islamic finance around the globe, key among of which are issues around financial supervision and regulation, liquidity management, access to finance, *Sharī'ah* harmonization and standardization, public enlightenment and literacy, and dearth of human capacity. He explored solutions like sustained mass enlightenment and literacy by the regulators and players in the financial industry, tax reforms to engender equitable industry participation, adoption of *Sharī'ah* as the governing law for Islamic financial transactions and pursuing harmonized benchmarks, policy and legal frameworks.

Fang (2014) approached the discuss from an ideological perspective, after restating the increasing attention to, and expansion in the practise of Islamic finance, even outside of the typical Muslim majority jurisdictions as articulated by Hussain et al. (2016) and Desai (2016). He examined the substitute package of concepts and practices engendered as a 'materialist'-led offering into economics and finance aspect of social sciences by Islamic finance. He generated three novel perceptions of Islamic finance based on his interface with social constructivism which reside in first, providing an alternative epistemology to precepts underlying the conventional finance. Second, authoritative financial alternative to conventional finance and third, emphasis on the role of economic institutions and agents in the propagation of Islamic finance ideals around the globe.

Khoutem (2014) examined the role of Islamic finance in Tunisia's economic development, especially in a post 2011 revolution era. He found that Islamic finance is more positioned to provide more inclusive solution to the challenge of unemployment and poverty eradication than any other financial system, because of its "charitable/redistributive" and "business/market-based risk sharing" components. He equally opined that the Islamic financial system can be better optimized if the Islamic banks were to leverage on the offerings of the Islamic capital market in the areas of liquidity management, development financing, among others.

### **2.3.3 Islamic Finance as A Tool for Deepening Financial Inclusion**

Naceur et al. (2015b) conducted a survey of the extent to which Islamic banking can increase financial inclusion. Their focus was the Muslim majority countries who are

members of the Organization for Islamic Cooperation (OIC). They found that a major reason why most citizens of the focused countries exclude themselves from financial services was for the fact that the banking system in their respective countries were run on a system that is at variance with their religious convictions. This position was reinforced by a recent study by Sayed et al. (2019) which found, among others, the centrality of religious leanings in the consumption and uptake of financial products and services in countries like Egypt, etc. Naceur et al. (2015b) observed that access to finance remains static in these countries of focus, despite the adoption of cutting-edge end-point financial service deliveries. Sequel to analysis of empirical results, the researchers suggested that the adoption of Islamic banking would be the required recipe for financial inclusion in these Muslim majority countries, through steps that include review of operating mode, developing the microfinance offering and equity funds and finally the institutionalization of the Islamic wealth redistribution mechanisms. These findings of Naceur et al. (2015a) and Sayed et al. (2019) strikes some chord with the objective of this study in the area of religiosity playing a central role in the uptake of financial products and services and the fact that there is a persistent dismal financial inclusion in northern Nigeria despite the sophistication by Nigerian financial institutions. The studies however fell short of zeroing in focus on the particular aspect of financial inclusion and the seeming appropriate financing contract that best serves the financial inclusion objectives as done by this study.

Iqbal & Mirakhor (2012) adopted a broader approach to examining financial inclusion through Islamic finance. The duo noted that financial inclusion and assesses makes essential influence on economic development. They acknowledged the partial success of the conventional mechanisms to engendering financial inclusion, such as micro-insurance, micro-finance, SMEs, amongst others. They thereafter canvassed for the adoption of the Islamic finance as alternative means towards achieving a sustainable financial inclusion, through risk sharing instruments rather than risk-transfer instruments that characterise the conventional financial system. This is in addition to the redistributive instruments such as *Zakah*, *Sadaqat*, *Qard Hassan* etc that are peculiar to Islamic financial system to the exclusion of the conventional financial system. These redistribute instruments, the duo surmised, will provide a comprehensive framework for financial inclusion enhancement which remains lacking in the conventional financial system. The authors however, observed that the Muslim majority countries have yet to

optimize the benefits embedded in the redistributive instruments in their respective jurisdiction toward engendering sound and sustainable financial inclusion. Clearly, the duo left out the consideration or discussion on Islamic equity financing as potent financial inclusion tools offered by Islamic finance.

A deeper assessment of the role of Islamic finance in enhancing financial inclusion in the OIC member countries was undertaken by Mohieldin et al. (2012). The authors noted the core principle of Islam in the areas of commerce and economy being the pursuance and emphasis on social justice and inclusion between the affluent and the poor within the society. They restated the rounded approach of Islamic finance's response to the challenge of financial exclusion through risk-sharing and redistributive mechanisms. While the former engenders effective access to finance, the latter fight poverty towards eradication, thus bringing about a sound and vibrant socio-economic wellbeing. They established the historical roots of these mechanisms and the current gaps in their implementation in the various Muslim majority countries. They thus urged the respective policy makers, regulators and stakeholders in the various jurisdictions to explore these mechanisms for financial inclusion and poverty eradication by providing the requisite regulatory regime and enabling financial infrastructure for their effective implementation.

Drissi & Angade (2017) presented the dimension of microfinance as a veritable tool for financial inclusion and posited that there seem to be a good interlink between the Islamic principles of solidarity and the objectives of microfinance, and that microfinance would be a way of including the financially excluded. Tahiri Jouti (2018) noted that Islamic finance would have more impact on financial inclusion. The same believe was shared by Alaro & Alalubosa (2019), that a microfinance operating on the *Sharī'ah* tools of *Zakat*, *Waqf*, *Muḍārabah* and *Muṣhārah* would be a solution for poverty alleviation and financial inclusion bid of the Nigerian government that has been on for decades.

Increasing the breadth of the banking sector has often been confused with engendering financial inclusion in most developing economies; this gave rise for the breadth versus depth argument about the financial services as a tool towards engendering financial inclusion. Inoue (2019) in his study of the Indian society found that most financial institutions only achieved breadth of their product and services

provision and not impactful depth in their services. Musembi & Chun (2020)'s study in Kenya strengthens the position of Inoue (2019) when they revealed that real financial development has yet to be achieved through the mobile money programme, aimed at driving financial inclusion. They opined that the Kenyan policymakers should explore means of spurring innovative and cheap financial products and services to entrepreneurs, agribusinesses, and manufacturers for effective financial inclusion of the Kenyan society. In the case of Morocco, Ezzahid & Elouaourti (2021a) observed that the breadth of financial inclusion passed three phases. The first phase (1999–2004) witnessed a slight pickup in the level of financial inclusion. The second phase (2004–2012), witnessed a significant increment. While the third phase (2012–2019), recorded stagnation in the breadth of financial inclusion. Although income level plays a role, the researchers further surmised that in terms of barriers to a deepened financial inclusion, 'the Islamic finance model constitutes a lever for the inclusion of population segments excluded for religious reasons', given that Morocco is a Muslim majority society.

In line with Inoue (2019) observation, Kurpad (2016a)'s earlier studies had, among others, observed the unfortunate deepening of financial exclusion among the Indian Muslim population which is yet to be effectively integrated into the Indian financial system. He opines that this is due, largely to their apathy to the conventional financial system which has failed to provide support for their investments, just the same way it had prevented inflow of funds from abroad. He thus suggested a dual banking system for India, and alternatively, gradual and piecemeal amendments to the extant regulations of the financial industry in a bid to engender a deepened financial inclusion of the Indian Muslim population. Alam & Ansari (2020), in furthering the argument of Kurpad (2016b) surmised that the encouragement of faith-based investment will not only serve as a tool for financial inclusion, but will further attract a massive section of the Indian population into the formal financial system. A feat sought to be achieved through the deployment of Financial Technologies (FinTech) for a sustainable financial inclusion as observed by (Sarkar & Swami, 2019; Siddiqui & Siddiqui, 2020).

In driving home depth as against breadth as the way forward for financial inclusion Amadou (2018) undertook a comparative study of Mali alongside three developing countries from different continents, Nigeria (South-Sahara), Bangladesh (South Asia), and Bolivia (South America). He found that there was the need to focus on promoting agriculture and agribusiness financing, financial literacy and the

development of technical, vocational and entrepreneurial endeavours. These endeavours, according to Yaaba & Mika'ilu (2018) are adequately financed by Islamic Banks, given their asset-based/backed and risk sharing characteristics of their financing model. Uddin (2020) advocated the need to leverage technological breakthrough to transform business models, in addition to innovation, socio-economic, geostrategic and environmental transition, especially in the post COVID-19 era. He noted the differing peculiar needs of businesses according to their context to survive the post COVID-19 market reconfiguration. He noted the importance of agent-based banking model as one of the sustainable innovation and strategy in the banking industry that drives a circular economy, this is because the agent-banking model enables transmission of banking service in a way that minimize the ecological and social costs associated with the conventional model. Also, it serves the course of Emerging Markets & Developing Economies (EMDEs) in achieving an inclusive and sustainable business model.

#### **2.3.4 Islamic Finance and Sustainable Development**

Islamic finance is a values-based method of investing that is controlled by *Sharī'ah* (Islamic law), which upholds justice and forbids any transactions that are immoral, speculative, or usurious. The two-tier *Sharī'ah* screening approach created to evaluate the conformity of stocks with *Sharī'ah* standards and principles reflects these ideas (Ayub, 2007). A company's non-involvement in illegal activities, such as the production and sale of pig products, alcohol, cigarettes, deities, gambling, the promotion of immorality, and the provision of traditional interest and derivatives-based financial services, is ensured by qualitative screening. Quantitative screening, on the other hand, uses financial measures to impose predetermined limits on debt, liquidity, and illicit revenue. These guidelines classify particular stocks into a special conservative asset class. It is anticipated that the financial assets (equities) that satisfy the requirements would reduce risk and advance financial stability. Islamic finance principles and socially and environmentally responsible investments (SRI) both have the ability to satisfy the needs of the ethical investment sector thereby driving their accommodation into, and inclusion in the financial market (Smolo et al., 2023b).

Sadiq, Ramla & Mushtaq (2015) discussed the specific functions Islamic Financial Institutions could serve towards the creation of financial stability and

resilience. They opined that by de-emphasising debt-based financing products in favour of equity-based financing products especially for the Small and Medium Enterprises (SMEs), sustainable and stable economic growth would be fostered. This is in view of the fact that excessive debts are a recipe for financial crisis and cannot in any way mitigate an economy's exposure to systemic risk (Sadiq et al., 2015). Further, Sadiq et al. (2015) equally canvassed the need to promote the issuance of social Sukuk (Islamic bonds) which are structured on equity contracts, and the need for non-profit entities to drive the financial inclusion through *Zakat* and *Waqf*, to spur sustainable growth (Sadiq et al., 2015).

Ismail & Shaikh (2017) adopted a wider approach than that of Sadiq et al., (2015), by considering the role Islamic economics and finance plays in achieving the Sustainable Development Goals. They opined that Sustainable Development Goals are in congruence with the objectives of the Islamic *Sharī'ah*, which strives to engender prosperity and felicity for humanity, spiritually and materially. The duo paid more attention to the sustainable economic growth that can be generated by the Islamic social finance entities through the promotion of non-commercially viable programmes and projects that are socially essential. Like Sadiq et al. (2015), the duo advocated the imperatives of promoting risk sharing contracts over debt-based contracts as a way of providing value-based intermediation for a sustainable wealth creation and effective financial inclusion.

Biancone & Radwan (2018) also undertook an exploratory venture to make a case for a socially impacting alternative mode of financing against the background of emerging global economic predicament, exacerbating unemployment and poverty, and shrinking public expenditure. They advocated for more attention for Islamic finance because of the embedded varieties of social impacting and enterprise stimulating financing options it offers for humanity. However, Marwan et al. (2016) and Mirakhor et al. (2015) believe that the Islamic finance industry's full potential is far from being realised. This is because further innovative approaches to finance are still required and that there is the urgent need to bridge the gap between the practise and theory of Islamic finance, especially in the areas of risk-sharing financing offerings and its socially impacting financing offerings.

The discussions on Social Impact Bond (SIB) and Sustainable and Responsible Investment (SRI) by is yet another dimension of Islamic finance potential contribution towards the sustainable growth, societal wellbeing and financial inclusion. Marwan et al. (2016b) in the discus emphasised and exemplified the spirit of risk-sharing (i.e., Islamic equity financing) and social responsibility which are the major essences of Islamic finance that they observed to be currently missing in practice within the Islamic finance industry. The potential of these tools towards the sustainable growth of the Islamic finance industry were equally highlighted, which essentially is the positive societal impact that would be generated from the adoption of more of Islamic equity financing in lending practices and products by Islamic financial institutions. The articulations by Marwan et al. (2016b) seems to take into account Davidson, (2005b)'s observation of the tension between economic growth and environmental quality that came to fore in the 60s and 70s. His observation was to the effect that sustainable development as a concept has been more of a political instrument than a cause pursued by governments, enterprises and entities, and as such real progress towards sustainability might be overrated. This is because activities of authorities and entities had in fact been based on, and furthered the neoclassical economic ideology that promoted unbridled capital accumulation in such a way that the tension between economic, social and environmental forces are undermined. The implication is that sustainability of the future was not a key concern for the key economic players. Aydin (2015) in a further response to Davidson (2005b)'s observation noted the emergence of social business model as a mitigating factor to the failures of free-market capitalism. He identified the compatibility of the social business model with the Islamic moral economic system. He advocated a theoretical framework for Islamic social business based on an Islamic human and social development perspective, which finds accord with the Islamic equity financing and other Islamic social financing contracts and products that focuses on sustainable socioeconomic development and well-being. He charged the Islamic finance practitioners to go beyond cosmetic changes to the capitalism in the name of *Sharī'ah* compliance of commercial and economic by furthering the Tawhidi paradigm which will deepen the switch towards social business model that pulls inclusivity in the free-market economy.

The divine Islamic paradigm of the wealth-politics-welfare as the mainstay of the universal sustainable human development was discussed by Iqbal (2022) in his

work. He explained that this paradigm is premised on the Islamic conception of man as the vicegerent of Allah on earth, with the role of ensuring the sustainable cultivation and development of the earth resources towards a blissful experience on earth and felicity in the hereafter. He argued that the progressive Islamic politics perfectly protected and optimally developed multidimensional wealth of the whole universe, while peacefully integrating the entire humanity and the natural universe. This, he explained culminated in zenith of the matchless progressive Islamic blissful civilization and the ideal patterns of sustainable human development that occurred in the golden ages that was witnessed by humanity. He contrasted the golden ages engendered by Islamic civilization with the current civilization that had through his ungodly approach engendered ever-worsening pattern of unsustainable development. It is a civilization with extreme wealth inequalities, extreme poverty, climate change, global warming, excessive taxation, stagflation, deforestation, contamination of all environmental media, deterioration of human values, globalization of warfare, and culmination of lopsided development into dead-end growth. He noted the failure of the conventional economics to increase the universal sustainability, wellbeing and happiness of majority of humans in the world. He therefore advocated for a global consideration for the Islamic socio-economic mechanisms which places premium on sustainable progressive and structural transformation of the universal economy from its initial low human development status to the optimum human development. One of its manifestations is the emphasis on equity modalities of financing against debt financing that engenders inclusivity and is sustainable.

#### **2.4 ISLAMIC FINANCE AS A TOOL OF FINANCIAL INCLUSION FOR UNDERSERVED AND MARGINALIZED COMMUNITIES**

Global policymakers and financial sector authorities now prioritise financial inclusion. As such an enormous number of countries throughout the world are increasingly concerned about financial inclusion. Governments have prioritised fostering it even as a rapidly expanding literature has evolved to explore its measurement, drivers, and implications. For instance, following the Global Financial Crisis of 2007–2008, the Group of Twenty (G20) officially acknowledged the significance of financial inclusion as one of the cornerstones of the global development agenda during its summit in

2010<sup>11</sup>. The G20 urged relevant international standard-setting organisations (SSBs) to think about how they might further support financial inclusion in accordance with their particular mandates in its official communiqué (IFSB, 2019a). Also, the World Bank's 2014 Global Financial Development Report (GFDR), which is focused on financial inclusion, notes that over two-thirds of regulatory and supervisory bodies have been given the goal of promoting financial inclusion, and more than 50 nations have established official targets. The president of the World Bank stated that by 2020, everyone should have access to financial services (Naceur et al., 2015b).

At least seven of the seventeen 2030 Sustainable Development Goals (SDGs) that the United Nations (UN) approved in 2015<sup>12</sup> include financial inclusion as a key enabler. SDG 1 on eradicating poverty, SDG 2 on achieving food security and promoting sustainable agriculture, SDG 3 on promoting health and well-being, SDG 5 on achieving gender equality and the economic empowerment of women, SDG 8 on fostering economic growth and jobs, SDG 9 on fostering industry, innovation, and infrastructure, and SDG 10 on reducing inequality are among these goals. Additionally, the implied role of greater financial inclusion through increased savings mobilisation for investment and consumption that can promote growth is present in SDG 17, which focuses on enhancing the means of implementation. According to the CBN (2023), financial inclusion is achieved when a wide range of financial services are available at reasonable prices to meet the needs of all customers.

Lack of access to financial services by individuals or communities due to their location, economic situation, or any other 'anomalous' social conditions that prevent people from fully participating in the economic and social structures of mainstream communities is known as financial exclusion, the absence of financial inclusion (Sain et al., 2013). According to Beck & Demirgüç-Kunt (2008) and Mohieldin et al. (2011) there are two categories of factors for financial exclusion: involuntary causes and voluntary causes. Involuntary exclusion occurs as a result of user restrictions like low income or high-risk. It could also result from financial firms treating customers differently depending on their social, religious, or racial backgrounds. On the other side, voluntary exclusion encompasses people and businesses who do not need these services

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<sup>11</sup> G20 Meeting of Finance Ministers and Central Bank Governors, Communiqué, Busan, Republic of Korea, 5 June 2010.

<sup>12</sup> See [www.uncdf.org/financial-inclusion-and-the-sdgs](http://www.uncdf.org/financial-inclusion-and-the-sdgs)

or who exclude themselves for ethical or cultural reasons. For policymakers, the distinction between voluntary and involuntary financial exclusion is crucial because involuntary exclusion is a sign that there are barriers to financial inclusion, which may be overcome by developing and enacting the appropriate laws. It is widely acknowledged that measures should be created and put into place to include individuals who are excluded from the official financial system in order to reduce poverty and economic disparity. Financial exclusion, when it exists, encourages economic disparity, and social unrest, and has a detrimental effect on initiatives to advance social development (Wang & Guan, 2017).

Islamic finance is a significant avenue through which governments can encourage the use of official financial services among the underprivileged and the impoverished. Islamic finance significantly contributes to integrating the parts of society that are excluded from traditional financial institutions due to ethical and religious considerations by giving access to financial goods and services that are consistent with *Sharī'ah*. The redistributive components of Islamic finance as well as risk-sharing *Sharī'ah*-compliant financial products and services are used to accomplish this (Mohieldin et al., 2011). Further, the equity financing is a unique feature of Islamic finance that enables Islamic financial institutions provide longer-term financing to higher risk-return business than the conventional banks, thereby promoting economic growth. In the same light, compared to their conventional counterparts, the equity financing features subject Islamic financial institutions to greater market discipline, prudence, efficient allocation of capital based on productivity and viability of the financed entity, business or project (Chong & Liu, 2009).

#### **2.4.1 Financial Regulator's Role in Financial Inclusion Through Islamic Finance**

Akosile & Sharofiddin (2021) undertook an exploratory study to compare the roles played by regulators of the financial industry of the Developing Eight (D-8)<sup>13</sup> countries

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<sup>13</sup> The Developing-Eight Organization for Economic Cooperation (D-8) is a strategic cross-continental cooperation of Muslim majority countries namely, Nigeria, Egypt, Turkey, Iran, Pakistan, Bangladesh, Indonesia, and Malaysia that was founded in mid-June of 1997, a sequel to the propositions of Prof. Dr. Necmettin Erbakan, Turkey's Prime Minister at that time, with the key objective of developing the socio-economic wellbeing of member States and repositioning them economically and strategically among the comity of nations.

towards leveraging the Islamic finance offerings to stimulate financial inclusion in their countries. The study highlighted cues that can be taken from the successful climes for adoption in the less successful climes. These include the fact that the some of the regulators strengthened the SME sector with the appropriate policies on Islamic finance, in view of the important role the sector plays in financial inclusion, employment generation and socio-economic wellbeing of their society. Some other regulators leveraged the value proposition of Islamic social finance to enhance financial inclusion in their domain. Yet some other regulators have although acknowledged the efficacy of Islamic finance offerings as a potent tool for financial inclusion, they however are yet to fully take advantage of same due to factors that include weak administrative and or political will and their societal peculiarities, to mention but few. In essence, not all of the regulators had implemented the recommendations of the 2014 D-8 Central Banks Experts Meeting, which urged the regulators to set up mechanisms for institutionalizing cooperation for sustained progress by each of the member states, especially in the areas of financial inclusion and digital financial strategy, and deepening the share of Islamic finance in public finance.

Kaousar & Wehinger (2015) in furthering the discussion on the need to strengthen the SME sector in the OECD report to G20 finance ministers and Central Bank governors, observed that SMEs are essential players in economic growth and job creation. They opined that in view of the general financial crisis that had negatively impacted bank lending to SMEs, the Capital markets may be required to provide a rescue for SMEs, serving as a source of alternative mode of financing for the SMEs, that is, through public equity market in form of small/mid-cap bonds and private placements. They noted the challenges that might debar the SMEs from exploiting the capital market financing to include; less profitability due to small size and heterogeneous nature of SMEs, structural limitations and deal economics in general, intrinsic risk due to the lack of transparent and standardised information, communication, financial sophistication, poor reporting capabilities and visibility. They equally noted that the equity financing for SMEs through the capital market should not be allowed to supplant the debt financing by the conventional banks, but should be complementary and coordinated by all market constituencies (i.e., the investors, intermediaries, advisors, governments, policy makers and SMEs) to maintain the financial market stability. They thus recommended that the policy makers and

regulators strike the above advised balance to broadening and diversify the SME investor base and engender the evolution of a sounder financial system through better risk sharing within the economy. Similar thoughts were expressed by Mejía et al. (2014), when they surmised that Islamic Banking has the potentials have playing an essential role to play in supporting the real economy, while limiting incentives for financial engineering that are associated with complex instruments. They opined that there was a need for further accounting, governance, legal, regulatory and supervisory enhancements by the stakeholders and regulators to enable Islamic finance effectively play its role in promoting financial inclusion.

Alaro & Alalubosa (2019) observed with concern, the fact that the several intervention programmes targeted at alleviating poverty and financial inclusion in Nigeria failed to get to the targeted beneficiaries. They mulled the need for regulators to create enabling environment for Islamic microfinance and to closely monitor the operations and practices of the microcredit outfits. Shinkafi et al. (2019b) observed that the financial inclusion successes recorded by some countries are consequences of sound and regulatory policy put in place by their regulators for the banks and non-bank entities to revolutionize and boost access to financial services. While Zauro et al. (2016) also established in their paper the nexus between financial inclusion and government institutional support for some Islamic social financial instruments. The same way Kim et al. (2018) through their quantitative study established the positive impact of Islamic finance on financial inclusion and consequently economic growth in Organization of Islamic Cooperation (OIC) countries, hence the need for financial industry regulators in these climes to accord Islamic finance all requires regulatory, infrastructure and legal frameworks. Mohamed (2020) also believes that comprehensive legal and enforcement system has to provide protection for any financial program or economic system, in this case financial inclusion programmes. The Bank Indonesia's recognition of the role to *Shari'ah* financial institutions as an important driver of its financial inclusion (including non-bank financial institutions (NBFI), and the articulation of same in its financial inclusion strategy may be a learning point for the CBN. The notable activities of the Indonesian Baitul Maal Wat Tamwil (BMT), a financial institution reputed for providing micro-finance services with an amalgam of financial, social, and spiritual inclusion for the Indonesian populace Rashid, Annuar, & Siraj (2020) may be understudied for replication in Nigeria.

## **2.4.2 Financial Inclusion Strides in Nigeria**

### **2.4.2.1 Financial Inclusion Goals in Nigeria**

In Nigeria, the authorities in the year 2010 projected to reduce financial exclusion of its adult population to 20% by year 2020 (CBN, 2012). To achieve this, a series of efforts, policies and programmes were conceived and executed. However, the available data indicates that there seem to be more work to be done to achieve a comfortable level of financial inclusion. The revised National Financial Inclusion Strategy (NFIS) released by the CBN in October 2018 revealed that by a survey conducted in 2016, northeast states<sup>14</sup> and northwest states<sup>15</sup> of Nigeria had 62% and 70% financial exclusion rates respectively (CBN, 2018). An updated survey by EFINA in 2018, released in 2019, stated that the financial exclusion rates for northeast and northwest states were down to 55% and 62% respectively due to programmes targeted at enhancing financial inclusion (EFInA, 2019). The Nigerian National Bureau of Statistics (NBS) Report of 2019, released in May 2020, revealed that more than 82.9 million (more than 40%) Nigerians are poor. The 17 states with poverty above the national average included the 7 northwest states, and the 5 northeast states. Cumulatively 12 northern states majorly accounted for the highest poverty rate and financially excluded sections of the country. These regions are generally known to be Muslim majority regions of the country. Going by EFInA's latest survey of financial access in Nigeria for the year 2020, released in June 2021, there were suggestions that 38.1 million (i.e., about 36%) adult population are still financially excluded, while the northwest and northeast states have yet to record meaningful improvements in the financial inclusion of their adult population (EFInA, 2021). The revised National Financial Inclusion Strategy 2021 – 2024 noted that the northwest and northeast regions of Nigeria continue to remain underserved. Consequently, northern Nigeria was included in the prime strategic priority where adoption of suitable financial services would be pursued by stakeholder (National Financial Inclusion Strategy, 2022).

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<sup>14</sup> Adamawa, Bauchi, Borno, Gombe, and Taraba States. However, Borno State was excluded from the NBS 2019 statistics data because of the insecurity factor.

<sup>15</sup> Jigawa, Kaduna, Kano, Katsina, Kebbi, Sokoto and Zamfara States.

#### ***2.4.2.2 Economic and Financial landscape of Northern Nigeria***

Northern Nigeria is said to have more than 70% of Nigeria's land area, and constitutes the agriculture power house of the country, churning out grain crops such as rice, cotton, groundnuts, maize, sorghum, and millet among others. Aside grain crops, the region is responsible for much of the nation's livestock production such as goats, sheep, and cattle. It is also reputed as being source of varying sizes and species of fishes. This is in addition of being endowed with solid minerals like gold, limestone, tin, gypsum, and kaolin are among the abundant mineral resources (Bitrus, 2016).

The northern Nigeria is also reputed for its vibrant trade and commerce. Cities like Kano, Kaduna, and Sokoto to the northwest and Borno, Yobe and Adamawa to the northeast, are important commercial centres in the region's thriving informal commerce industry. Cross-border commerce in commodities like textiles, wheat, aquatics and animals is made easier by the Hausa trading network, which stretches throughout West Africa (Mattie, 2024).

For example, Kano State, northwest of Nigeria hosts the Dawanau International Grains Market which is reputed to be a grain trading hub in West Africa. The market, which was founded in 1985, is roughly 5 square kilometres in size and is situated along the Kano-Katsina Road, which leads to numerous important borders. The market is specialised in trading a variety of grains, such as sorghum, millet, garri, and yam, offering mini exports to nearby nations including Niger, Cameroon, Chad, Benin Republic, Mali, and Senegal, then to Europe and America (Giginyu, 2018).

Another example is Borno State to the northeast of Nigeria, which hosts the Baga International Fish Market. The market has long been a thriving centre for fish dealing, drawing merchants from Nigeria as well as nearby nations like Niger, Chad, and Cameroon. It used to be known as the major transit camp of 'fish sorting and packaging' along Nigeria's northeast coastal region. It was source of job for thousands of young people as cleaners, intermediaries, and truck loaders and attracts over 3,000 people daily including fish merchants, traders, food vendors, manual jobs, workers and drivers. Prior to 2014 insecurity that ravaged Maiduguri, the market was flourishing, with more than fifty trucks bringing in fish every week from the borders of Lake Chad. The fish market further generated trade of value chain of different commodities

including used cartoons, ropes, and other essential food trade, and was generated revenue in billions of Naira (Omirin, 2025).

However, much of the transactions in these markets, running into trillions of Nigerian Naira are done outside of the official financial system due to the cultural and religious factors. It is hoped that recent steps by some northern governors at promoting economic and financial integration of the region through initiatives that include “ease of doing business” will go a long way to foster patronage of the formal financial services on the one hand and effective financial inclusion on the other. Notably, states like Gombe in the northeast region was applauded to have won ‘the Ease of Doing Business in Nigeria’ for year 2022 and 2023 respectively. This was said to have been achieved through the clinical execution of a well put together economic and financial policy frameworks by the state governor (Misilli, 2023; School, 2024).

#### ***2.4.2.3 Religious Factors in Northern Nigeria***

Religious reason has been identified by studies EFINA (2021), Ringim (2014), and Umar et al. (2019) as one of the key factors militating effective financial inclusion in Muslim majority regions of Nigeria. Compatriots of these regions prefer financial services and products that sit well with their Islamic belief; otherwise, they will prefer to voluntarily exclude themselves from accessing such products and services.

In sum, this study hopes to provide practical research with a view to bridging the gap between scholarly postulations in literatures and actual practice of Islamic equity financing by Islamic financial institutions in Nigeria. It equally strives to highlight, within its limitations, how the regulators and policy makers would ride on the Islamic equity financing to further enable and drive financial inclusion in Nigeria and thus align the industry practice closer to the objectives of the *Sharī’ah* and the SDGs.

## **2.5 THE CRUCIAL GAP OF KNOWLEDGE: ISLAMIC EQUITY FINANCING AS IMPORTANT FINANCIAL INCLUSION PRODUCT**

Equity financing is a central component of Islamic finance, encompassing modes such as *Muṣhārah* (partnership) and *Muḍārah* (profit-sharing). These modes emphasize risk-sharing, allowing individuals and businesses to invest in projects without incurring

interest-related debt. These modes are used in various financial products, including business financing, project financing, and even investment funds. Both traditional and modern jurists and Islamic scholars consider *Muḍārabah* and *Muṣhārah* as the most preferred forms of Islamic financing. "One who deliberates on the fundamentals would easily conclude that *Musaqat*, *Muzara'ah*, and *Muḍārabah* are nearer to justice than hire," said Ibn Taymiyyah<sup>16</sup>. Also, the illustrious Sheikh, Usmani (2021) said "the ideal modes for Islamic financing are *Muḍārabah* and *Musharakah*".<sup>17</sup> His remarks on *Murabaha* (debt-based financing), the most popular form of finance, also merit careful consideration: "It should never be overlooked that, originally, *Murabaha* is not a mode of financing. It is only a device to escape from "interest" and not an ideal instrument for carrying out the real economic objectives of Islam. Therefore, this instrument should be used as a transitory step taken in the process of the Islamization of the economy, and its use should be restricted only to those cases where *Muḍārabah* or *Muṣhārah* are not practicable."<sup>18</sup>

Nonetheless, according to data on contemporary Islamic bank practices around the globe, the majority of financing activities don't employ equity as a basis but instead take the shape of debt-like instruments (Asutay, 2007; Dusuki, 2007). This is because, according to Asutay (2007), Islamic banks and financial institutions have chosen *Murabahah*, a kind of lucrative Islamic financing, over *Muṣhārah*, which is more focused on equity financing. Farooq (2007) refers to this phenomenon as the "*Murabaha* syndrome" since Islamic banking and financial institutions frequently employ debt-based financing as one of their product offerings. Islamic banks only pay attention to the appearance rather than the actual content in an effort to be *Sharī'ah*-compliant. However, as claimed by Ali & Ahmad (2007) and Rahim & Rahman (2007), the attempt itself or the strategy adopted by Islamic banks is not kosher with *Sharī'ah* because it is only a mask for attempts made by conventional banks in the past. This indicates that while Islamic banks provide their clients with financing options, they continue to use debt-based financing contracts. As a result, it does not uphold the law and the contract's requirements, as shown by the *Muḍārabah* contract.

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<sup>16</sup> P. 356 in *Fatawa*, Vol. 20

<sup>17</sup> This he said at least five times in his book on pages 12, 17, 72, 107, and 164.

<sup>18</sup> *Ibid*, P. 72

As a result, the execution of Profit-Loss Sharing (PLS) contracts like *Muḍārabah* and *Muṣhārahah* is extremely restricted, and the poor have not truly profited from this in addition to the financial murdering and discriminating of people who are in desperate need of funding from the existence of Islamic banks. Rahim & Rahman (2007) adduces that the Prophet (SAW) was first an unsuccessful businessman but later became prosperous as a result of the PLS deals he made with his wife Khadijah. According to Rosly (2005), banks provide lending to consumers based on the 5Cs, of capacity, credibility, character, capital, and collateral. Based on this fact, it is evident that the financing contract lacks fairness and equity, which results in a wage difference between those who have access to financing and those who are prohibited from doing so. Additionally, the predominant banking system's present practice of using collateral favours creditworthy corporate clients and firms based on rigorous due diligence and review before funding. But the profit-loss sharing system that Islamic banks aspire to implement encourages the growth of Small and Medium Enterprises (SMEs) and microfinance with a viable company (Rahim & Rahman, 2007). Since 291 million people, or 24% of the population of the OIC-LDCs, live in poverty, equity-based financing is thus preferred over debt-based financing, and supporting the poor should be the major priority of Islamic banks.

This makes Islamic equity financing a potentially powerful tool for addressing financial inclusion challenges, especially in environments where interest-based or debt-based financing may be inaccessible or undesirable. In many cases, interest-based or debt-based financing can exclude individuals and businesses from participating in economic activities due to concerns related to interest-bearing debt or debt-based financing. Islamic equity financing provides an alternative pathway for them to access capital without the burden of interest or debt. Furthermore, Islamic equity financing fosters a closer relationship between investors and entrepreneurs, promoting a shared sense of responsibility for the project's success. This collaborative approach can lead to more sustainable business practices and long-term economic growth. However, it is important to note that while Islamic equity financing is a valuable tool, it also comes with its own set of challenges and complexities. Proper structuring, transparency, and effective governance are essential to ensure the fair distribution of profits and losses, as well as to maintain the ethical principles of Islamic finance.

The IFSB Technical Note on Financial Inclusion and Islamic Finance broadly categorise Islamic equity financing for financial inclusion, which it alternatively described as investment activities into three. These three classifications are; “equity participation in an investee entity (e.g., equity ownership of an MSME) or a partnership-based agreement with an individual fund-seeking party (e.g., entrepreneur–investor, partner–sleeping partner investment agreement) or an agency-based agreement with an individual fund-seeking party (e.g., agent–investor)” (IFSB, 2019a). The second broad categorisation by IFSB entails the contracts of *Muṣhārah* and *Muḍārah* financing, while third classification is essentially *Wākālāh*.

Despite the potential benefits of Islamic equity financing in promoting financial inclusion, there appears to be a gap in the existing body of knowledge. Limited research has been conducted to systematically analyse the impact of Islamic equity financing on financial inclusion outcomes. This gap prevents policymakers, practitioners, and researchers from fully understanding the mechanisms through which Islamic equity financing can enhance financial inclusion and drive sustainable economic development.

### **2.5.1 Role of Islamic Equity Financing in Engendering Effective Financial Inclusion**

Preference for debt-based financing over equity-based financing by most financial institutions is been posited by scholars to be another obstacle against financial inclusion (Ayayi, 2012; Azmat & Ghaffar, 2021). Ayayi (2012), argued that in providing sustainable financing for MSMEs, micro-equity products or contracts may be adopted by financial institutions to either substitute or complement micro-credit products or contracts. His reasoning was premised on the fact that, where a financier becomes a stockholder in the enterprise, he tends to be more interested in such a relationship with the beneficiary that engenders the provision of required guidance for the success of the enterprise. He equally reasoned that while credit financing heavily drains a micro-enterprise and stunts its evolutionary growth, a mix of micro-equity with micro-credit financing may spur the sustainable growth of such enterprises. The above view is supported by a number of studies which include (Gurrea-Martínez & Remolina, 2019; Iqbal & Mirakhor, 2012; Kayed, 2012; Mohamed, 2020; Sadiq et al., 2020) where the adoption of the Islamic finance as alternative to achieving a sustainable financial

inclusion through risk sharing instruments rather than risk-transfer instruments was canvassed. Azmat & Ghaffar (2021) surmised that the conventional financial system is characterised mostly by debt-based or risk-transfer instruments. They further opined that one of the ways a financial regulator can introduce dynamism and innovation in the credit market to encourage and achieve sustainable financial inclusion is to provide incentives for institutions deploying the use of risk sharing contracts in financing activities. This, they opined, would scale down the excessive use of debt contracts.

Sofi & Zamir (2019) noted that whereas financial inclusion is measured by number of Automatic Teller Machines (ATMs) deployed to underserved or unserved interiors, or by credit-deposit ratio (CDR). In reality, financial inclusion is best gauged by creative banking products and other financial services such as insurance and equity financing.

### **2.5.2 The Balances Against Islamic Equity Financing**

Maikabara (2019) opined that equity mode of financing is more conducive to the realization of objectives of the *Shari'ah* in financial transactions. He identified the reasons why Islamic banks avoid deploying equity-based financing modes to include issues such as; lack of capital guarantee, high risk, and cost of special business skills, information asymmetry, and inadequate consumer awareness about equity financing. He nonetheless recommended that regulators and responsible authorities should stimulate the adoption of equity-based financing through provision of frameworks, policies and incentives. The same position is shared by other authors such as (Mejía et al., 2014; Mohd Ariffin et al., 2015). Dar & Presley (2000) noted that although almost all theoretical propositions for Islamic banking as an alternative to the conventional banking were based on the Islamic equity contract, the reality is that almost all Islamic financial institutions across the globe adopt the debt-based mark-up financing model. This is to the dismay of proponents and interested stakeholders waiting to see the manifestation of the Islamic economic philosophy in credit advancements (Visser, 2019). Issues identified as being responsible for the dismal adoption of the equity mode of financing include agency problem. Agency problem is said to be borne out of the capitalist worldview of the owners of means of production, who are unwilling to bear losses, and which is at variance with the worldview that underlay the profit and loss

sharing contracts. Dearth of well-defined property rights in most Muslim majority jurisdictions is identified as a factor militating the easy adoption of the Islamic equity financing option. The quest for survival through competitiveness with the established conventional financial institutions is another factor working against the easy adoption of Islamic equity financing contracts by Islamic financial institutions. The restrictions against the investors in actual participation in running and decision making and voting rights in the obligor entity also discourages the wider adoption of Islamic equity financing contracts. The inherent long-term nature of Islamic equity financing contracts, vis-à-vis short-term financing requirements and the attendant risk further constitute an odd against the prevalent usage of Islamic equity contracts for financing. Other issues standing against the prevalence of Islamic equity finance are liquidity risk and tax challenges, and absence of secondary market to enhance trading of the equity instruments (Masih et al., 2018).

Khan (2013) opined that the pristine theory of Islamic banking which recommends Islamic equity financing as the ideal form of financing vis-à-vis the conventional banking model has a number of intractable obstacles. These obstacles include integrity in financial reporting especially from the obligor. He identified the low ebb of morality and integrity in the modern Muslim societies to be accountable for a situation where greed, materialistic inclinations lead the obligor from misreporting the true state of accounts of an Islamic equity investment. In this way, the financial institutions are short-changed, and to guard against this, spot checks and other monitoring mechanisms are required. These cumulatively drive up the financing cost and hampers the incentive to use the Islamic equity contracts from subsequent financing. Lack of efficiency on the part of the obligor to the Islamic financial institution is another challenge. This is because the obligor is not under pressure, which is characteristic of a conventional bank customer, to generate surplus from his business to repay the principal with interest. The understanding that profit and losses would be shared and or borne with the bank is said to provide a leverage for the obligor to be inefficient. The lack of market rate or benchmark to determine the expected returns in an Islamic equity finance is another challenge. This could potentially lead to exploitation of the weaker party in the contractual arrangement. Uncertainty in claims and liabilities in an Islamic equity financing contract throws up another challenge; the total liability at the time of settlement is not known to the parties and thus, cash flow

planning becomes a resultant challenge. Other inherent challenges of the Islamic equity financing are its inability to address financing needs for areas like health and education financing, short term financing, excess liquidity, among others (Khan, 2013).

Based on the above, it is believed that if regulators accord positive consideration in providing facilitative frameworks, policies and incentives, they would invariably be leveraging the equity-based financing modes to deepen financial inclusion. In addition, they should be able to tackle challenges such as moral hazard, information asymmetry, among others. If these prerequisites are satisfied, an effectual adoption of equity-based financing would be possible, thereby improving equitable wealth distribution and effective financial inclusion as a necessary consequence.

### **2.5.3 Policy and Regulation Supports for Islamic Equity Financing**

Kahf (2004) traced the history of the emergence of modern Islamic finance. He opined that financial system was a consequence of Islamic economic discuss in the 1940s when publications and research on Islamic economics were basically by three classes of people; (a) the socio-political activists, (b) the *Sharī'ah* scholars with little exposure to some kind of economics and (c) the western trained economists with little or not so little exposure to *Sharī'ah* scholarship. He noted that the first category of writings is usually general in approach and is more of social and political slogans. The second category is more of *Fiqh al Mu'amalat* than economics, while the third category is based on a precept of self-proclaimed distinctiveness. In view of modern realities of Islamic finance practise, Kahf (2004) observed that “there is a need to shift our focus to studying the economics of poverty in the Ummah and how to recruit the economic rhetoric to become an instrument of change and to develop a new generation of our traditional socio-economic institutions that would help reconstruct the interaction between the human element and the organizational settings in a way that creates an environment of development and growth”.

Sequel to Kahf (2004)'s observation, and in relation to necessary criteria of the regulatory/legal framework to facilitate implementation of Islamic equity financing contracts for the ummah's socio-economic development, Khan (2015) believes that the regulators need to do three things. They are; (i) exercise regulatory controls by actively

monitoring the financing operations to efficiently detect frauds as they are committed and impose commensurate penalties. (ii) Evolve robust ratings through which credit history and past performance information are generated, and (iii) systematically promote morality 'a moral policy', through which honesty and doing things right will be encouraged, while cheating is discouraged. He noted that the absence of these measures in most markets had militated against the wide practice of risk-sharing financing modes, and favours more of debt-based financing. Onagun (2017) also opined that regulatory support that can be accorded the effective mainstreaming of Islamic equity financing models include well-defined property rights, favourable and stable regulatory environment, fair taxation treatment, facilitating efficient secondary markets for trading in Islamic financial instruments, and providing legal and regulatory for enforceability of obligations under the Islamic equity financing contracts. He also argued in favour of reviewing and categorising the minimum capital adequacy requirement for Islamic equity financing contracts. On his part, Yustiardi et al. (2020) recommended that robust risk management through fintech, such as smart contracts and block-chain technology, may be adopted to reduce the problem of asymmetric information and moral hazard that are related to the effective deployment of Islamic equity financing modes, while Zubair & Omar (2011) proffered a practical regulatory approach to encouraging the adoption of equity financing modes by Islamic financial institutions through a systematic reward modality whereby concessions are given on capital charge on their equity financings through supervisory slotting approach as recommended by the Islamic Financial Services Board (IFSB). Buitter & Rahbari (2015) noted with dismay the excessive debts and dearth of equity financing globally. They observed that the global financial crisis had demystified the perception that debt is safe to the owner, or that debt financing is cheaper than equity financing (i.e., no need for costly, ex-post monitoring of borrowers by risk and return-sharing investors).

The foregoing, notwithstanding, there continue to be a dearth of literatures on the Islamic equity Financing as they relate to promoting effective financial inclusion especially in developing societies that include Nigeria, and particularly northern region that houses a sizeable Muslim population.

## 2.6 THEORETICAL UNDERPINNING OF THE STUDY

This study is underpinned by New Institutional Economic Theory (NIE). NIE evolved from the Old Institutional Economics Theory (OIE). New institutionalism is an emerging approach that cut across disciplines. Its central notion is the essence of institutions to individual, social and collective actions and interaction, since they provide a structure within which interactions and actions occur (Black, 1997). Definitions of NIE has been offered to include the bid to understanding institutions of socio-political and commercial lifestyle of a people through an interdisciplinary approach that entails organization theory, law, economics, political science, sociology and anthropology (Klein, 1999). Another definition has it that NIE is the examination of economic entities through the purview of markets, firms, and relational contracts (Williamson, 1985, 2000). The proponents of NIE identified three deficiencies of OIE, which are: (a) it is focused on the collective instead of individual action (b) it prefers the ‘evolutionary’ approach to economy over mechanical approach, and (c) its emphasis is on empirical observation to the detriment of deductive reasoning. Thus, the NIE was heralded to address the deficiencies of the OIE, and in doing so, its spectrum extends into areas that include law, political science, organizational theory, sociology and anthropology (Abdul-Rahman et al., 2014).

Institutional economics is posited to be focused on comprehending roles played by institutions and evolutionary process in forming an economic behaviour. It is further described as ‘the coordination process between the individual and social processes in creating economic value by taking into account the value of certain regulations’ (Abdul-Rahman et al., 2014). The foregoing strikes some accord with the Islamic worldview that seeks to shape the individual and collective psyche with regards to economic behaviour in respects of its myriad outcomes and expressions in various structures and institutions. Although, Jha (2013) surmised that the modern practise of Islamic finance has fallen short of addressing the conventional economic principles and seems to have invariably reinforced the very same problematic structures it originally set out to supplant. However, in the wake of the recent global financial crisis, there have been increasing call for alternative (i.e., Islamic) economic structures and financial institutions that are more community oriented, rooted, and directed. Institutions that create a supportive financial atmosphere that decreases and or aims to eliminate dependence on debt instruments, while collaborating with movements and entities that

champion ecological and cultural awareness. Jha (2013)'s propositions is strengthened by Adi Setia, (2011)'s conception of 'Islamic Gift Economy' which he described as "an integrative Islamic economic system that is autonomous and can stand and prosper on its own ethical and economic principles while in constructive engagement with current neo-liberalism, instead of one that is co-opted, wittingly or unwittingly, into the mainstream, free-market capitalist system, as is largely the case with what currently goes by the name of Islamic Banking & Finance...".

Adi Setia (2011) and Jha (2013)'s perspectives as discussed above are not only relevant to, but sets the tone for this research in the areas of aligning the practise of Islamic finance closer to creating supportive and responsible financial atmosphere, away from the dominant conventional economic system and philosophy. This study aims to assess the regulation and policy development on financial inclusion in this light. Particularly targeted at the Muslim majority region of northern Nigeria that seems to yearn for this, and which people has consistently excluded themselves from conventional financial system.

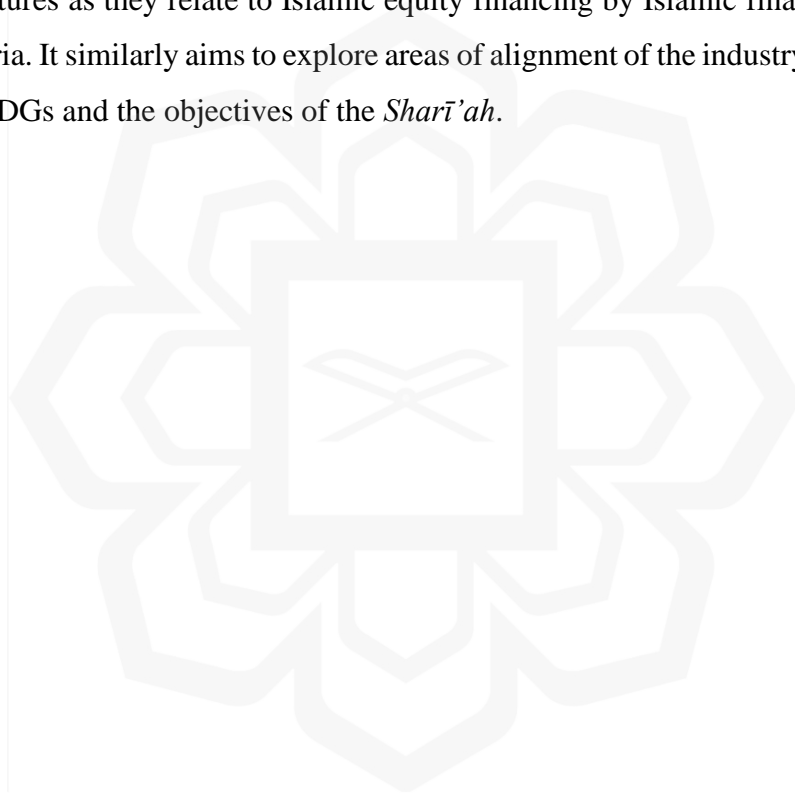
In the light of Abdul-Rahman et al., (2014) and Black (1997)'s conception of the NIE theory, this study undertakes an appraisal of the adequacy of financial inclusion strategy in northern Nigeria. It attempts to consider how economic value can be created or enhanced through regulatory promotion of Islamic equity financing in the northern Nigeria, given the fact that the region had consistently recorded dismal financial inclusion overtime. The regulators could directly or indirectly encourage the Islamic financial institutions, their regulatees, to accord premium to Islamic equity financing in northern Nigeria, through incentives, regulatory forbearance, interventions, among others.

## **2.7 CONCLUSION**

Seamless access to beneficial and cheap financial services – transactions, payments, savings, credit and insurance – are the key thrust of financial inclusion. The particular aspect focused by this study is the access to beneficial, sustainable and cheap credit through the Islamic equity financing. Where enterprising individuals are able to access such credits to enhance their economic activities, it positively impacts on the other

aspects, i.e., increase in volume of transactions, payments, savings and insurance covers, hence the need for advertent regulation and policy to deepen financial inclusion, especially in the Muslim majority northern Nigeria that have over time returned dismal financial inclusion overtime.

The previous studies on this subject have been discussed above. However, there has been near absence of studies on how regulation and policy developments can deepen financial inclusion in northern Nigeria through the Islamic financing contracts. In furthering the existing literatures, this study thus sets out to provide practical research with a view to bridging the gap between the industry realities and scholarly postulations in literatures as they relate to Islamic equity financing by Islamic financial institutions in Nigeria. It similarly aims to explore areas of alignment of the industry practices closer to the SDGs and the objectives of the *Sharī'ah*.



## CHAPTER THREE

### CONCEPTUAL FRAMEWORK

#### 3.1 INTRODUCTION

This chapter focuses on the research conceptual framework. Conceptual framework is described as graphic or textual product that explains, either physically or narratively, the important objects to be investigated by a study (that is, the key components, concepts, or variables) and the assumed relationships among them (Creswell & Poth, 2018). This section thus provides operational definition of financial inclusion in Nigeria from legal and Islamic finance perspectives. It is also discussed here the importance, historical perspective, current status and challenges of financial inclusion in Nigeria. This is followed by the section that discusses Islamic Equity financing contracts. This is succeeded by discussions on the relevance of the contracts to northern Nigeria. The chapter concludes by examining the Nigerian regulation and policies on financial inclusion.

#### 3.2 FINANCIAL INCLUSION IN NIGERIA: LAW, REGULATION & ISLAMIC FINANCE

##### 3.2.1 Nigerian Legal System

The pluralised, multi-ethnic and multi-religious make-up of the Nigerian society has an impact in the sources of Nigerian law and its legal system. Essentially, sources of the Nigerian Legal system include the *Shari'ah* (Islamic law), customary law, received English law, Case law (i.e., judicial precedents or *stare decisis*) and Nigerian Legislations (Mosugu, 1973).

*Shari'ah* (the Islamic law) in all its ramifications, i.e., civil, criminal and commercial, had been the legal system of the pre-colonial northern Nigeria under the Sokoto Caliphate and the Kanem-Borno Empire. Although the Islamic law is constitutionally recognised in modern Nigeria, and in fact, the Constitution provides for

the establishment of *Shari'ah* courts in states of the federation<sup>19</sup>, where they are required, however, its application has been restricted to issues bothering on personal law (Alkali et al., 2014). Essentially, the British colonial administration through its various policies and machinations systematically restricted the implementation of *Shari'ah*, especially its penal and criminal aspects, in the northern states of the country (Odeh, 2010). Further, the *Shari'ah* was relegated and classified as being a part of 'the native laws and customs' by the colonial administrators, until the obiter dictum of Abubakar Bashir Wali JSC<sup>20</sup> set aright the records in the case of *Alkamwa v. Bello*<sup>21</sup>. In the referenced judgement which bothers on a case of *Shuf'ah* (a neighbour's preemptive right in the sale of an adjoining property), Wali JSC has asserted that "Islamic law is not same as customary law as it does not belong to any particular tribe. It is a complete system of universal law, more certain and permanent and more universal than the English common law"

Customary laws are said to be set of flexible and unwritten laws that originate from the tradition and practice of a people and is thus not codified in a single document form. Therefore, it changes and evolves with the development, circumstances or reality of the people. Although infringing these laws attract some social opprobrium, they in fact, lack the instrument for definite and precise sanctions (Bederman, 2010). In *Oyewunmi Ajagunbade III v. Ogunesan*<sup>22</sup>, Obaseki JSC described customary law as "The organic and living law of all indigenous people of Nigeria regulating their lives and transactions. It is organic in that it is not static. It is regulatory in that it controls the lives and transactions of the community subject to it. It is said that custom is a mirror of the culture of the people". While the locus classicus case of *Lewis v. Bankole*<sup>23</sup> highlighted the prerequisite for acceptability of customary by the Nigerian courts to include; (a) currency, i.e., it must be the current practise at the point of adjudication (b) acceptability, i.e., it must double as a generally acceptable custom and a law (c) universality of application in substance and form, though pockets of domesticated variants may exist. Further, the colonial administration subjected the customary laws to validity tests prior to it becoming applicable. The test that the laws must not be

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<sup>19</sup> Section 275 of the Constitution of the Federal Republic of Nigeria, 1999 (as amended), among other sections

<sup>20</sup> Meaning Justice of the Supreme Court of Nigeria

<sup>21</sup> *Alhaji Ila Alkamawa v. Alhaji Hassan Bello & Anor* SC.293/1991

<sup>22</sup> *Oyewunmi Ajagunbade III v. Ogunesan* (1990) 3 NWLR 182 at 207

<sup>23</sup> *Lewis v. Bankole* (1908) 1 NLR 81

repugnant to natural justice, equity and good conscience, as famously tested in *Mariyama v. Sadiku Ejo*<sup>24</sup>. Subsequently, the requirement of the laws not being incompatible directly or by implication with any law and that it must equally not be contrary to public policy were introduced by statutes<sup>25</sup> (Eze, 2022).

The received English law, which is made up of the common law of England, the Doctrines of Equity and the Statutes of General Application enforced in England on or before October 1, 1900, continues to be applicable with persuasive influence in post-independence Nigeria, except expressly declared void by legislation or caselaw. The forgoing was sufficiently established in *Ibidapo v. Lufthansa Airline*<sup>26</sup>, where the Supreme Court of Nigeria held that subject to relevant sections of the Nigerian Constitution<sup>27</sup> dealing with existing laws, “all the received English Laws, Multi-Lateral and Bi-Lateral agreements concluded and extended to the Federal Republic of Nigeria shall remain valid and enforced in Nigeria unless expressly repealed or declared invalid by a court of law or tribunal established by law”. This is in addition to other provisions of several statutes<sup>28</sup>.

Case law, characteristic of most British colonies that adopt the English common law system, have case law as a form of source of law. Case law is referred to as judge made law. Ordinarily the judiciary is to interpret and apply laws made by the Legislature, however situations arise where the judiciary is faced with situations not contemplated in the statutes. Based on the maxim “*ubi jus ibi remedium*” (meaning where there is a wrong there is always a remedy) a judge is thus expected not to remain helpless, but to act to make fresh rules or to extend the existing laws to deal with novel situation. Hence the evolution if a source of law that is sustained overtime with the operation of the doctrine of *stare decisis* (i.e., judicial precedents), which is to the effect that decisions of a superior court binds the lower courts within the judicature (Nwabueze, 2002).

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<sup>24</sup> *Mariyama v. Sadiku Ejo* (1961) NRNLR 81

<sup>25</sup> Section 27(1) High Court of Lagos Act and Section 14(3) Evidence Act

<sup>26</sup> *Ibidapo v. Luthansa Airline* (1997) 4 NWLR 124

<sup>27</sup> i.e. Section 315(1) of the 1999 Constitution (as amended)

<sup>28</sup> Such as the provisions of section 45 of the Interpretation Act, sections 14 and 20 of the High Court Law, Eastern Region No. 27 of 1955, section 28 and 28a of the High Court Law, Northern Region No. 8 1955, and section 4 and 5 of the Laws of England (Application) Law, Western Region Cap 60, Laws of Western Region.

Nigerian Legislations are the most formidable source of law. Nigerian legislations are however divided into primary and secondary (also known as subsidiary or delegated) legislations. The primary legislations are made by the Legislature; the arm of government charged with the function of making laws for the good governance the nation. While secondary legislations are regulations, rules, directions and policies made by agencies of the federal government of Nigeria, who are creations of Acts of the National Assembly (i.e., the legislative arm of government). The Acts creating these agencies usually contain provisions empowering them to make required regulations and rules that enable them carry out their mandates under the law creating them. The regulations, rules made by these agencies also assume the force of law and are referred to as secondary, subsidiary or delegated legislations (Alkali et al., 2014).

It is worthy of note that prior to BOFIA 2020, the CBN, an agency of the federal government of Nigeria leveraged its delegated legislative powers to make regulations, rules, policies for financial inclusion, including issuance of guidelines for the operations of Islamic finance in Nigeria (Bebeji et al., 2020). This is because it is seen as a potent tool towards the effective financial inclusion of northern region and Nigerian Muslims, who may voluntarily exclude themselves from the formal financial service system on account of their religious believes.

### **3.2.2 Law and Regulation**

According to Menon (2021), law can be seen as a system of rules and regulations established by a government, a sovereign or an authority to govern the behaviour of a nation or society. These set of rules thus mediates between the people it governs, and shapes their economic, social, and political ways of life.

In tracing financial inclusion in Nigerian legal framework, it is important to look into several important authoritative legal instruments. These legal instruments are: (i) The Constitution of Republic of Nigeria, 1999 (as amended) (ii) The Central Bank of Nigeria Act, 2007, (iii) Banks and Other Financial Institutions Act, 2020, and (iv) Subsidiary legislations by the CBN pursuant to its powers and mandate under the CBN Act and BOFIA.

Section 16(2) of the Constitution of the Federal Republic of Nigeria 1999 (as amended) is to the effect that the State will strategize toward achieving inclusive and balanced economic development. The section is equally to the effect that the State shall mobilize and redistribute national resources for the common welfare, while ensuring that means of exchange and production is not skewed in favour of a section of its compatriots, to the exclusion of others.

Premised on the above, the National Assembly of the Federal Republic of Nigeria, had through the Central Bank of Nigeria Act, 2007 mandated the CBN to ensure sustainable management of the country's economy<sup>29</sup>, promote sound financial system<sup>30</sup>, supervise and regulate the financial industry, including collaborating with any other financial regulator<sup>31</sup> to further its mandates. Other legislations such as the Banks and Other Financial Institutions Act (BOFIA), 2020 also contain some of the mandates of the CBN<sup>32</sup>. The provisions of these legislations effectively delegate powers to the CBN to make regulations and rules for its sphere of regulation, which assumes the force of law, and are known as subsidiary or delegated legislations (Okoeguale, 2023). Credence was lent to the validity of subsidiary or delegated legislation in the case of *Akintokun v. LPDC*<sup>33</sup>, by the Supreme Court of Nigeria.

In pursuance of its mandates under the law of the land, and the delegated legislative powers, the CBN issues guidelines, regulation and policies from time to time. These policies include the financial inclusion strategy and policy document with which the Bank's objectives are supported.

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<sup>29</sup> Section 1(3) of the Central Bank of Nigeria Act, 2007

<sup>30</sup> Section 2(d) of the Central Bank of Nigeria Act, 2007

<sup>31</sup> Section 33(1)(b) and (6)(b) of the Central Bank of Nigeria Act, 2007

<sup>32</sup> Sections 54(2), 56, 58 and 60 of the Banks and Other Financial Institutions Act (BOFIA), 2020

<sup>33</sup> *Akintokun v. LPDC* (2014) 13 NWLR (pt. 1423) 1 at 91, paras. A – B.

OBJECTIVES OF THE CBN	HOW FINANCIAL INCLUSION ADDRESSES THE CBN OBJECTIVES
<ul style="list-style-type: none"> <li>▪ Ensure monetary and price stability</li> </ul>	<ul style="list-style-type: none"> <li>▪ The CBN will be better able to influence savings, investment and consumption behavior through interest and exchange rate changes, a direct result of the increased participation of Nigerians in the formal financial sector</li> </ul>
<ul style="list-style-type: none"> <li>▪ Issue legal tender currency in Nigeria</li> </ul>	<ul style="list-style-type: none"> <li>▪ Increased penetration of e-payments use and cashless efforts will reduce the cost of cash management and thereby reduce the cost of issuing legal tender</li> </ul>
<ul style="list-style-type: none"> <li>▪ Maintain external reserves to safeguard the international value of the Naira</li> </ul>	<ul style="list-style-type: none"> <li>▪ Increased access to finance for MSMEs as a result of financial inclusion (credit made on the back of mobilized savings) will lead to greater productivity, increased non-oil exports/foreign exchange earnings and this will stabilize the value of the Naira</li> </ul>
<ul style="list-style-type: none"> <li>▪ Promote a sound financial system in Nigeria</li> </ul>	<ul style="list-style-type: none"> <li>▪ Financial inclusion will lead to the development of a stable financial system funded by non-volatile savings that are robust and provide cushion against external shocks</li> </ul>
<ul style="list-style-type: none"> <li>▪ Provide economic and financial advice to the Federal Government</li> </ul>	<ul style="list-style-type: none"> <li>▪ The CBN will be better able to advise the government as increased participation in formal finance will produce a more complete picture of the country's economic performance.</li> </ul>

Figure 3.1. How financial inclusion addresses CBN objectives  
Source: National Financial Inclusion Strategy 2012.

Financial inclusion is described by the CBN to be the availability and utilization of financial services by all sectors of Nigeria’s adult population, particularly those who were previously excluded from formal financial institutions. These services include but are not limited to savings, payments, credits, pension, insurance and numerous investment products ((National Financial Inclusion Strategy, 2022).

Although financial inclusion is seen as an important success element in the growth and development of Nigeria’s Micro, Small, and Medium Enterprises (MSMEs), being Africa's largest economy, the country continues to confront considerable hurdles in reaching full financial inclusion. A sizable segment of the population is still underbanked or unbanked, particularly in rural and remote areas. According to data from the CBN and other development multilateral entities, while financial inclusion has improved in recent years, significant efforts are still required to reach underserved populations (ActionAid Nigeria, 2018; CBN, 2023; EFINA, 2021).

To promote financial inclusion, the CBN and other agencies and regulatory organizations have initiated and adopted several programs through. These programmes include NAPEP, NSIP, and the National Financial Inclusion Strategy (NFIS) which

were designed to increase access to financial services, improve literacy, and provide an enabling environment for financial institutions to reach out to underserved populations. Sub-programmes under the NFIS aimed at driving financial inclusion include; agent banking, tiered know-your-customer requirements, financial literacy, consumer protection, linkage banking, implementation of the MSME development fund and credit enhancement programmes. The credit enhancement programme further has sub-programmes such as Agricultural Credit Guarantee Scheme (ACGS), Commercial Agricultural Credit Scheme (CACS), Nigeria Incentive-Based Risk Sharing System for Agricultural Lending (NIRSAL), Refinancing and Rediscounting Facilities for SMEs, Small and Medium Enterprise Credit Guarantee Scheme and Entrepreneurship Development Centres. To operationalize the financial inclusion tools, the CBN proceeded to issues necessary frameworks and curated strategies. These frameworks include the Agent banking framework, KYC requirement framework, the MSME development fund framework, the financial literacy framework, and the mobile money (MOMO) operation frameworks (CBN, 2023).

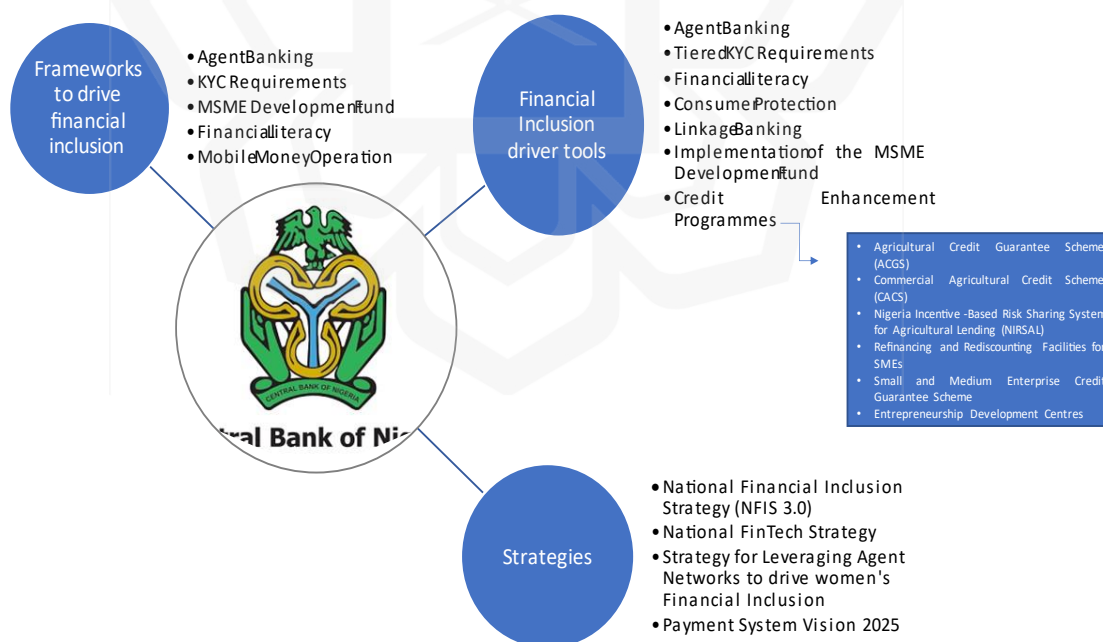


Figure 3.2. Financial Inclusion tools, frameworks and strategies by the Central Bank of Nigeria

Source: Author's own illustration of information extracted from <https://www.cbn.gov.ng/FinInc/> accessed on 21/11/2023.

Several obstacles impede Nigeria's progress toward effective financial inclusion. These include poor infrastructure, high levels of poverty, low literacy rates, a general lack of knowledge about banking products and services, lack of required account opening documentation, lack of close proximity service points, costly service fees and geographic barriers (Spur, 2019). Regional disparity in financial inclusion also exists between urban and rural communities, as well as between Nigeria's many regions. Northern Nigeria, in particular, confronts distinct hurdles as a result of socioeconomic, religious and cultural variables, necessitating specialized ways to promote financial access and literacy (Abdullahi et al., 2021; Ezeh & Nkamnebe, 2021). Furthermore, regulatory barriers and the dominance of traditional banking models make expanding financial services to the unbanked difficult (Ozili, 2021).

Notwithstanding the obstacles, mobile technology, particularly the growing usage of mobile phones, has created a unique opportunity to widen reach of financial services to individuals who were previously unreachable. Mobile money services and digital financial platforms have grown in popularity, allowing more Nigerians to conduct transactions, make payments, and access basic banking services (David et al., 2018). This is in addition to microfinance institutions (MFIs) and financial technology (FinTech) firms which have proved to be critical to increasing financial inclusion. Microloans and financial services customized to the needs of low-income individuals and small companies are provided by MFIs. FinTech developments, such as mobile banking, digital wallets, and online financing, contribute to greater financial access to teaming Nigerian youth and adult population (Aina, 2016).

Improving financial inclusion in Nigeria continues to be a complex task that necessitates multi-stakeholder cooperation across financial service providers, technological developers, government institutions, and community organizations in order to create sustainable and inclusive financial ecosystems across the country. It is believed that continued efforts to overcome financial inclusion hurdles are critical for achieving greater financial inclusion throughout Nigeria. These efforts include; improving infrastructure, boosting financial education, developing innovative banking solutions, and personalizing methods for specific populations, particularly the northern Nigerians.

### 3.2.3 Islamic Finance

Still in a bid to effectively drive financial inclusion, the CBN, relying on its delegated legislative powers to issued guidelines for Islamic banking (referred to as Non-interest (Islamic) Banking) in 2011, prior to the enactment of BOFIA 2020. This move brought Nigeria into comity of nations operating the dual banking system; i.e., conventional and Islamic banking systems side-by-side. The CBN took this deliberate step because of the EFinA access to finance survey report of 2010 that identified that financial inclusion rate was lowest in the northern regions of the country, with the Islamic religious belief playing a significant factor. The northwest and northeast regions that has a Muslim majority population posted about 68% financial exclusion of its population. At the same time the southwest had about 33% of the population excluded, while in the southeast regions, the exclusion rate was about 32% (CBN, 2012). This deliberate policy measures taken by the CBN thus positions Islamic finance as a source of financial inclusion and national economic development.

Islamic finance, according to Alawode (2015), is a system of finance that is “equity-based, asset-backed, ethical, sustainable, environmentally- and socially-responsible finance. It promotes risk sharing, connects the financial sector with the real economy, and emphasizes financial inclusion and social welfare”. Iqbal and Mirakhor (2012) maintained that aside exploring the risk-sharing offerings of Islamic finance as against risk-transfer financial system, the redistributive elements should also be explored to engender all-inclusive socio-economic development and shared prosperity. He surmises that the above seems to meeting point between the concept of financial inclusion and the objectives of the Islamic economic order.

The period succeeding the collapse of the Ottoman Caliphate, around 1920s and beyond saw activists like Hassan Al-Banna and Syed Abul Ala Al-Maududi calling for return of Muslims to the Islamic way of life, which no doubt includes their commercial and economic way of life. Maududi (1947) in his treaties on economic system of Islam canvassed the proper study and implementation of the solution to human socio-economic woes embedded in Islam, which surely maintains a middle course among the extremes of capitalism, fascism, socialism, communisms etc. Muslim economists who were inspired by the call of Maududi and similar Muslim thinkers discussed how banking without interest may be. These economists include Nejatullah Siddiqi, Umar

Chapra, Muhammad Ayub among others. They emphasised partnership contracts as alternative to the *riba* based conventional banking system in their works, such that in some climes Islamic banking were referred to as profit and loss sharing banks or participation banks (Ayub, 2007; Chapra, 1979, 1995; Siddiqi, 1981, 1983, 1985, 2004).

Ali (2020) however observed that the modern reality of Islamic finance industry globally is that it is; “operating in the ‘push’ mode, with incumbent players pushing their version of products in the market, rather than working in a ‘pull’ mode, where society’s requirements would drive industry evolution”. Similar sentiments were shared by (Kayed, 2012; Maikabara, 2019; Masih et al., 2018; Obaidullah et al., 2000). Meanwhile Haniffa and Hudaib (2010) had observed that because of the intervention of political-economic and social events, as well as dynamic contacts with the conventional sector, sacred intents of Islamic finance had been perverted with secular purposes. They noted that *Maqāṣid al-Sharī’ah* (objectives of the law) has been overly utilized to justify financial product innovation in order to compete and converge with traditional conventional finance. This situation has led writers such as Visser (2019) to observe that the Islamic economic system and indeed, its offshoot; Islamic finance “does not differ fundamentally from mixed-economy non-Islamic ones and that there is little reason for non-Muslims to accord Islamic ethics special status”. He further observed that what was driving the narrative about Islamic financial system having a superior offering to the conventional system was “frustration about the sorrow state of the Islamic world at least since the early nineteenth century and a wish to regain something of its former glory. In other words, identity politics is at play.”

Meanwhile authors like Buitter and Rahbari (2015) and Maikabara (2019) had advocated the need for a shift in financial intermediation from mostly debt-based to more of equity-based for the attainment of socioeconomic development, inclusivity and sustainability. Buitter and Rahbari (2015) specifically opined that “The world has too much debt and too little equity. This circumstance cost it dearly; glaringly during the great financial crisis (GFC) between late 2007 and 2010 and the European sovereign debt and banking crises that started in 2010...”. Moreover, the Nigerian minister of finance and coordinating minister of economy was reported to have said at an event held in December 2023 that;

Our revenue to debt service ratio is so high and is constrained. There is fiscal exhaustion in very many parts of the world. There is debt crisis,

and of course the answer is non-debt. The answer is equity, financing mechanisms that do not mean that you will have to pay interest, but rather you will have the participatory opportunity that equity financing, and non-interest financing gives” (Okpale & Nwachukwu, 2023).

This position of was strengthened by the CBN Governor when he “reiterated that the apex bank remains in support of key stakeholders in the non-interest banking ecosystem in ensuring that the sector evolves and fosters ongoing efforts to build a one trillion-dollar economy as proposed by President Tinubu” (Okpale & Nwachukwu, 2023). It is in the light if the above that this study seek to examine role that can be played by Islamic equity financing in deepening and enhancing financial inclusion, particularly in northern Nigeria, and generally as a recipe for Nigeria’s economic development as hinted by the finance minister and the CBN Governor.

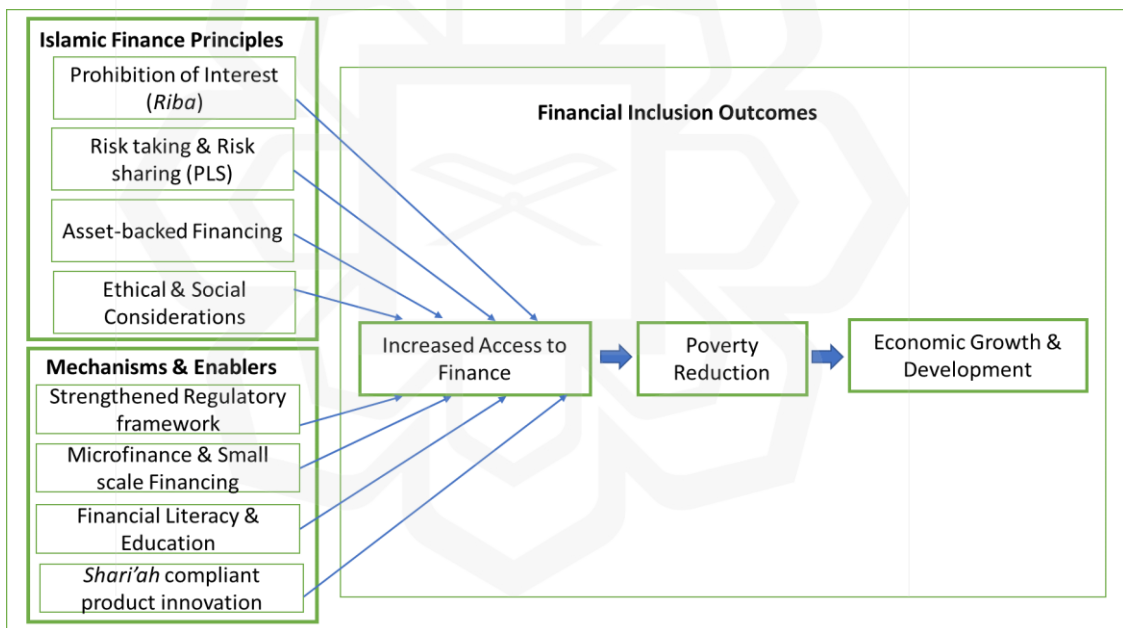


Figure 3.3. Connection between financial inclusion and Islamic finance  
Source: Authors own illustration

### 3.3 ISLAMIC FINANCE CONTRACTS

Discussion of, and classification of *Shari'ah* contracts, upon which Islamic finance is based, by the classical and contemporary jurists is a robust and complex exercise. The viewpoints from which the *Shari'ah* jurists classify the *Shari'ah* contracts include; (a)

soundness and legal effect<sup>34</sup> (b) tangibility of the contract subject matter<sup>35</sup> (c) objective of the contract<sup>36</sup> (d) *sighah* (i.e., the construction of the wordings of the contracts)<sup>37</sup>, and (e) originality of the contracts<sup>38</sup> (Lahsasna, 2011).

In relation to classification of these contracts from their originality perspective, i.e., '*uqud musammah* (contracts original to the *Shari'ah*), and '*uqud ghayr musammah* (contracts innovated with time), it has been maintained that although the varying classifications by scholars were not in any systematic order, the contracts original to the *Shari'ah* centres around 5 areas; which are; (a) property rights transfers, with or without rewards; (b) provision of certain services; (c) building partnerships; (d) delegation of authorities; and (e) provision of guarantees (Edwin & Aprianto, 2017). While Al-Kasani outlined the contracts to be 18 in number<sup>39</sup>, Al-Zuhaily categorizes the contract into 13 types<sup>40</sup>, and yet, Al-Zarqa listed them as 25<sup>41</sup> (Mardani, 2013).

In the light of contemporary Islamic financial dealings, scholars have classified the contracts into 5 categories. They are (a) exchange-based contracts (b) equity-based contracts (c) agency and charitable contracts (d) security contracts and (e) supporting

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<sup>34</sup> Under this, the contracts are classified as *sahih* (valid), *fasid* (voidable or imperfect) and *batil* (invalid).

<sup>35</sup> Here, the contracts are classified as '*ayniyyah* (combination of intention to contract and a subsequent transfer of a tangible asset) and *ghayr 'ayniyyah* (contracts for transfer of intangible assets like skills or services).

<sup>36</sup> Under this there are '*uqud at tamlikat* (contracts for transfer of ownership), '*uqud al isqatat* (contracts for the abatement of rights and duties), '*uqud al itlaqat* (contracts for elimination of restrictions), '*uqud at taqyidat* (contracts for imposing restrictions), '*uqud as shirkat* (contracts for partnership), '*uqud at tawthiqat* (contracts of security), and '*uqud al istihfazat* (contracts for safekeeping).

<sup>37</sup> Under this, there are '*uqud munjazah* (concluded or perfected contracts), '*uqud mudafah* (ancillary, incidental or attached contracts), and '*uqud mua'llaqah* (conditional contracts)

<sup>38</sup> Under this there are '*uqud musammah* (contracts original to the *Shari'ah*), and '*uqud ghayr musammah* (contracts innovated with time).

<sup>39</sup> They are 1) lease (*al-Ijarah*); 2) forge (*al-Istishna'*); 3) sale (*al-Bai'*); 4) guarantee (*al-Kafalah*); 5) debt transfer (*al-Hiwalah*); 6) agency (*al-Wakalah*); 7) peace (*as-Sulhu*); 8) partnership (*al-Shirkah*); 9) profit sharing (*al-Mudarabah*); 10) gift (*al-Hibah*); 11) garden products share (*al-Musaqah*); 12) mortgage (*ar-Rahn*); 13) land use (*al-Muzara'ah*); 14) deposit (*al-Wadi'ah*); 15) loan of particular property (*al-'Ariyah*); 16) division (*al-Qismah*); 17) will (*al-Wasaya*), and 18) beneficial loan (*al-Qard*)

<sup>40</sup> According to Az-Zuhayli, they are 1) sale (*al-Bai'*); 2) beneficial loan (*al-Qard*); 3) lease (*al-Ijarah*); 4) partnership (*al-Shirkah*); 5) gift (*al-Hibah*); 6) deposit (*al-ida'*); 7) loan of particular property (*al-I'arah*); 8) agency (*al-Wakalah*); 9) guarantee (*al-Kafalah*); 10) debt transfer (*al-Hiwalah*); 11) mortgage (*ar-Rahn*); 12) peace (*as-Sulhu*), and 13) reward (*al-Jua'lah*).

<sup>41</sup> They are 1) lease (*al-Ijarah*); 2) optional sale (*Bai' al-Wafa'*); 3) sale (*al-Bai'*); 4) guarantee (*al-Kafalah*); 5) debt transfer (*al-Hiwalah*); 6) agency (*al-Wakalah*); 7) peace (*as-Sulhu*); 8) arbitrage (*al-Tahkim*); 9) disposition of inheritance rights (*al-Mukharajah*); 10) partnership (*al-Shirkah*); 11) profit share (*al-Mudarabah*); 12) gift (*al-Hibah*); 13) mortgage (*ar-Rahn*); 14) land use (*al-Muzara'ah*); 15) garden products share (*al-Musaqah*); 16) deposit (*al-Wadi'ah*); 17) loan of particular property (*al-'Ariyah*); 18) division (*al-Qismah*); 19) will (*al-Wasaya*); 20) beneficial loan (*al-Qard*); 21) house use rights (*al-'Umra*); 22) legacy (*al-Muwalah*); 23) termination of agreement (*al-Qalah*); 24) marriage (*al-Zawaj*), and 25) leader appointment (*al-Isha'a*).

contracts. The exchange-based contracts consist of *Murabahah* contract (Markup sale), *Istisna* contract (Build-to-order / Manufacturing sale), *Salam* contract (Forward sale), *Dayn* Contract (Sale of Debt), *Sarf* contract (sale of currency), *Tawarruq* contract (cash procurement), and *Ijarah* contract (Lease). The equity-based contracts consist of *Mudarabah* contract (Trustee/dormant partnership), and *Musharakah* contract (Active partnership). The agency and charitable contracts consist of *Wakalah* contract (Agency), *Qard* contract (Benevolent loan), *Hibah* contract (Gift), and *Wadi'ah* contract (Safekeeping). The security contracts consist of *Kafalah* contract (Guarantees), *Damaan* (Indemnity), and *Rahn* contract (Pledge / Mortgage). Lastly, the supporting contracts consist of *Hiwalah* Contract (Debt swap), *Muqassah* Contract (Set-off), *Ibra* (Rebate), and *Wa'd* (Promise) (Lahsasna, 2011).

This study focuses on the equity-based contracts, which is further discussed below.

### 3.4 ISLAMIC EQUITY FINANCING

Islamic equity financing is a collection of financial principles based on the *Sharī'ah*. It is a set contracts, designed to facilitate investment and capital-raising activities while conforming to religious rules. According to Alawode (2015), it is a type of ethical and sustainable finance that encourages risk sharing, links the financial sector to the real economy, and enhances financial inclusion. Islamic equity financing is further said to encourage the provision of financial assistance to productive firms that can expand output and create jobs. The emphasis on actual assets ensures that the industry only promotes transactions that have a real purpose, while discouraging speculative financial transactions. The Islamic equity financing contracts inherently emphasizes equity participation, risk-sharing arrangements and profit-sharing between contracting parties (Alawode, 2015).

A lot of authors such as Abdul-Rahman et al. (2014), Farooq (2007), Hamid (2020), Hussain et al. (2016), Onagun (2017), and Schoon (2008) see only *Muṣhārahah* and *Muḍārahah* to be the two types of Islamic equity financing contracts. However, AAOIFI (2017)'s *Sharī'ah* Standard No. 12 (*Sharikah (Muṣhārahah)*, and Modern Corporations) and Usmani (1998) in his book recognized diminishing *Muṣhārahah (Muṣhārahah Mutanaqisah)* as another type of Islamic equity financing. The IFSB in

its technical note 3 on financial inclusion and Islamic finance also classified Investment Agency contract (*Wākālāh Bil- Istithmār*) as a type of Islamic equity financing contract (IFSB, 2019b). In this study all four types of Islamic equity financing will be considered and discussed.

### 3.4.1 Mušhārahah

The term, “*Mušhārahah*” is an Arabic term that can be literally translated to mean “sharing”, “associating” or “participating”. In the context of business and trade, it refers to a joint venture in which all participants share the joint venture's profit or loss. It has a more limited connotation than the more often used term “*Shirkah*” in Islamic jurisprudence. *Shirkah* is divided into two; *Shirkat-ul-Milk* and *Shirkat-ul-‘Aqd*. *Shirkat-ul-Milk* refers to joint ownership of two or more persons in a particular property which can arise by option of the parties to jointly own such asset or property. It can also arise naturally, as in the case of joint ownership of a property or asset consequent upon the demise of their legator. *Shirkat-ul-‘Aqd* on the other hand refers to joint commercial venture, which is subdivided into 3 (three) by the Muslim jurists; (i) *Shirkat-ul-Amwal*: where parties invest capital into a commercial venture. (ii) *Shirkat-ul-A‘mal*: where parties jointly undertake to render services to the public for a fee. Such fees are then distributed among the parties according to an agreed sharing ratio. (iii) *Shirkat-ul-Wujuh*: where parties pool their goodwill to obtain goods or assets on credit, sell at profit and distribute the accrued profit on an agreed ratio. The word *Mušhārahah* is a modern Islamic commercial phenomenon rooted in the concept of *Shirkah* and relates more with *Shirkat-ul-Amwal* and *Shirkat-ul-A‘mal* subdivisions of *Shirkat-ul-‘Aqd* (Usmani, 1998). According to AAOIFI (2017), the jurists classified partnerships into four, namely; *Shirkat al-‘Inan* (contractual partnership), *Shirkat al-Abdān* (skilled trade partnership), *Shirkat al-Mufāwadah* (agency-like partnership) and *Shirkat al-Wujuh* (creditworthiness or reputation partnership). The Standard further noted that the foremost class of partnership in modern partnerships and entities is *Shirkat al-‘Inān* (contractual partnership)<sup>42</sup>.

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<sup>42</sup> in establishing this point, reference was made to Suratu v. 24 that reads: ... وَإِنَّ كَثِيرًا مِّنَ الْخُلَطَاءِ لَيَبْغِي بَعْضُهُمْ ... وَعَلَى بَعْضٍ إِلَّا الَّذِينَ آمَنُوا وَعَمِلُوا الصَّالِحَاتِ وَقَلِيلٌ مَّا هُمْ Meaning: “...Many partners take advantage of one another, except those who believe and do good deeds, but these are so few...”.

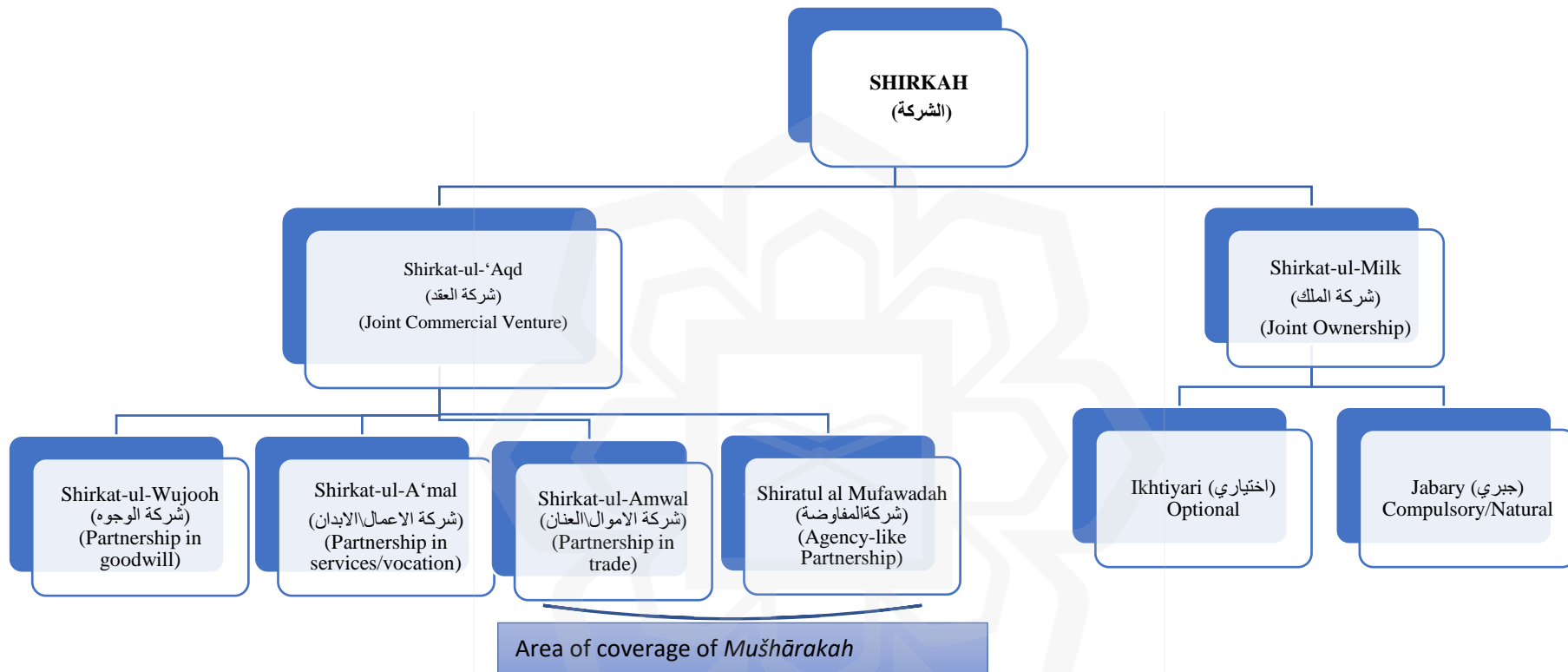


Figure 3.4. Diagrammatical presentation of *Shirkah* and *Mušhārahah*  
Source: Author's own illustration

Some of the basic rules guiding the practice of *Muṣhārahah* include; (a) valid legal capacity of the contracting parties; (b) mutual pooling of resources which may or may not be on equal basis (c) proportion of profit for distribution by parties must be agreed upon at the inception of the contract (d) ratio of profit due to each of the parties must be determined in proportion to the actual profit accrued to the business, and not in proportion to the capital invested by such party (e) subject to difference in view of Islamic schools of jurisprudence, profit may be shared as agreed but losses must be borne strictly according to capital contribution ratio (f) subject to applicable rulings, the *Muṣhārahah* capital may be in cash or in kind, among others (AAOIFI, 2017).

### 3.4.2 Muḍārahah

“*Muḍārahah*” is described to be a distinct kind of partnership where one of the partners (referred to as “*rabb-ul-mal*” or financier) provides the capital for the commercial enterprise, while the day-to-day management of the enterprise is exclusively the responsibility of the other partner (the “*mudārib*”). It is also referred to as trustee partnership or silent partnership. *Muḍārahah* may be restricted (*al-Muḍārahah al-muqāyyadah*), where the financier restricts or specifies the nature of the business that the managing partner must engage in. However, if the managing partner is given a free hand to take decisions on a business he believes is suitable and profitable, such is referred to as unrestricted *Muḍārahah* (*al-Muḍārahah al-mutlaqah*) (Usmani, 1998). According to Al-Farāidi (2003), the practice of *mudārahah* existed among the ancient Arabs, which they used to describe as *al- darb fil ard*, that is, traveling through the land for business purpose. This is alluded to in the Qur’an, and is seen as a confirmation of the legality of such commercial practice by Islam<sup>43</sup>. Al-Zuhaili (1997) noted that the term “*Muḍārahah*” is adopted as a common usage by Iraqi jurists who are mostly of the Hanafi and *Hambali* Schools, while the term “*Qirād*” is popularly adopted by *Hijazi* jurists, who are mostly *Malikis* and *Shafi’i* schools of Islamic jurisprudence. According to BNM *Muḍārahah* Standard (2015), terms *muqāradah* and *qirād* are synonymous to *Muḍārahah*.

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<sup>43</sup> Suratul Muzzammil v. 20. The verse partly reads thus: وَأَخْرُوجُوا فِي الْأَرْضِ يَتَّبِعُونَ مِنْ فَضْلِ اللَّهِ  
Meaning: “...and others travelling through the land, seeking God’s bounty; ...”

Some of the rules guiding *Muḍārabah* contract include; (a) Financier’s capital may be in the form of cash or it may be in kind. If it is in kind, it is necessary to ensure the assets are valued at the time of *Muḍārabah* execution. (b) The profit sharing mechanism and mutually agreed profit ratios must be clearly defined for the partners at the *Muḍārabah*’s inception or before profit or loss is generated. (c) A partner may voluntarily surrender all or part of his profit share to another partner provided it is not pre-agreed at contract execution (d) The financier bears the entire loss based on capital contribution ratios. The managing partner does not bear any loss except that caused by his proven negligence. (e) The managing partner is only liable in the proven cases of negligence, breach of contractual terms or misconduct (AAOIFI, 2017). The BNM (2013) *Shari’ah* standard on *Muḍārabah* provides further insight on the liability of the *Mudārib* in the three instances of misconduct (*ta`addi*), negligence (*taqsir*) or breach of specified terms (*mukhālafah al-shurut*) to be based on fiducial nature of the relationship (*aqd al- amānah*). This position is strengthened by (BNM *Muḍārabah* Standard, 2015).

*Muḍārabah* and *Muṣhārah*, can be distinguished from points of investment modalities, business management, loss sharing/bearing, and ownership of the partnership assets.

Table 3.1. Areas of distinction and similarities between *Muṣhārah* & *Muḍārabah*

Distinction & Similarities	<i>Muṣhārah</i>	<i>Muḍārabah</i>
Capital Investment	By all parties	By the financier only
DaLY Management	All parties eligible	Solely by the <i>Mudārib</i>
Profit distribution	As agreed upon	As agreed upon
Loss sharing	Strictly by capital contribution (provided managing partner is not liable)	Solely borne by financier (provided <i>Mudārib</i> is not complicit)
Asset ownership	By all partners	Solely owned by financier
Non-contractual surrender of profit	<i>Tanazul</i> is allowed at the time of profit realization	<i>Tanazul</i> is allowed at the time of profit realization

Source: Author’s own illustration

### 3.4.3 Diminishing *Muṣhārahah*

Diminishing *Muṣhārahah* is a variant of *Muṣhārahah* that was developed in modern times. It is also known as *Muṣhārahah Mutanaqisah*. The word “*Muṣhārahah*” is derived from “*Sharaka*” or “*Shirkah*”, meaning partnership or associates, while the word “*Mutanaqisah*” is derived from the word “*Naqasa*”, meaning to diminish, reduce or decrease. The concept is structured in such a way that the parties jointly acquire an asset or commercial enterprise. The ownership shares of one of the parties in the asset or venture is then broken down into units. These units are purchased by the other partner, who gradually increases his share of ownership in the underlying asset or venture until he fully buys off the entire asset or venture (Hafidzi et al., 2017).

It is a financing product that can be deployed for financing home and asset acquisition schemes. The diminishing *Muṣhārahah* is structured such that at there is *shirkat-ul-milk* (joint ownership) at the inception of the contract, this is followed by lease of the shares of a party by the other, then sale(s) of the shares in agreed periodic milestones (Usmani, 1998). The nature is still seen by other jurists to be *shirkat-ul-aqd*, especially when it is deployed for financing working capital requirements (Billah, 2017).

It can equally be deployed to finance a business venture, in which case the nature of the partnership will be that of *shirkat-ul-‘aqd* (partnership in joint commercial venture) or *shirkat-ul-amwāl* (partnership in trade). When applied for business venture relationships, one of the partners gradually buys the equity share of the other partner until the title to the equity is completely transferred to him (AAOIFI, 2017).

Some of the guiding principles for this financing, according to AAOIFI (2017) are that, terms on the buying and selling of shares of the asset or business venture should be stated in a distinct contract, separate from, and should not be tied to, or conditional to the partnership contract. Alternatively, a buying partner may execute a unilateral promise to buy off the shares of the partner, which must also be separate from and not tied to, or conditional to the partnership contract. None of the parties should be accorded the right to withdraw his shares in the capital, nor should just one of the parties be solely responsible for the expenses, even though he will buy off the other partner (AAOIFI, 2017). It is worthy of note that the above stated procedure for transfer of shares only applies to *shirkat-ul-aqd*, because of its agency like features. However, in the case of

*shirkat-ul-milk*, the other partner is an *ajnabi* (a stranger), thus the owning partner may sell his portion of the asset either to the partner or outrightly to a third party, although the Hanafi school frowns at sale to a third party where such sale could harm the sitting partner. Also, subject to juristic views and peculiarities, the co-partner has a pre-emptive right to acquire the asset from the selling partner, but the right does not absolutely prevent the selling partner from selling or transferring ownership to a third party, especially where the co-party is silent on the sale (Sadique, 2020).

#### 3.4.4 Wākālāh Bil- Istiḥmār

Investment agency (*Wākālāh bil- Istiḥmār*) is a modern application of the *Wākālāh* contract, which is comparable to the modern contracts of agency. Abu Bakar & Nasir (2021) noted that the word *Wākālāh* has a basis in the Qur'an<sup>44</sup> and has been used to mean *al-hifz* (to preserve or defend) or *al-tawfidh* (to entrust with or provide mandate). However, in modern commercial usage, it is the process of an appointed agent (*wakil*) acting on behalf of an individual or an entity (the principal '*muwakkil*') in order to administer fund set aside for profitable investment. The investing agent gets a fee for the services he provides, and could also get incentives, as may be agreed, where the investment returns exceed an agreed benchmark (Abu Bakar & Nasir, 2021).

According to AAOIFI (2017), a *Wākālāh* contract could be unrestricted (*Wākālāh mutlaqah*), where the investing agent is allowed to carry out an investment without any stipulated restrictions or conditions. It could also be restricted (*Wākālāh muqāyyadah*), where the investing party (principal '*muwakkil*') stipulates specific restrictions or conditions for the investment activities. A *Wākālāh* contract could also be without fee or with fee. The AAOIFI standard likened *Wākālāh bil Istiḥmār* with *Muṣhārahah* and *Muḍārahah*, because it is a contract entered into to increase and create wealth, except that it is rooted in *Ijarah* and not a form of partnership. The jurists hold the view that ordinarily a *Wākālāh* contract is a non-binding contract. However, it becomes a binding contract in circumstances where; (a) the *Wākālāh* contract involves the rights of another party, (b) the *Wākālāh* contract involves a fee (*Wākālāh bil ujarah*),

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<sup>44</sup> The legal basis for permissibility of Wakalah according to Fuqaha is the verse in Suratul Kahf v. 19; فَاذْعَبُوا بِرِزْقِكُمْ هَذِهِ إِلَى الْمَدِينَةِ فَلْيَنْظُرْ أَيُّهَا أَزْكَى طَعَامًا فَلْيَأْتِكُمْ بِرِزْقٍ مِنْهُ وَلْيَتَلَطَّفْ وَلَا يُشْعِرَنَّ بِكُمْ أَحَدًا Meaning: "Send one of you to the city, with this money of yours, and let him see which food is most suitable, and let him bring you some provision thereof. And let him be gentle, and let no one become aware of you."

(c) the *wakil* has commenced the work authorized to him and discontinuity of the work would cause damage to the contracting parties; or (d) the contracting parties have agreed not to terminate the *Wākālāh* contract within a specified time (AAOIFI, 2017; Al-Zuhaili, 1997; Al-Zuhayli, 2003).

*Wākālāh* and *Muḍārabah*, although different in features, share some similarities in areas of capital provision, and loss bearing, among other features.

Table 3.2. Areas of similarities & distinction between *Wākālāh* & *Muḍārabah*

Similarities & Distinction	<i>Wākālāh</i>	<i>Muḍārabah</i>
Capital Investment	By the principal only	By the <i>Rab-ul-Mal</i> only
DaILY Management	Solely by the <i>Wakil</i>	Solely by the <i>Mudārib</i>
Loss sharing	Solely borne by principal provided <i>Wakil</i> is not complicit	Solely borne by <i>Rab-ul-Mal</i> provided <i>Mudārib</i> is not complicit
CONTRACT	Can be restricted or unrestricted	Can be restricted or unrestricted
Non-contractual surrender of profit	Allowed	Allowed
Profit distribution	<i>Wakil</i> is only entitled to fee and incentive where applicable	According to profit sharing ratio at contract execution

Source: Author's own illustration

Although Islamic equity financing is, in theory seen to be the best alternative to the offerings of conventional financing arrangement Chapra (1979), Maududi (1947) and Siddiqi (1985, 2004) there still seems to be a lot to do in mainstreaming same. Some of the hurdles confronting its effective deployment include moral hazard, adverse selection arising from asymmetry relationship, incompetent and inadequate supervision, legal regime challenges, regulatory requirement constraints among others (Akosile et al., 2023).

### **3.5 RELEVANCE OF ISLAMIC EQUITY FINANCING TO NORTHERN NIGERIA**

Northern Nigeria is a Muslim majority region of the country, where adherence to Islamic principles is not only practices, but is seen as part of the tradition and way of life (Anderson, 2013). Prior to the British colonial adventure in Nigeria, there was the Sokoto Caliphate in today's Sokoto State and much of the north west states, which relics continue to exist till modern times after its collapse around 1903. The caliphate was founded by Sheikh Usman bin Fodiyo in 1804 immediately after the Sokoto jihad (Abikan, 2009). Before the Sokoto caliphate, there was the Kanem-Borno empire encompassing what is today know as southern part of Niger Republic, the northern part of Chad Republic and north eastern part of Nigeria (Hiribarren, 2016). In view of the above, Islamic equity financing resonates with the northern Nigeria Islamic leanings, in that it provides opportunity for the people to engage in financial activities, such as *Shari'ah* compliant investment and access to credit while staying religiously compatible.

Further, Islamic equity finance structure can encourage entrepreneurship by helping to stimulate the growth of start-ups, micro and small businesses on a participatory and profit-sharing basis. This is contrary to the debt-based financing structure and mostly sale-based structures practiced by the conventional and Islamic financial institutions in Nigeria respectively per Maikabara (2019)'s observations. Akilu et al. (2023), in a recent study surmised that deployment of mostly Islamic equity financing in Nigeria considerably improves socioeconomic welfare, increases household finances. They also opined that the mode of financing furthers economic goals, job creation, minimize capital requirements for small businesses, encourages corporate operations, and fosters long-term economic development (Akilu et al., 2023). The Islamic equity financing can thus be especially advantageous in areas like northern Nigeria, where it can stimulate entrepreneurship and sustainable economic development of a region that is behind other regions of the country in financial inclusion mileage.

Again, according to studies by Akosile et al. (2023) and Akosile and Zain (2023), Islamic equity finance inherently encourages risk-sharing between investors and enterprises, focusing on collaboration and shared gains and losses. This method generates a sense of shared responsibility and stimulates economic progress while limiting speculative risks. The financing structure equally emphasizes ethical and

socially responsible investing, which resonates with the values and beliefs of many in northern Nigeria, where long-term, sustainable, and inclusive economic development is been sought after (Akosile et al., 2023; Akosile & Zain, 2023).

### **3.6 NIGERIAN REGULATION AND POLICIES ON FINANCIAL INCLUSION**

The Nigerian financial landscape is regulated by a number of regulatory bodies, whom through various projects and programs, have been playing important roles in fostering financial literacy, inclusion and access within their respective spheres of regulation and in line with the mandates in the instruments establishing them<sup>45</sup>. The key regulatory bodies are the CBN, the National Deposit Insurance Corporation (NDIC), and the Securities and Exchange Commission (SEC).

The CBN regulates the banking industry and has been leading the charge for financial inclusion in the country. Its programs are critical to increasing access to financial services, especially for underserved communities. This is from the background of its role as the major regulatory authority in charge of monitoring monetary policies and financial institutions. Its core mandate is to maintain a stable financial system while encouraging inclusive economic growth<sup>46</sup>. In pursuing its mandate, the CBN, in 2012, launched the National Financial Inclusion Strategy (NFIS), with the goal of reducing the number of financially excluded individuals in Nigeria. The NFIS focused on areas that include payment systems, access to credit and savings, and enabling regulations among others (CBN, 2012).

The CBN's initiative on the payment system, otherwise known as "Cashless Policy" is geared towards cutting down the use of cash, while enhancing access to payment services via digital channels, and the promotion of electronic payments. The cashless policy positively impacted the CBN's financial inclusion drive by promoting the adoption of digital financial services. It has boosted access to banking services, particularly in remote and underdeveloped areas, encouraging previously excluded segments to participate in the financial system (CBN, 2023).

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<sup>45</sup>The CBN Act of 2007, the Nigerian Deposit Insurance Corporation Act (No. 16) of 2006 and the Investments and Securities Act of 2007.

<sup>46</sup>Section 2 of the CBN Act 2007.

From the access to financial services angle, the CBN formulated and issued Agent banking guidelines to promote financial inclusion by enabling non-bank businesses to provide limited financial services. These guidelines allow for the installation of banking agents in rural or underserved locations, with the goal of providing basic financial services to the unbanked population. The Agent/Agency banking has played a critical role in increasing access to financial services in rural and hard-to-reach areas where regular bank branches are few. It makes cash deposits, withdrawals, transfers, and other fundamental financial transactions easier, promoting inclusion by bringing financial services closer to consumers.

In relation to access to credit programmes, the CBN assisted in the creation of a favourable credit reporting system. In furtherance of this, the Credit Risk Management System (CRMS) was designed by CBN to monitor policy compliance and ensure that all licensed banks report credits of N1 million or more on a monthly basis. Aside the CRMS which is a regulatory tool, the CBN also licensed three business and credit information outfits, which services are to be complementary to that of the CRMS. This is in addition to CBN's Risk-Based Supervision (RBS) on financial institutions to enhance regulatory oversight while ensuring their compliance and stability (CBN, 2023).

On the access to credit and savings front, the CBN promoted savings culture among the unbanked and underbanked communities through a variety of savings products and financial education activities, and at the same time, facilitated credit access by stimulating lending to underrepresented areas through the introduction of schemes. These schemes include, Accelerated Agricultural Development Scheme (AADS), Agri-business, Small and Medium Enterprises Investment Scheme (AGSMEIS), Creative Industry Financing Initiative, Real Sector Support Facility, Credit Support for the Healthcare Sector, Commercial Agriculture Credit Scheme, Anchor Borrowers Program. Furthermore, the *Shari'ah* compliant versions of these schemes were also designed (Endurance, 2021). However, the objectives of most of these interventions will be better realized, it is argued, if Islamic equity financing contracts are deployed for their administration (Shabbir, 2022; Yahuza et al., 2023).

The SEC primarily regulates the Nigerian capital market, and has consistently contributed to financial inclusion through initiatives such as encouraging investment opportunities for a wider segment of the population. Also, it sets down and enforces

regulations to encourage micro-investments, and promote capital market participation, boosting financial inclusion among retail investors and small businesses. This includes its regulations on crowdfunding, peer-to-peer lending or financing, among others. The SEC equally embark on financial literacy campaigns through webinar, workshops, press releases, public notices, enlightenments and targeted segment enlightenments, all geared towards promoting financial inclusion (SEC, 2023).

On its part, the NDIC is crucial in protecting depositors' funds and fostering confidence in the financial system, both of which are critical for expanding financial inclusion. The NDIC insures deposits in regulated banks, including Islamic financial institutions, thus encouraging individuals and businesses to place their funds with financial institutions and therefore promoting inclusion by ensuring deposit safety. Further, the NDIC works with the CBN and other regulatory agencies to create and implement financial inclusion initiatives. It also issues official publication on financial inclusion on quarterly basis, in addition to alliances with key stakeholders on financial inclusion, with the aim to establish a financially inclusive and stable environment for all Nigerians (NDIC, 2023).

### **3.7 CONCLUSION**

This chapter discusses conceptual framework of the study. It discusses financial inclusion in Nigeria which is spear-headed by the CBN in collaboration with other regulators of sectors of Nigeria's financial industry. Although 80% financial inclusion target by 2020 was set in 2012, the same was yet to be achieved. It is on this premise that this study proposes a consideration for the promotion of Islamic equity financing as an enabler of access to credit, in pursuance of the financial inclusion, particularly in the northern region of the country that has a Muslim majority population.

## **CHAPTER FOUR**

### **RESEARCH METHODOLOGY**

#### **4.1 INTRODUCTION**

This chapter presents and elaborates the research methodology which it will employ in this study. This is in view of the fact that methodology of a research is the pillar upon which a study rests or the frame propping up a research work. This chapter thus outlines this study's research paradigm, design and process. It also outlines the research population and sample, including the sampling technique and method. It then discusses the data source and the data analysis technique. It concludes with a diagrammatical presentation of the research methodology.

#### **4.2 RESEARCH PARADIGM**

This study's paradigm is pragmatism, because the research aims at solving a real and existing problem besetting financial inclusion in Nigeria, by proposing a regulatory approach that encourages financial institutions to operationalise Islamic equity financing, thereby creating a utilitarian value. Its epistemology is problem solving, through qualitative method, owing to the nature of the area of the research study.

#### **4.3 RESEARCH METHODOLOGY**

Qualitative research methodology is adopted for this research due to the exploratory nature of the research problem. Creswell and Poth (2016), highlighted five (5) approaches peculiar to qualitative research, they are; Grounded Theory, Phenomenological, Ethnographic, Narrative and Case Study. This study will be adopting the grounded theory approach. Preference for the grounded theory approach is due to the inductions that would be made from data collected from respondents from northern Nigeria in relation to the problem of dismal financial inclusion. Tarozzi (2020) had described the grounded theory approach as a kind of research method that focuses on developing theories that are 'based' in data that has been collected and analysed

carefully. Its relationship with this study stems from the fact that it is used to discover social relationships and collective behaviours, which are referred to as social processes. It is particularly useful to this study, which is socio-legal in its approach because it focuses on the interplay between law and society.

This study will also adopt both doctrinal and socio-legal methodologies. Doctrinal method will be used to expound concepts such as Islamic finance, financial inclusion, Islamic equity financing, among others, within the global and Nigerian perspectives. Doctrinal research is believed to be a way of explaining the laws governing a certain area of a system, it assesses the relationships between different laws or regulations, explains the areas of difficulty, and occasionally forecasts future legal developments that best suits the area of study. It is also considered suitable to examine the applicable rules on factual situations, likewise for socio-legal studies where law and regulations need to be analysed (Nasir et al., 2023). In this study, doctrinal research is used to examine the regulations and policies of the CBN for financial inclusion in northern Nigeria, pursuant to research objective 1. Likewise, it is used to determine the *Shari'ah* contracts, classical and contemporary, that constitute Islamic equity financing contracts, in pursuant of this study's research objective 2.

The research will be mostly socio-legal because it intends to examine how the law, regulations, frameworks (subsidiary legislations) can best address socio-economic challenges the globe is faced with, with particular attention on the northern Nigerian society. This approach is consistent with Thomas and Wheeler (2000)'s perception of what socio-legal research looks like. The duo perceives it to be an interface with a milieu within which law, regulation and legislations exists. Such context could be sociological, historical, economic, geographical or any other contexts. This sentiment is shared and reinforced by (Feenan, 2013). Further, the Economic and Social Research Council (1994) in their attempt to give some connotation to Socio-Legal Studies describes it as an "approach to the study of law and legal processes" which "... covers the theoretical and empirical analysis of law as a social phenomenon" (ESRC, 1994).

In addition, this study process and findings are subjected to the triangulation process to ensure that its findings are as close to the realities on ground as possible. Research triangulation is said to refer to the process that facilitates increased credibility and validity of a research outcome. Although mixed research method is at times used to

achieve triangulation, by validating research findings, triangulation is however not the same as mixed methods. Unlike mixed methods that combines quantitative and qualitative research approaches in getting research questions answered, triangulation is, in fact, how a researcher makes use of all the multiple approaches in the study to extract the required information as well as critically analysing findings, thereby establishing validity and credibility of the research findings (Bans-Akutey & Tiimub, 2021). First the research questions are validated by experts of law, regulation, financial inclusion, qualitative research and Islamic finance product development, among others. Thereafter the respondents are drawn from the demand side and supply side of Nigerian Islamic finance industry. From the supply side, respondents are drawn from regulatory body and the industry practitioners. From the industry practitioners, respondents cut across all the existing 4 full-fledged Islamic banks and the lone Islamic banking window of a conventional bank. Further, to this, the practitioners are drawn from personnel with varying experiences that include relationship management, business development, risk management, product development, *Shari'ah* compliance, *Shari'ah* audit, among others. From the demand side, respondents are drawn from individual trade and corporate clients of Islamic banks. For the individual trade customers, respondents are drawn to cut across northwest and northeast regions of Nigeria and from varying business areas such as fintech, agribusiness, general commerce, automobiles, among others. For the corporate clients too, respondents are drawn to cut across the northeast and northwest regions of Nigeria, and with varying business areas that include media & communications, general commerce & merchandise, agribusiness, commodities trading, culinary, logistics, branding & marketing, and fund & asset management, among others. The foregoing is to ensure diverse and varying perspectives and insights from a sample that can be said to be representative of the population of research study, and thus findings is valid and applicable across the divides.

#### **4.4 RESEARCH DESIGN**

According to Bogdan and Taylor (1975), research design provides direction and guidance for a researcher through the research process starting from observation, crafting of the problem statement, research objectives and the research question, to data collection, analysis, interpretation, and final report of the findings of the research. Yin

(2018) further elucidates that research design is the logical process layout that connects the empirical data that has been gathered to a research's initial questions and, ultimately, to its conclusions. Added to the doctrinal, socio-legal and comparative approaches, this study will adopt the exploratory, descriptive and survey research design.

#### **4.4.1 Exploratory Research Design**

The researcher chooses the exploratory research design for this study. This is because the researcher believes that there are no previous researches that have been conducted on how Islamic equity financing can be adopted in the regulation and policy development of financial inclusion in northern Nigeria. The adoption of this research design is lent a credence by Sekaran (2003), and Sekaran (2010), when they surmised that it is best to conduct exploratory research when there are little or no much known study about a phenomenon for which a researcher sets out to study. Likewise, exploratory research serves situations where there is unavailable information on how similar research problems have been resolved in the past.

#### **4.4.2 Descriptive and Survey Research Design**

This qualitative research will be adopting a combination of descriptive research design and survey design of semi-structured interviews. The descriptive design depicts a vivid image of a given phenomenon or population in such a constructive or imaginative way that phenomenon is easily understood or picturized (Sirisilla, 2023). The rationale for adopting this method in this research is to achieve a seamless appreciation of the basic concepts around regulation and policy development of financial inclusion with a case for the Islamic equity financing in northern Nigeria.

On the other hand, a survey design of semi-structured interviews will be adopted with the aim of garnering and bringing into light, invaluable perceptions and answers to various circumstances and conditions prior to their analysis. Fink (2003) observed that surveys are usually instruments for gathering data and/or information from people or about people or phenomenon with the objective to compare, describe, or rationalize their attitudes, their behaviours and their knowledge. The semi-structured interview for this research will examine adequacy of financial inclusion regulations and policies in

northern Nigeria, and the potential of Islamic equity financing to be an enabler of financial inclusion within the focused regions. The semi-structured interviews will also garner suggestions on possible regulatory and policy adjustments by which financial inclusion would be enhanced through Islamic equity financing contracts.

#### **4.5 SOURCE OF DATA**

The study will be undertaken through a combination of primary and secondary data collection. The primary data includes information gathered from semi structured interviews, regulatory guidelines and subsidiary legislations. The secondary data consist of working papers, journal articles, survey reports, official publications, and websites among others. Content analysis shall be carried out on the secondary data collected from libraries, physical and virtual, and include

- i. Darul Hikmah Library of International Islamic University Malaysia;
- ii. Virtual library of Academic Institutions;
- iii. Website of Islamic financial institutions;
- iv. Website of the Central Bank of Nigeria and other Federal Government of Nigeria Ministries, Agencies and Parastatals; and
- v. Website and of International Organizations

References are also made to the works, researches and books of several Islamic finance jurists and Muslim economists.

#### **4.6 POPULATION**

Population of a research can be summed up to include objects, people, institutions or events that share common or similar characteristics (Sekaran, 2010). Thus, population of this study is the northern part of Nigeria that has in total nineteen (19) states and the federal capital territory (FCT). They are geopolitically divided into three (3) zones or regions; i.e., northwest, northeast and northcentral regions. The northwest region comprises of seven (7) states; Zamfara, Sokoto, Kaduna, Kebbi, Katsina, Kano and Jigawa. The northeast region comprises of six (6) states; Bauchi, Borno, Taraba, Adamawa, Gombe and Yobe. The northcentral region comprises of six (6) states too;

Niger, Kogi, Benue, Plateau, Nasarawa and Kwara. The FCT, which is the administrative seat of the federal government of Nigeria falls within the northcentral region.

Business owners and corporate customers of the Islamic financial institutions residing in the states within the northeast and northwest regions, cumulatively thirteen (13) states, makes up the population for this study. The 6 states of the northcentral region are excluded, because the financial inclusion of their dwellers is not as dismal as that of the two regions that are focused in this research.

Also, personnel of Islamic financial institutions and the CBN constitute a segment of the study's population. This is to ensure that data is obtained from both the supply and demand sides. This enhances and the robustness of the data to be gathered, as it takes into consideration necessary stakeholders.

Table 4.1. Proposed Semi-structured Interview Schedule

	Respondents	Respondent No.	Selection Criteria	Years of Experience
1.	Regulatory Staff	2	<ul style="list-style-type: none"> <li>• Legal Officer,</li> <li>• Financial Policy &amp; Regulation Officer</li> </ul>	5 – 10 Years
2.	Islamic Finance Product Development & Structuring Personnel	5 (1 from each NIFI)	<ul style="list-style-type: none"> <li>• Product Development</li> <li>• Product Structuring</li> <li>• Strategy</li> </ul>	5 – 10 Years
3.	Risk Management Personnel/Managers	5 (1 from each NIFI)	<ul style="list-style-type: none"> <li>• Risk Management</li> <li>• Credit Analysis</li> </ul>	5 – 10 Years
4.	Trade Customers/Business Owners	2 customers x 13 locations	<ul style="list-style-type: none"> <li>• Resident in northeast or northwest of Nigeria</li> <li>• Runs informal businesses</li> </ul>	5 – 10 Years

	Respondents	Respondent No.	Selection Criteria	Years of Experience
			<ul style="list-style-type: none"> <li>• Runs semi formal businesses</li> </ul>	
5.	Corporate customers	1 customers x 13 locations	<ul style="list-style-type: none"> <li>• Have formal business outfits (MSMEs)</li> <li>• Domiciled in northeast or northwest of Nigeria</li> </ul>	5 – 10 Years

#### 4.7 SAMPLE AND SAMPLING TECHNIQUE

Reaching all the compatriots across the states might be daunting, cost ineffective and impracticable. In this wise, a sample data of business owners and corporate customers whose location cut across the northeast and northwest regions would be relied upon for the research. According to Yin (2018) sampling technique is categorized into two; i.e., random and non-random sampling or probability and non-probability sampling techniques. In a random technique, each constituent member of the population stands the same likelihood of being selected as part of the sample. However, in a non-random sampling, selection of a constituent member of a population is based on a clear justification that explains the selection. Yin (2018) opines that it is the non-random or non-probability process that best suits qualitative studies.

In view of the qualitative nature of this research work, the non-random sampling technique has been selected in identifying the respondents across the classes; i.e., regulatory personnel, Islamic Banks' personnel and customers of the Islamic Banks. Galloway (2004) identified five main types of non-random sampling that are: convenience, purposive, quota, snowballing, and self-selection methods. The convenience sampling is said to be most used; it is often confused with random sampling and prone to misuse by researcher (Edgar & Manz, 2017). Galloway (2004) explains that the purposive sampling, as the name implies, is where units are selected 'on purpose', because they have characteristics that are required by a researcher in his sample. Under the quota method, a selection of a predetermined unit is done, after

breaking the units down into mutually exclusive sub-groups. Through the snowballing method, new units are engaged by other units to form part of the sample. Self-selection sampling, is where the inclusion or exclusion of units into a sample is at the instance of such units electing or declining explicitly or implicitly to be part of the sample. This research adopts a combination of purposive, snowballing and self-selection sampling from demand side, i.e., the customers or beneficiaries of financial services, and the supply side, i.e., the providers of financial products and services, including the financial services regulator. Identification of units purposely targets a segment of the population, consisting of corporate and individual business owners domiciled in northern Nigeria who, preferably, have maintained not less than 2 years relationship with the Islamic banks. Corporates and individual business owners are selected for this research because they have overtime accessed credit financing from the Islamic banks. They will therefore, be in better position to share experiences on the impact of the various financing contracts on their businesses and their potentials to attract other traders to effectively include them financially. Likewise, this research is purposeful in selecting Islamic bank personnel who are product development and risk management officers or managers. Their selection is based on the relevance of their functions in curating products that further their institution's go-to-market strategy in line with the CBN's financial inclusion drive. These personnel manage their respective bank's asset class, product and market segmentation, allocation of sectors for financing, management of the bank's various risks, among others. This research will also be purposive in selecting regulatory personnel from the banking supervision and regulation department of the CBN. The rationale for selecting them is to gain insights on the regulatory and supervision issues around financial inclusion on the one hand, and insights on financial policy and regulation perspective, on the other hand.

The respondents for this research will be more than 30, to comply with the normal statistical requirement where the samples are represented by  $n$ , and  $n \geq 30$  (Holmes et al., 2018). The researcher will try his best to select more than 30 respondents, who will consist of business owners and corporate customers of the four full-fledged Islamic banks and the lone Islamic window, based on nomination from the Banks' personnel in line with the researcher's criteria. Selected personnel of the Islamic financial institutions and the regulatory body would also be interviewed to enhance the robustness of the data and feedbacks.

The corporate customers identification and selection is through either: (i) nominations by professional colleagues within the industry; or (ii) through the contacts with the officers in the companies. The identified stakeholders through which this investigation is done are:

- i. The business owner customers of Islamic banks: these are customers of the bank that are individuals who may or may not own informal or semi formal businesses that they run on day-to-day basis.
- ii. The corporate customers of Islamic banks: these are entities that have formal business outfits, that transact with the bank daily. A lot of them fall into the definition of medium and small enterprises (MSMEs) that account of a huge chunk of jobs in Nigeria; about 58 million jobs according to (SMEDAN/NBS, 2021);
- iii. The officers from Islamic banks who interact, deal with and assess the transactions of the business owners and corporate customers on daily basis. There are four full-fledged Islamic commercial Banks (Jaiz bank, TAJBank, Lotus bank and the Alternative bank) and a window for Islamic banking (SunTrust bank Islamic window). They have a better appreciation of the various business models of the market segment, their behaviours and viabilities;
- iv. Officers of the financial regulatory body who provide supervisory, regulatory, policy formulation and among others for the Islamic finance industry.

#### **4.8 INTERVIEW**

The data collection procedure will be through qualitative interviews questions which are done in semi-structured manner, to gain general information from the selected respondents. According to Snyder (2019), semi-structured interviews combine structured and unstructured elements to give a flexible yet guided interview. The nature of semi-structured interviews assists the interviewer (researcher) in obtaining insightful contextual knowledge by following up on angles for clarification as the interview discussion progresses, rather than simply keeping to predetermined (structured) interview questions (Snyder, 2019). Through the semi-structured qualitative interviews,

the respondents were asked questions relating to: (i) adequacy of the regulatory approaches or policies for financial inclusion in the northern Nigeria (ii) the real issues in the practice of Islamic equity financing by Islamic Banks in Nigeria; (iii) their perception towards the role of Islamic equity financing in improving financial inclusion in northern Nigeria, and (iv) their views on the possible regulatory and policy adjustments that will promote financial inclusion in northern Nigeria through Islamic equity financing. Although the original plan was to conduct face-to-face interview with majority of the personnel of the Islamic banks and the regulatory body, they all ended up being conducted through WhatsApp chat platform and google form link upon their requests. This is because of the inability to schedule a face-to-face session with the bank officials. The banks were passing through turbulent periods, there was a change in the leadership of the apex bank, there were upscaled regulatory visits that impacted daily schedules of bank officials. On the other hand, majority of the interviews with the selected corporate customers and business owner customers are conducted through virtual multimedia platforms such as zoom, google form links, telephone conversations, instant messages and chat platforms. This is because of their respective locations which are very far from the researcher's location. Sani, (2022) adopted similar approach in his thesis (i.e., online telecommunication means) when personal and physical contacts became impracticable due to movement restrictions as a result of the pandemic circumstances. A noticeable merit of the Whatsapp platform and google form link media of data collection is that the respondents are able to precisely articulate their responses and in not too lengthy sentences. It also benefits the researcher in terms of cost, time and data integrity, because transcription is not required.

For all the segments of the respondents, i.e., the customers on the demands side and the Islamic bank personnel and regulatory staff on the supply-side, open-ended questions are asked, for which moderate to long responses are mostly provided.

Once the companies are identified, their authorised personnel or representatives were interviewed in the same manner with the business owner customers, via preferred medium. The rest of them were interviewed based on appointments that were set up, especially for high ranked officers (such as executives and or CEOs). The merit of semi-structured qualitative interviews is appreciated considering the challenges around obtaining appointments with busy business executive for their practical and hands-on views.

By observing the confidentiality of the data and information received, only the relevant and necessary parts of the information and data are used for the sake of completing this research. This is considered as appropriate by following the ethics in conducting research.

Qualitative interviews, and in fact the qualitative methodology had been criticised as not being scientific and may thus not be reflecting the true position of the phenomenon being studied in the ensuing rivalry between the positivist and the constructivist schools. The social constructivists had maintained that there is the “possibility of alternative interpretations and contestable truths” to qualitatively aggregated data. On the other hand, the positivists emphasise the use of instruments to measures gathered data, to determine if the processed data gives the correct or truthful answer. The common ground between the positivist and constructivist schools seems to that validity test be conducted in both qualitative and quantitative researches as appropriate (Kuzmanić, 2009).

In validating the qualitative interview questions, it is apposite to consider the areas of strength and weakness of the semi-structure interview, being the research instrument with which the researcher aggregates the research data.

Table 4.2. Strength and Weakness of Qualitative Interview

Strengths	Weaknesses
Interviewees express themselves in their own words, thereby providing rich and detailed information.	Reliance is placed on interviewee’s honesty and memory. This may be impacted by bias, distortion, or social desirability.
As against quantitative surveys, it affords interviewees the opportunity to explore complex and sensitive topics.	Where the conversation is not flexible, interviewee’s limited understanding of the topic negatively affects the conversation.
Interviewees are accorded the opportunity to reveal the underlying	The conversation may derail from them objective for which the research was carried out.

Strengths	Weaknesses
motivations, or reasons behind their opinions or behaviours.	
The interview process can generate new insights or hypotheses that can be tested further by other researcher and or methods.	

Source: Author

While building on the strengths of qualitative interview questions, the researchers take steps to mitigate the weaknesses of the data collection instrument. To this end, the researcher takes the underlisted measures to mitigate the weakness of the qualitative interview, to provide assurance of the validity, reliability and effectiveness of the data or information extracted from the sample population.

Table 4.3. Mitigating Steps for Weaknesses of Qualitative Interviews

Weaknesses	Mitigating Steps
Reliance is placed on interviewee's honesty and memory. This may be impacted by bias, distortion, or social desirability.	<p>The interview questions are open and broad, capable of eliciting a full account of the interviewee's perception of their experience, which the researcher can utilize to answer the research questions.</p> <p>Also, the constructed interview questions are reviewed and advised upon by experts who are known and qualified in their respected fields:</p> <p>(a.) Expert of law, regulation and policy – Prof. Engku Rabiah Adawiah Bt Engku Ali from Institute of Islamic Banking and Finance, International Islamic University, Malaysia.</p> <p>(b.) Expert of financial inclusion – Prof. Salina Hj. Kassim from Institute of Islamic</p>

Weaknesses	Mitigating Steps
	<p>Banking and Finance, International Islamic University, Malaysia.</p> <p>(c.) Expert of qualitative interview question design – Dr. Nor Razinah Mohd Zain from Institute of Islamic Banking and Finance, International Islamic University, Malaysia.</p> <p>(d.) Expert in Islamic finance product development – Dr. Mustapha Amin Akinlaso from <i>Sharī'ah</i> Non-compliance Risk &amp; Product Development Unit, TAJBank Ltd.</p> <p>(e.) Expert in Nigerian financial inclusion policy and regulations – Dr. Abdulrahman Abdullahi from the Central Bank of Nigeria (CBN).</p>
Where the conversation is not flexible, interviewee's limited understanding of the topic negatively affects the conversation.	To ensure flexibility of the interview process, semi-structured interview format is adopted by the researcher. This enables the researcher probe further as may be required during the interview process.
The conversation may derail from them objective for which the research was carried out.	Through the semi-structures interview format adopted by the researcher, necessary interjecting questions are asked to guide the interview process from derailment.

Source: Author

Before arriving at the final draft of the qualitative interview question several steps were taken to ensure the clarity of the questions, their validity and alignment with the research objectives. First, the literatures, previous studies and survey reports were reviewed to synthesize a direction and methodology for the research. Then, qualitative interview questions were constructed to suit the capacity of the classes of respondents and to meet the research objectives. To this end, constructed questions were presented

to various experts for review and recommendation (see Appendix 1). This includes experts in law, regulation and policy, financial inclusion, qualitative research design, Islamic banking product development and *Shari'ah* compliance, among others. Following their advises and recommendations, necessary adjustments were made to the constructed questions to achieve a final draft for the qualitative interview questions. Finally, five pilot interviews (see Appendix 2) is carried out to confirm the suitability of the questions for the intended respondents prior to their final adoption (Appendix 3A – 3C).

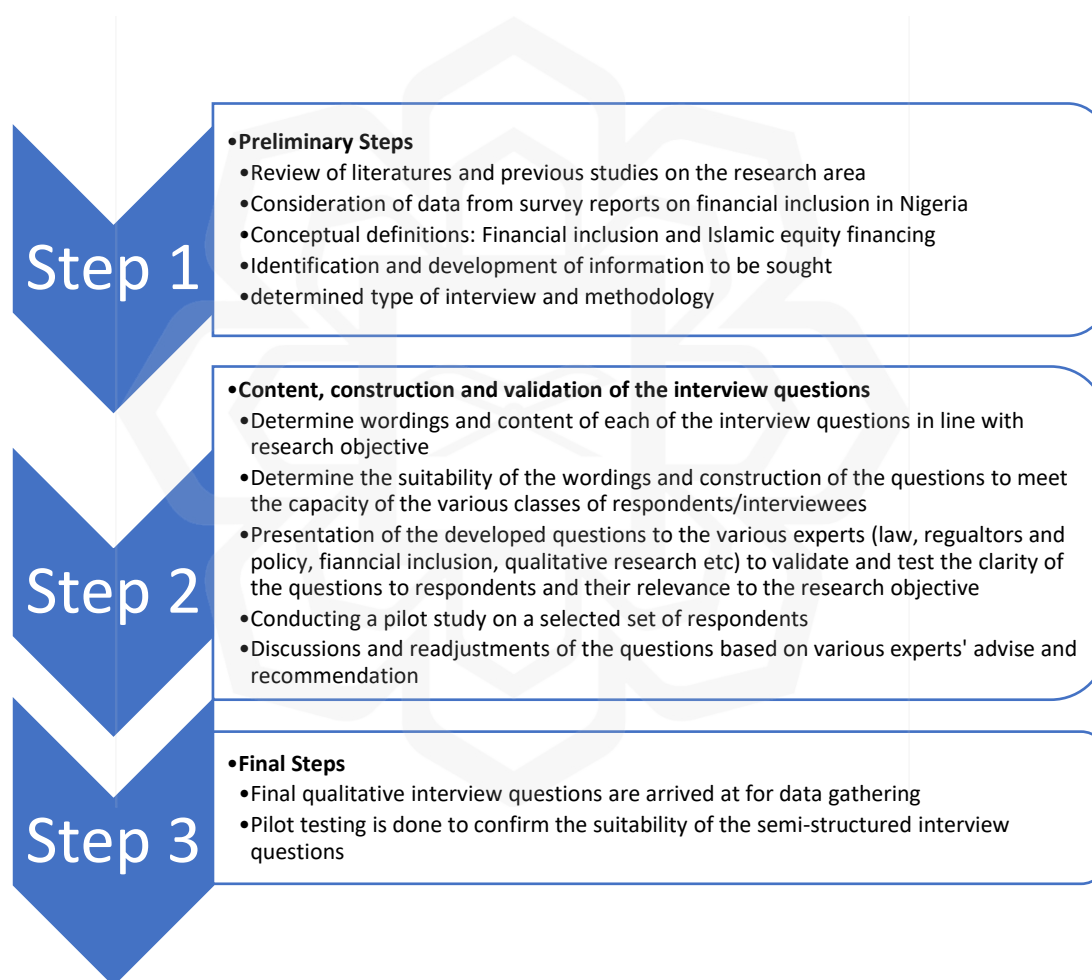


Figure 4.1. Procedure for the construction and validation of the qualitative interview questions

Source: Author

During the pilot test of the interview questions a total number of 17 themes were generated to analyse the data gathered. However, post pilot test, the number of themes reduced to 11 for the bankers' group and 8 for the individual and corporate customer groups.

Table 4.4. Pre and Post pilot test list of themes

S/N	Pilot Phase Themes	Post Pilot Phase Themes	
		Bankers	Individual & Corporate Customers
1	Islamic finance awareness	Perceptions about Islamic equity financing contracts	Awareness about financial inclusion policy
2	Perceptions about Islamic equity financing contracts	Most preferred financing contract in northern Nigeria	Financial inclusion in Nigeria generally and north specifically
3	Best Islamic finance contract for financial inclusion	Regulatory & policy issues with Islamic equity finance as a financial inclusion tool for northern Nigeria	Adequacy of regulations & policies on access to finance for financial inclusion
4	Preferred financing contract in northern Nigeria	Reasons for low financial inclusion in northern Nigeria	Determinants for Individual/business entities obtaining bank facility as a means for financial inclusion
5	Other suitable financing for northern Nigeria	Need to review NFIS to facilitate financial inclusion in northern Nigeria	Reason for low financial inclusion in northern Nigeria despite NFIS

S/N	Pilot Phase Themes	Post Pilot Phase Themes	
		Bankers	Individual & Corporate Customers
6	Reasons for low financial inclusion in northern Nigeria	Steps for regulators to enhance financial inclusion in northern Nigeria	Steps for CBN to enhance financial inclusion in northern Nigeria
7	Steps for CBN to enhance financial inclusion in northern Nigeria	Regulatory patronage of Islamic equity financing contracts for financial inclusion in northern Nigeria	Suitability of Islamic equity financing contracts for corporate customers
8	Steps for regulators to enhance financial inclusion in northern Nigeria	Appropriate Islamic financing contract to drive financial inclusion in northern Nigeria	Regulatory and policy adjustments on Islamic financing contracts for financial inclusion in northern Nigeria
9	Islamic financing contracts best suited for enhancing financing inclusion in northern Nigeria	Effect of Islamic equity financing on northern markets and stakeholders	
10	Inclusion of Islamic equity financing options in the NFIS	Essential inclusions in the NFIS	
11	Regulatory patronage of some Islamic financing contracts for financial inclusion in northern Nigeria	Regulation of Islamic finance to deepen financial inclusion in northern Nigeria	
12	Regulatory and policy adjustments on Islamic financing contracts for		

S/N	Pilot Phase Themes	Post Pilot Phase Themes	
		Bankers	Individual & Corporate Customers
	financial inclusion in northern Nigeria		
13	Appropriate Islamic financing contract to drive financial inclusion in northern Nigeria		
14	Merits of promoting Islamic equity financing contracts for northern Nigeria		
15	Effect of Islamic equity financing on northern markets and stakeholders		
16	Essential inclusions in the NFIS		
17	Regulation of Islamic finance to deepen financial inclusion in northern Nigeria		

Source: Author

#### 4.9 METHODS OF DATA ANALYSIS

For primary data (semi-structured interview) collected for this study, analysis is done with the aid of Atlas.ti 24 software. The Atlas.ti software is reputed for being a leading state-of-the-art qualitative data analysis (QDA) software specifically for coding and analysing large data from interviews, with the aim of generating findings and insightful themes (Méndez Romero, 2016). In his thesis, Sani (2022) used the Atlas.ti software to bring both primary data (i.e., the semi-structured interviews) and the secondary data (i.e., documentary content analysis) into the context of this research work to aid the

understanding of his research area. This work also adopts same approach in contextualizing the primary and secondary data, i.e., the law, respondent interviews on the one hand and the financial inclusion policy and literature reviews respectively.

A combination of thematic and descriptive analysis is used for analysing data generated from respondents. Thematic data analysis includes an extensive discussion about the major themes from qualitative data, labelling and segmentation of data from broad themes (Creswell & Poth, 2018). Further, a descriptive analysis is also believed to be appropriate due to its flexibility and adaptability to qualitative method research adopted by this study (Robbins, Richard M. Heiberger & Naomi, 2014; Rosnow, Robert Rosenthal & Ralph, 1991). Descriptive analysis of the respondents will be provided in this study, where required, using graphs and charts generated from excel pivot table, and Google analytics free tool. The responses serve as the basis of regulatory consideration for a rethink financial inclusion strategy targeting the northern Nigeria.

The data is analysed to examine the adequacy of the financial inclusion strategy currently being adopted. The demand side relates to the beneficiaries of financial products and services, their expectations, their preference, and their challenges that are borne out of the way and manner the financial inclusion strategy is being implemented. The supply side on the other hands relates to the regulator, the commercials banks and their products and services offerings aimed at achieving financial inclusion.

Data analysis of the qualitatively sourced data include doctrinal analysis of information sourced from the texts. Thereafter thematic analysis will be utilized for the data and information gathered from the interviews. Thematic analysis is a process of systematically searching and rearranging the interview transcript, observation notes, or other non-textual materials that the researcher accumulates to increase the understanding of the phenomenon of the qualitative investigation (Galanis, 2018). Also, SWOT analysis will be employed in the analysing the gathered data on the areas of strength and weakness of the Islamic equity financing as financial inclusion enabler in northern Nigeria. Worthy of note is the fact that SWOT can be used to identify research gaps on a particular subject matter. A researcher on a subject matter can identify aspects that require more focus after analysing relative strengths and weaknesses (Forsey, 2024). The SWOT (also previously referred to as SOFT) analysis which originated in the 1960s is historically used in strategic planning by corporates. It has been described

as “making decisions through the conscientious, explicit, and judicious use of four sources of information: practitioner expertise and judgment, evidence from the local context, a critical evaluation of the best available research evidence, and the perspectives of those people who might be affected by the decision” (Puyt et al., 2023). In view of above, and considering the strategic nature of this study’s proposition that Islamic equity financing be considered for financial inclusion in northern Nigeria, SWOT analysis will be employed to analyse Islamic equity financing after aggregating the interview responses.



### THE METHODOLOGY DIAGRAM OF THIS STUDY

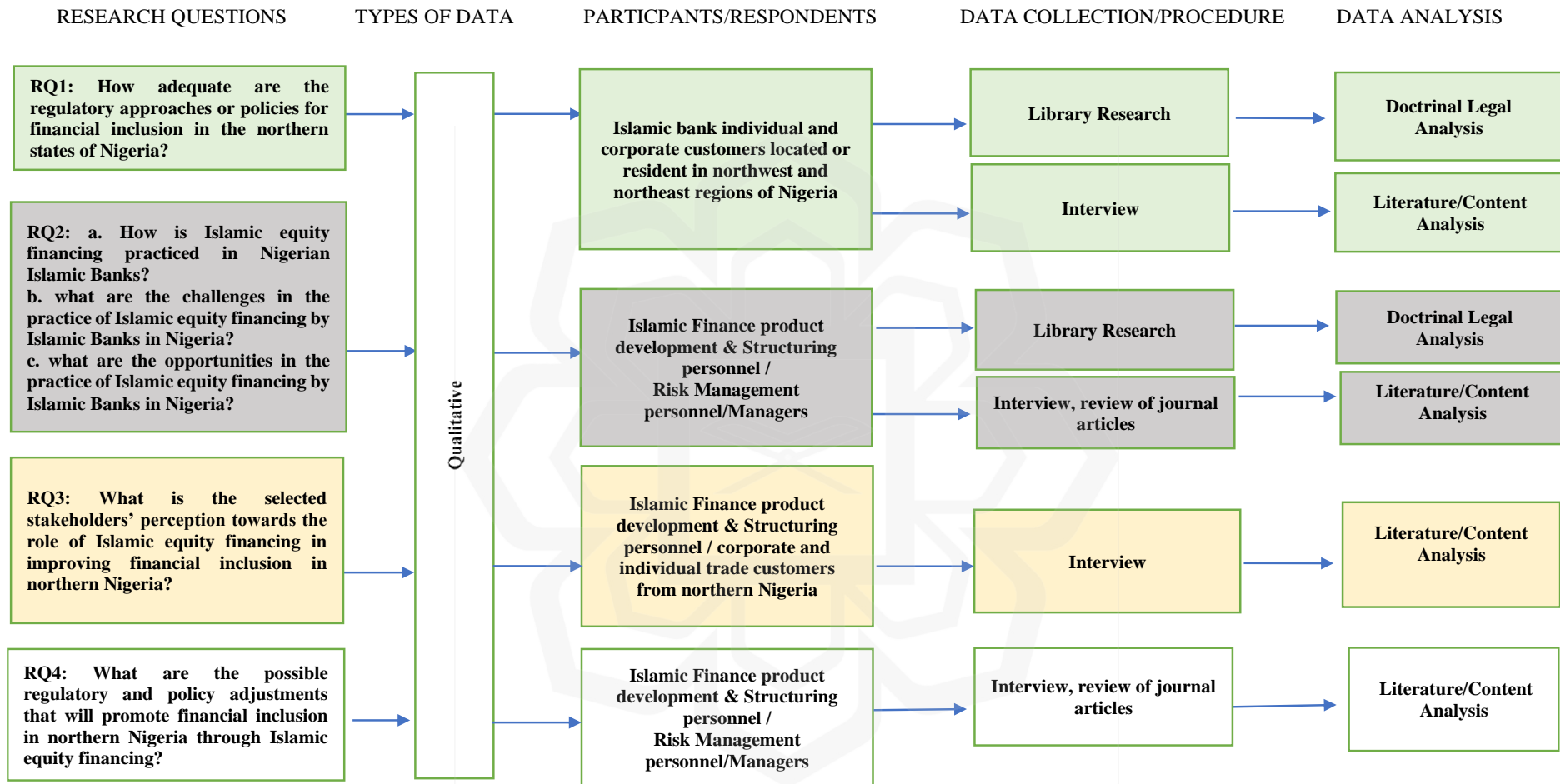


Figure 4.2. The Methodology Diagram of this study

Source: Author

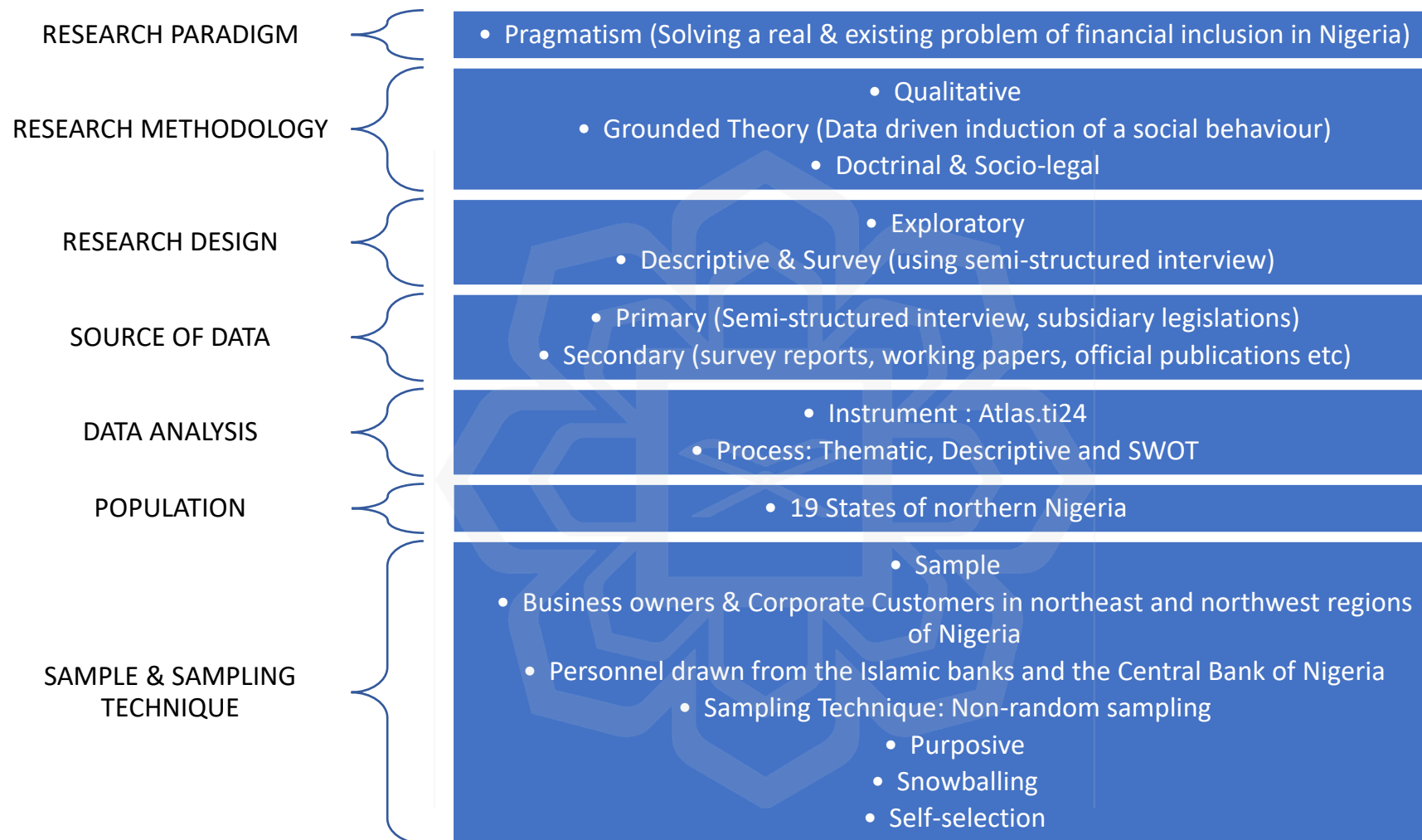


Figure 4.3. Research flow of the study  
Source: Author

## CHAPTER FIVE

### QUALITATIVE DATA ANALYSIS AND PRESENTATION OF THE RESULT

#### 5.1 INTRODUCTION

This chapter presents and evaluates the outcomes of data obtained in the field through semi-structured interviews with respondents cutting across the three classes of bankers, corporate customers and individual customers of Islamic banks in the northwest and northeast regions of Nigeria. The Atlas.ti 24 qualitative research tool was used to code, analyse interview transcripts, generate network diagrams, and visualize the results.

#### 5.2 PROFILE ANALYSIS OF RESPONDENTS

The respondents divided into three classes; the bankers, the individual business owners who are customers of Islamic banks and resident in northwest and northeast regions of Nigeria, and corporate customers of Islamic banks having their businesses in the northeast and northwest of Nigeria. Below is profile of the 33 respondents who are assigned codes from R1 to R33 to hide the real identity and make them anonymous:

Table 5.1. Profile analysis of banker respondents

S/N	Respondent	Assigned Code	Experience	Years Of Experience	Organization	Date Interviewed
1	Respondent 1	R1	<ul style="list-style-type: none"><li>• Banking Supervision</li><li>• Islamic finance</li><li>• ESRM</li></ul>	About 14 years industry experience	Central Bank of Nigeria	16th March, 2024
2	Respondent 2	R2	<ul style="list-style-type: none"><li>• Retail Finance</li><li>• Development Finance</li><li>• Management</li></ul>	About 17 years industry experience	SunTrust Bank Ltd NIB Window	17th February, 2024

S/N	Respondent	Assigned Code	Experience	Years Of Experience	Organization	Date Interviewed
3	Respondent 3	R3	<ul style="list-style-type: none"> <li>• Credit risk</li> <li>• Market and liquidity risk management</li> </ul>	About 5 years industry experience	Lotus Bank Ltd	20th March, 2024
4	Respondent 4	R4	<ul style="list-style-type: none"> <li>• <i>Shari'ah</i> Audit</li> <li>• <i>Shari'ah</i> Compliance</li> </ul>	About 8 years industry experience	Jaiz Bank Plc	20th March, 2024
5	Respondent 5	R5	<ul style="list-style-type: none"> <li>• Business Development</li> </ul>	About 12 years industry experience	TAJBank Ltd	26th March, 2024
6	Respondent 6	R6	<ul style="list-style-type: none"> <li>• Retail Sales</li> <li>• Business Development</li> </ul>	About 17 years industry experience	The Alternative Bank Ltd	26th March, 2024
7	Respondent 7	R7	<ul style="list-style-type: none"> <li>• Marketing</li> <li>• Relationship management</li> </ul>	About 9 years industry experience	Jaiz Bank Plc	27th March, 2024
8	Respondent 8	R8	<ul style="list-style-type: none"> <li>• Relationship management</li> </ul>	About 5 years industry experience	The Alternative Bank Ltd	3rd April, 2024
9	Respondent 9	R9	<ul style="list-style-type: none"> <li>• Credit risk management</li> </ul>	About 10 years industry experience	The Alternative Bank Ltd	6th April 2024
10	Respondent 10	R10	<ul style="list-style-type: none"> <li>• <i>Shari'ah</i> non-compliance risk</li> <li>• <i>Shari'ah</i> audit</li> </ul>	About 17 years industry experience	Jaiz Bank Plc	26th February 2024
11	Respondent 11	R11	<ul style="list-style-type: none"> <li>• Risk management</li> <li>• Relationship management</li> </ul>	Over 20 years industry experience	TAJBank Ltd	27th February, 2024
12	Respondent 12	R12	<ul style="list-style-type: none"> <li>• Product development</li> <li>• Risk management</li> </ul>	About 12 years industry experience	TAJBank Ltd	27th February, 2024

Source: Author

Table 5.2. Profile analysis of individual business owners and corporate customer respondents

S/N	Respondent	Assigned Code	Business Area	Years Of Experience	Location	Classification	Date Interviewed
1	Respondent 13	R13	Fintech	About 10 years business experience	Northwest	INDIVIDUAL BUSINESS OWNER CUSTOMERS	19th March, 2024
2	Respondent 14	R14	Agriculture (Poultry and livestock farming)	About 5 years business experience	Northeast		19th March, 2024
3	Respondent 15	R15	Agro products/ human resources	About 7 years business experience	Northeast		20th March, 2024
4	Respondent 16	R16	General commerce	About 12 years business experience	Northwest		24th March, 2024
5	Respondent 17	R17	Motorcycles sales and export	About 15 years business experience	Northwest		26th March, 2024
6	Respondent 18	R18	Agricultural Merchant	About 10 years business experience	Northwest		26th March, 2024
7	Respondent 19	R19	Farmer	About 5 years business experience	Northeast		5th April, 2024
8	Respondent 20	R20	General merchandise	About 5 years business experience	Northeast		5th April, 2024

S/N	Respondent	Assigned Code	Business Area	Years Of Experience	Location	Classification	Date Interviewed
9	Respondent 21	R21	General Contracts and supplies of food and Non-food items	About 6 years business experience	Northeast	CORPORATE CUSTOMERS	17th March 2024
10	Respondent 22	R22	Media and communications	About 7 years business experience	Northwest		19th March 2024
11	Respondent 23	R23	Ethical trading of Agric and allied products	About 24 years business experience	Northwest		19th March, 2024
12	Respondent 24	R24	Commodity trading, oil production and Rice milling	About 5 years business experience	Northwest		26th March, 2024
13	Respondent 25	R25	Concrete structures manufacturing company	About 5 years business experience	Northwest		26th March, 2024
14	Respondent 26	R26	Food, fast food	Over 5 years business experience	Northeast		26th March, 2024
15	Respondent 27	R27	Agricultural Merchant	About 15 years business experience	Northwest		26th March, 2024
16	Respondent 28	R28	IT /Internet services	About 5 years business experience	Northeast		26th March, 2024
17	Respondent 29	R29	General contract and merchandise, agricultural	Over 15 years business experience	Northeast		26th March, 2024

S/N	Respondent	Assigned Code	Business Area	Years Of Experience	Location	Classification	Date Interviewed
			products, iron scraps and spare parts, mining business				
18	Respondent 30	R30	Agric/trading	About 10 years business experience	Northeast		3rd April, 2024
19	Respondent 31	R31	Logistics & Office services	Over 5 years business experience	Northeast		3rd April, 2024
20	Respondent 32	R32	Branding and marketing	Over 14 years business experience	Northwest		8th April, 2024
21	Respondent 33	R33	Fund and Asset Management	About 5 years business experience	Northwest		8th April, 2024

Source: Author

A total of 33 respondents are selected and interviewed, in line with the statistical requirement where the samples are represented by  $n$ , and  $n \geq 30$  (Holmes et al., 2018). The purposively selected respondents from the supply side (R1 – R12) comprise banking supervision personnel of the CBN, and Islamic bank personnel of diverse functions. The CBN personnel was purposively selected to provide insights on the regulatory issues around financial inclusion on the one hand, and insights on financial policy and regulation on the other. The functions of the purposively selected Islamic bank staff include product and business development, relationship management, risk management, *Shari'ah* audit and compliance, and risk management. They are also purposively selected to cut across the four full-fledged Islamic banks and lone Islamic banking window operational in Nigeria. Their selection is based on the relevance of their functions in curating products that further their institution's go-to-market strategy in line with the CBN's financial inclusion drive. They have minimum of 5 years industry experience and manage their respective bank's asset class, product and market segmentation, allocation of sectors for financing, management of the bank's various risks, among others.

On the demand side, the individual business owners (R13 – R20) and corporate customers (R21 – R33) of Islamic banks were purposively selected based on their location in the northwest and northeast regions of Nigeria. Also, individuals and corporates who have maintained not less than 2 years relationship with the Islamic banks were purposively selected as respondents. Their nomination is through the snowballing method; through personnel of Islamic banks also constitute a part of the purposively selected respondents. The nominated individual and corporate customers are thus provided with the option to accept or decline to participate in the interview process, which is line with the research self-selection method.

### **5.3 ANALYSIS AND INTERPRETATION**

Sequel to the interviews, data from the respondents were coded, mapped, analysed and interpreted using Atlas.ti 24 software. In answering the four research questions, the respondents' view points from the interview for the individual and corporate customers were organized and streamlined to eight (8) themes. That is, 4 (four) themes each for research objectives 1 and 3. While the view points of the respondents who are bankers

were streamlined into eleven (11) themes. Three (3) themes for research objective 2, and four (4) themes each for research objectives 3 and 4.

Below is a discussion of the result of the interviews arranged into themes. (Note that in the Atlas.ti 24 diagrams below, for example, the code “3:6 p 1 in Individuals Coding” means Document 3: Quotation 3 at page 1 of Individuals coded responses):

### 5.3.1 Insights on Regulatory Approaches or Policies for Financial Inclusion in Nigeria

The Insight on regulatory approaches or policies for financial inclusion in Nigeria, especially the northern states emerged from organizing and streamlining 4 interview questions. These are questions (1a – d) in the individual and corporate customers’ version of the interview question (see Appendixes 1B and 1C) which were coded and analysed using the Atlas.ti 24 software. Figure 5.1 below present network responses and visualizes the result accordingly;

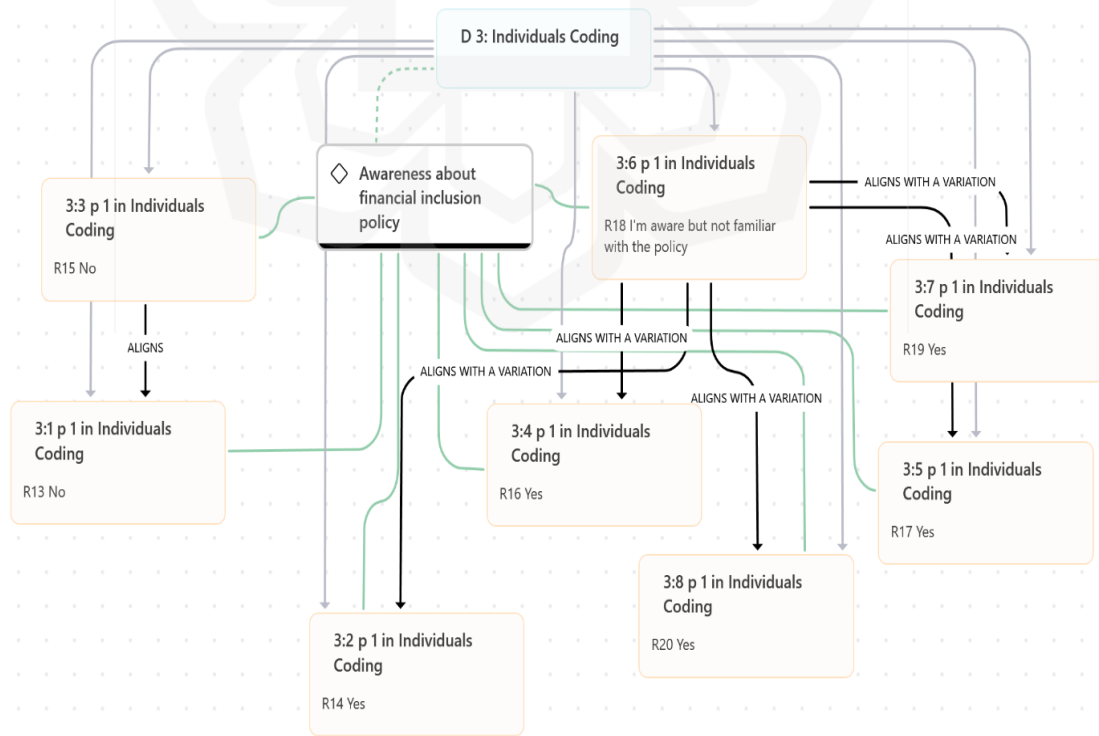


Figure 5.1. Insights on awareness about financial inclusion policy by individual business owner customers

Based on their responses, 6 (i.e., R14, R16 – R20) out of the 8 individual business owner respondents (i.e., 75% of the individual respondents) are aware of the CBN financial inclusion policy, although R18 noted that he is aware of the policy but not familiar with its provisions. Meanwhile, R13 and 15 (i.e., 25% of the individual respondents) indicated that they are not aware of the CBN financial inclusion policy. On the other hand, 8 (i.e., R22 – R25, R27, R29, R30, and R32) out of the 13 corporate customers (i.e., 62% of the corporate respondents) indicated their awareness about the CBN financial inclusion policy, while 5 respondents (i.e., R21, R26, R28, R31 and R33) (38% of the corporate respondents) indicated their lack of awareness about the CBN financial inclusion policy.

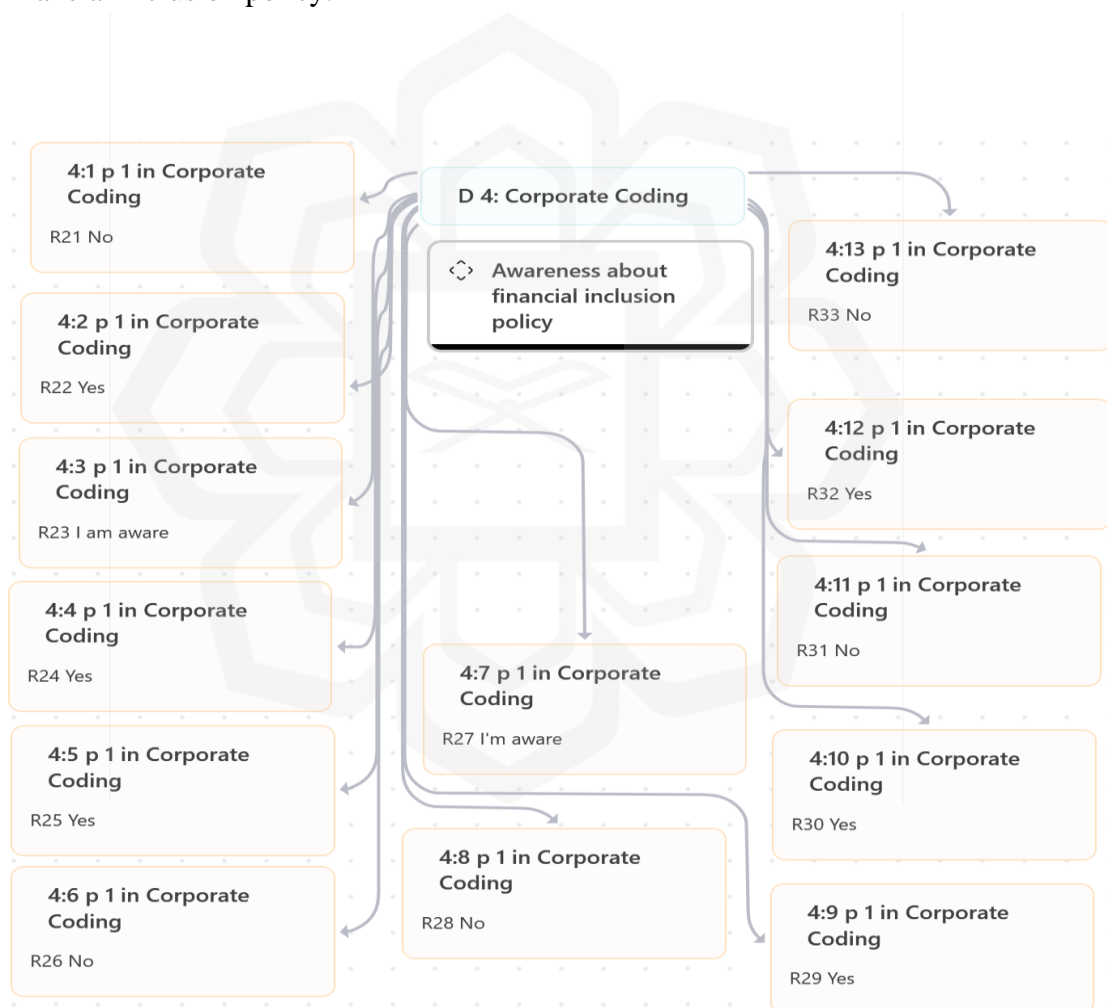


Figure 5.2. Insights on awareness about financial inclusion policy by corporate customers

The individual and corporate customers are totally 21. Considering this, a cumulative tally of their distribution indicates that 67% of the individual and corporate customers are aware of the CBN financial inclusion policy while 33% are not aware of the policy as descriptively represented below;

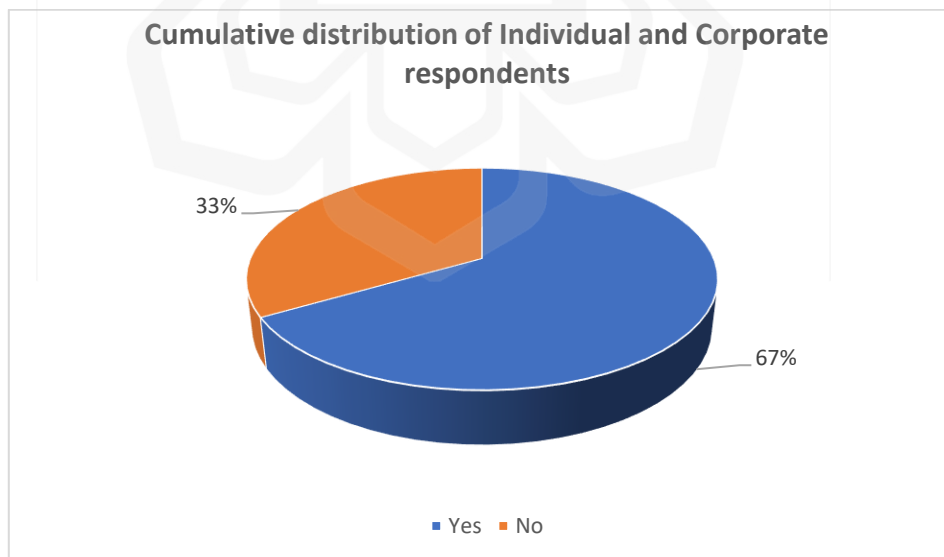
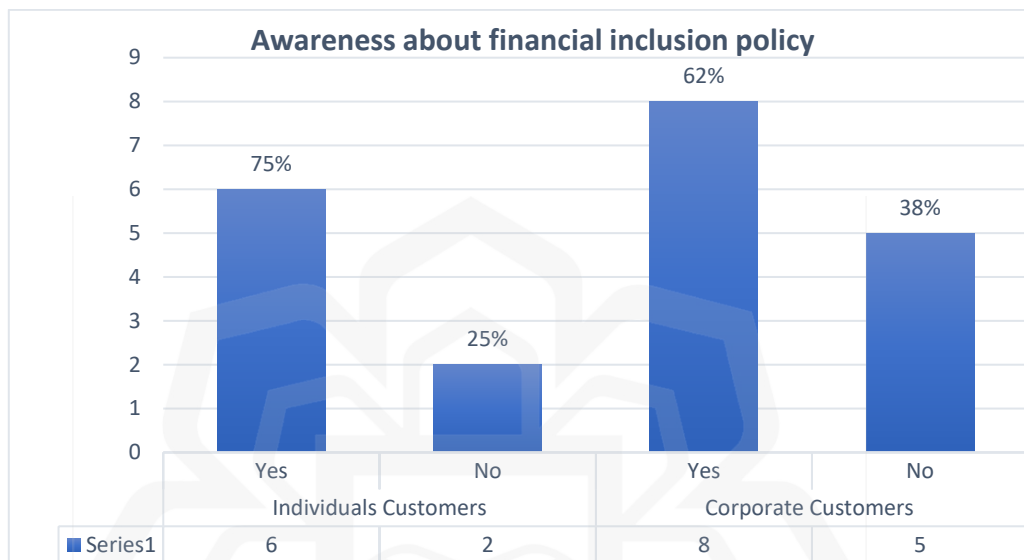


Figure 5.3. Descriptive representation of awareness of Individual & Corporate customers

In relation to the theme on financial inclusion in Nigeria generally and in northern Nigeria specifically, R13 believes that there is dismal financial inclusion in northern Nigeria compared to the rest of the country. R16, R17, R19 and R20 believes that the policy will be useful in helping northern Nigerians become financially included. R14 proceeds to indicate that religiosity a factor militating effective financial inclusion in northern Nigeria when he opined that “Most of the regulations were interest-lending oriented thereby leaving the vast majority of the Northern Muslim excluded from the financial services offered.” His position was supported by R15 who opines that “In Nigeria: where all can easily access finance, in Northern Nigeria (Muslims majority) in need of shari'a compliant finance.”

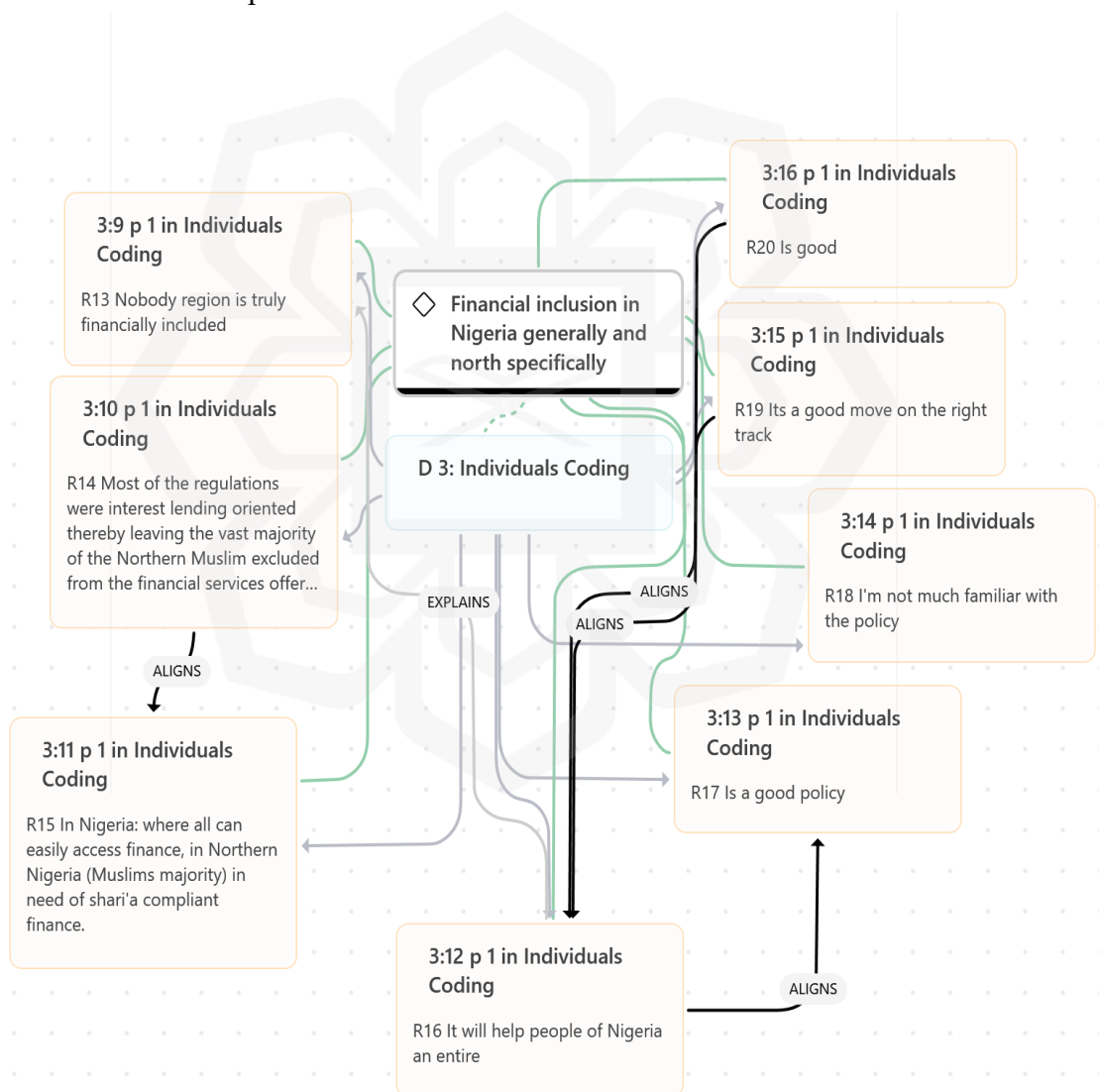


Figure 5.4. Insights on financial inclusion in Nigeria generally and north specifically by individual respondents

The position of R13 on northern Nigeria’s dismal financial inclusion compared to other regions of the country aligns with the findings of (EFInA, 2019, 2021; Ringim, 2014). Likewise, the positions of R14 and R15 on the fact that religiosity is a key factor for dismal financial inclusion in northern Nigeria, accords with (Abiola et al., 2019)’s position that religious reason is a key factor a sizeable population of Nigerians voluntarily exclude themselves from the organised conventional financial services. Same is also the position of (Naceur et al., 2015; Sadiq et al., 2020; Sayed, Mohamed Noureldin, 2019).

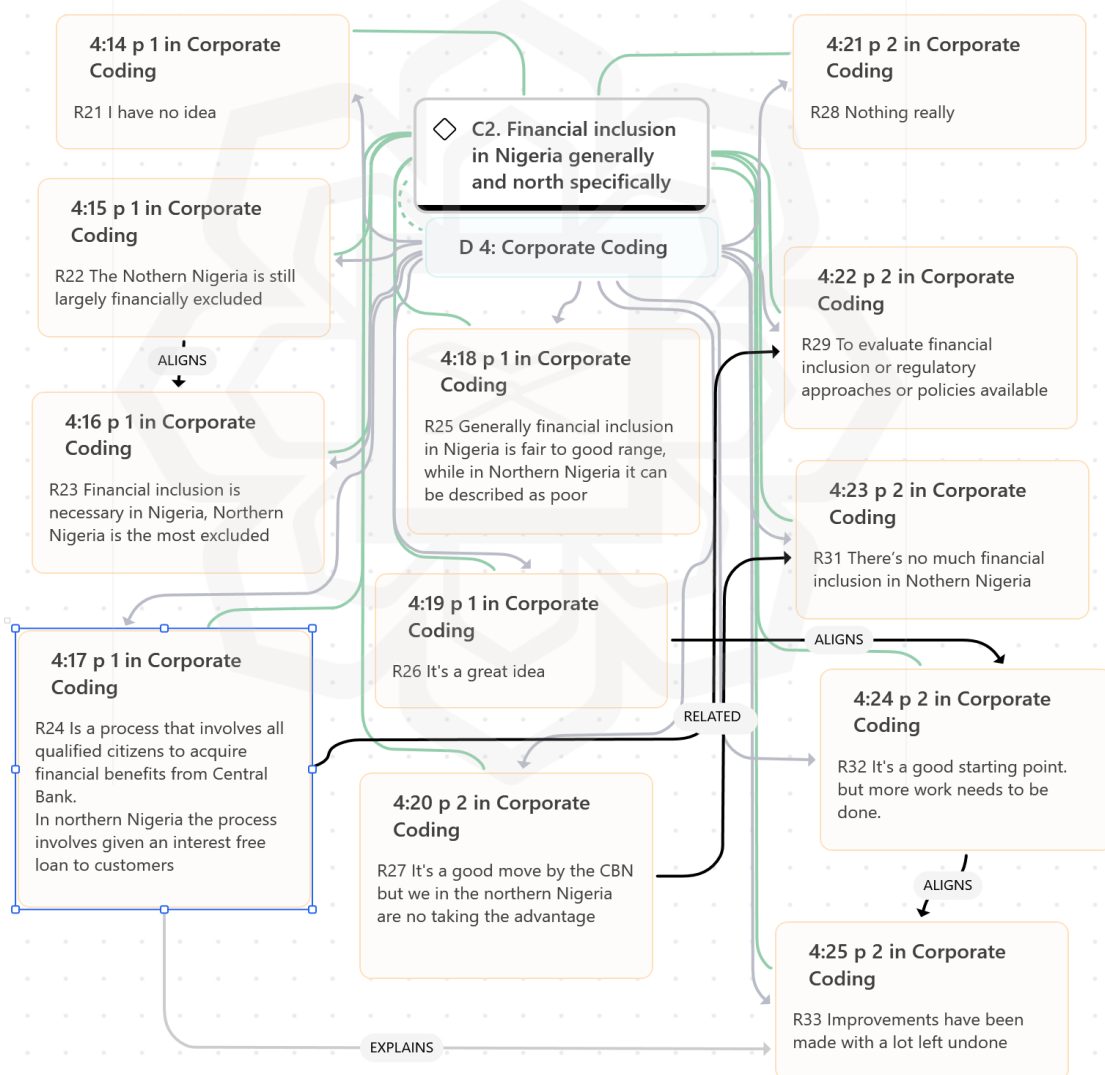


Figure 5.5. Insights on financial inclusion in Nigeria generally and north specifically by corporate respondents

On their thoughts about financial inclusion in Nigeria generally and northern Nigeria specifically, R22, R23, R25, R27 and R31 believes that financial inclusion in northern Nigeria is the least compared to other parts of the country. This aligns with previous findings by (EFInA, 2019, 2021; Ringim, 2014). R32 and R33 opines that more needs to be done to effectively engender financial inclusion in northern Nigeria. In furthering R32 and R33's positions, R29 surmised that what needs to be done is "To evaluate financial inclusion or regulatory approaches or policies available". Further R24 strengthened R29's position when he said financial inclusion "Is a process that involves all qualified citizens to acquire financial benefits from Central Bank. In northern Nigeria the process involves given an interest free loan to customers".

With respect to adequacy of regulations and policies on access to finance for financial inclusion, individual respondents provided differing responses. R13 and R15 believes that CBN as the key regulator of the financial industry has not done enough in the areas of providing regulations and policies on access to finance as a means for financial inclusion. R14 opines that more still needs to be done, while R16 – R20 are of the view that the CBN has done enough.

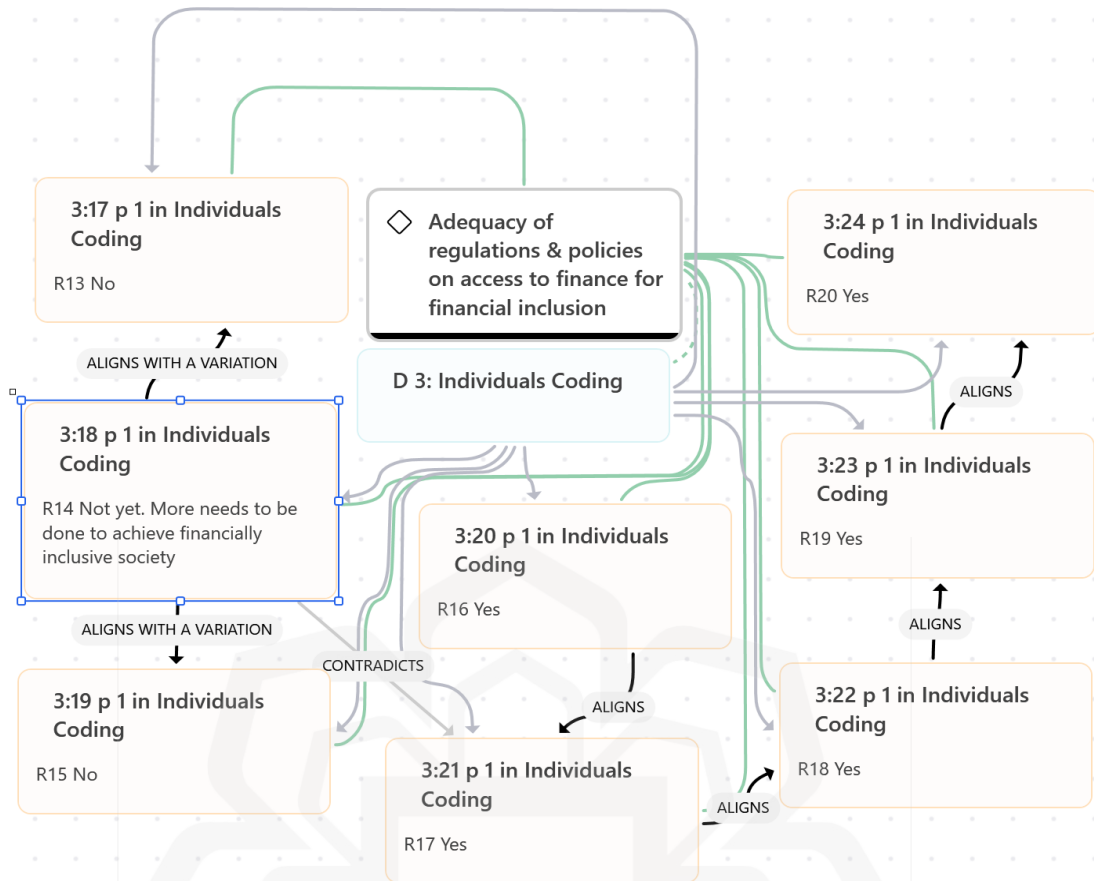


Figure 5.6. Insights on adequacy of regulations & policies on access to finance for financial inclusion by Individual respondents

On the part of the corporate customer respondents, R21, R23, R25, and R28 believes that the regulator has not done enough in providing adequate regulations and policies on access to finance for financial inclusion. R22 and R32 believes that more is still required to be done in that regard. R26 and R33 are neutral, while R24, R29 – R31 are of the view that the regulator has done enough.

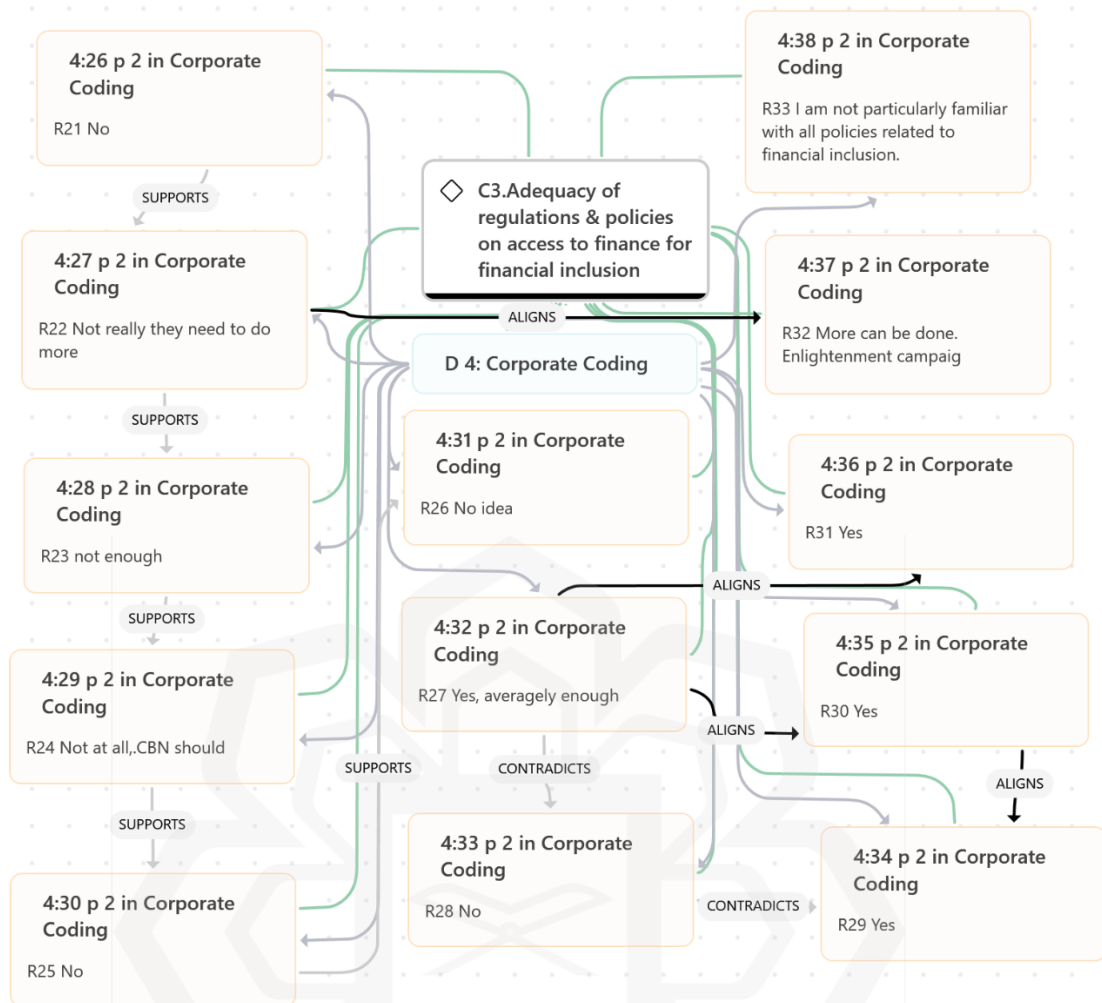


Figure 5.7. Insights on adequacy of regulations & policies on access to finance for financial inclusion by corporate customer respondents

From their responses, 63% of the individual respondents and 38% of corporate respondents believes that the CBN’s financial inclusion policy is adequate. They make up a cumulative total of 48% of the individual and corporate respondents. While 25% and 31% of the individual and corporate respondents respectively believes that the CBN has not done enough to engender adequate financial inclusion regulations and policies. They make up a cumulative of 29% of the both classes of respondents. Another set of respondents; 13% of the individuals and 15% of the corporate respondents respectively believes that more still needs to be done by the CBN. This class makes up a cumulative of 14% of the total individual and corporate customers. While the neutral set of respondents, 0% of individuals and 15% of corporate respondents cumulatively

constitute 10% of both classes of respondents put together. A descriptive representation of the above is provided in figure 15 below.

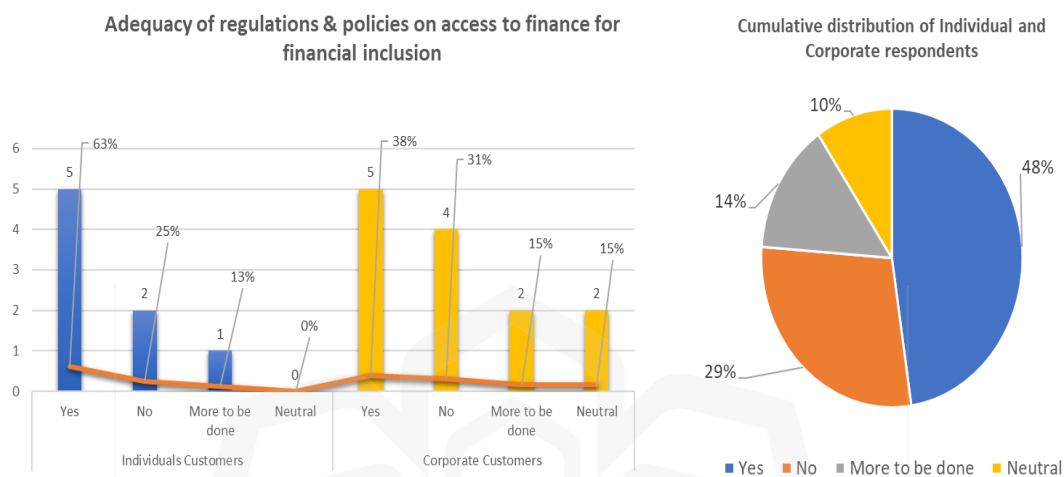


Figure 5.8. Descriptive representation of adequacy of regulation & policies on access to finance for financial inclusion

On the fourth theme; determinants for individuals obtaining bank facility as a means for financial inclusion, the respondents views vary. R16 and R20 were aligned in their call for awareness. While R20 urged general awareness, R16 hinted on the need to engage Islamic scholars in the awareness process. R13, R15, R17 and R19 saw the need for some regulatory actions. R15 specifically noted that there is a need for the “CBN to reduce interest rate and proper supervision of banks, while Islamic bank's should come up with simple products/ services.” To this R14 aligns when he opines that individual would be encouraged to access financing when there is “A more blended non-interest (Islamic) financing products need to be considered”. R18 stands alone in his view that the way to go is “Automate the procedures”.

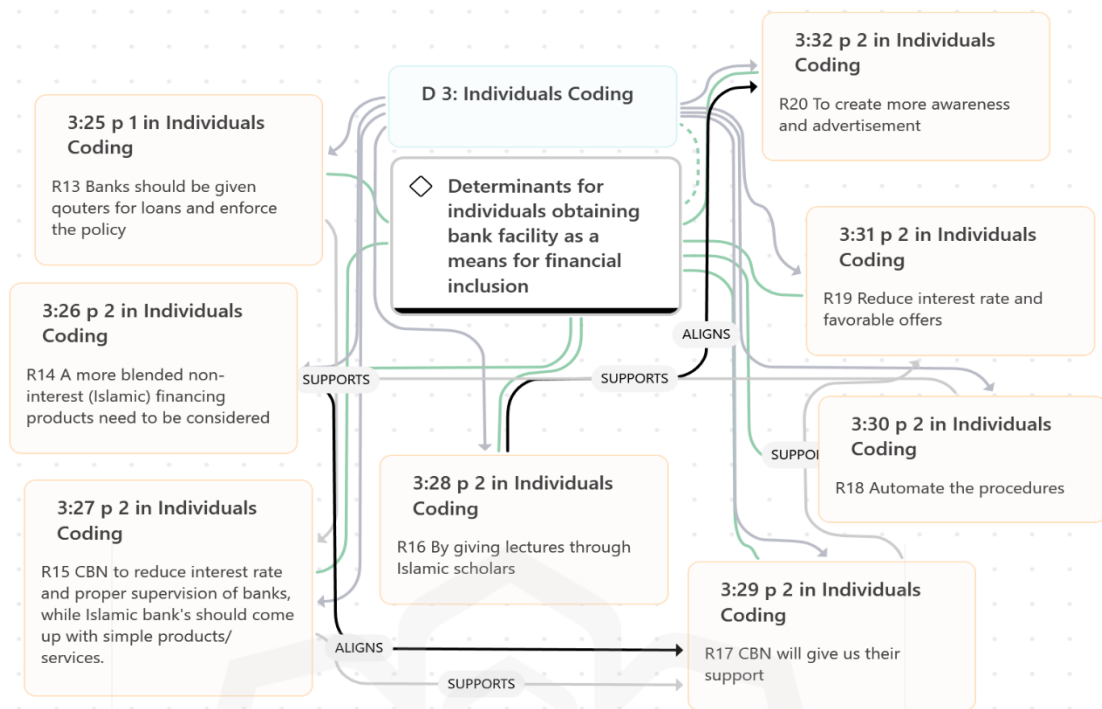


Figure 5.9. Insights on Determinants for individuals obtaining bank facility as a means for financial inclusion

On the fourth theme for corporates; determinants for business entities obtaining bank facility as a means for financial inclusion, R25 and R28 maintained that awareness be created through education and enlightenments. R24 aligns with R25 and R28 on awareness with a further dimension on addressing religiosity factor when he said “The CBN should first make all the facilities and loan as an interest free initiative, and then it should carry the Imams along so that they enlightened people about facility because their is little awareness about facilities being granted”. R23 aligns with R24 on addressing the religiosity factor by saying that the CBN “Should make a policy that is in accordance with their faith (Islam)”. R21 in this regard noted that “CBN Should offer a 0 interest loans for businesses and ensure a very close supervision on the businesses, it should provide a detailed professional guide as per business of interest of Companies or individuals”. R22 on his part proposes innovative Sharī’ah compliant products by banks as the way forward then he said “To encourage more shariah compliant Fintech, encourage Islamic Banks to develop more innovative products”. In aligning with him, R32 opines that the way to go is for the CBN to “Reduce the cost of financing, and partner with Islamic banks and Non-Interest Capital market operators”. Similarly, R30 prescribed “More soft loan to business owners”. R27 and R29 opines that the CBN

embark on regulatory reforms that eases the process of accessing facilities while evaluating the overall financial inclusion strategy. R33 observes the need for the CBN to “Appreciate that Islamic Banks require extra support for growth in relation to joint advocacy projects, possible incentives or non-interest banking banded policies that reduce access requirements by businesses.”

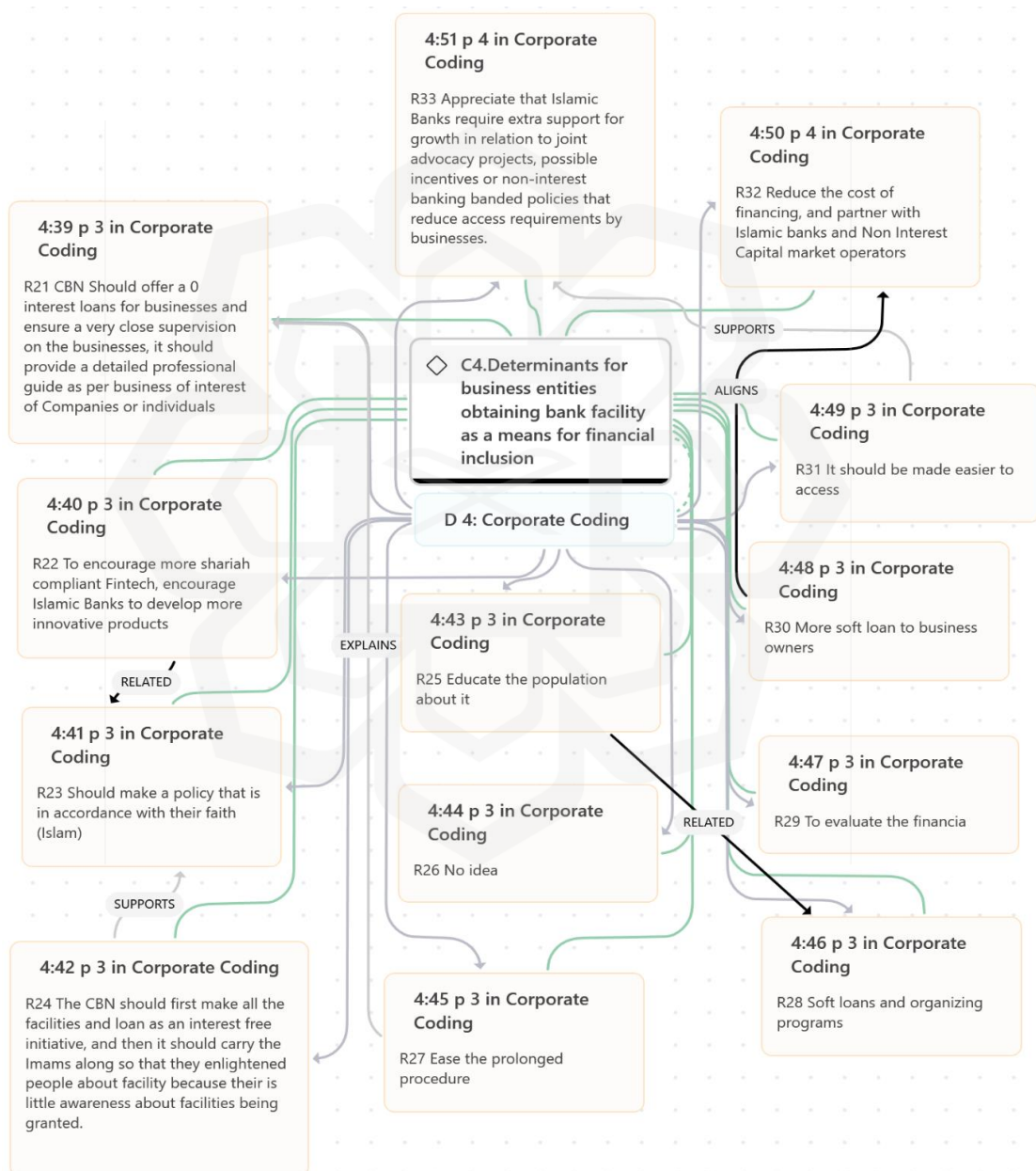


Figure 5.10. Insights on determinants for business entities obtaining bank facility as a means for financial inclusion

### 5.3.2 Insights On Issues in The Practice of Islamic Equity Financing by Islamic Banks in Nigeria

The Insight on the real issues in the practice of Islamic equity financing by Islamic Banks in Nigeria emerged from organizing and streamlining three (3) interview questions. These are questions (1a – c) in the bankers’ version of the interview question (see Appendixes 1A) which were coded and analysed using the Atlas.ti 24 software. The figures below present network responses and visualizes the result accordingly;

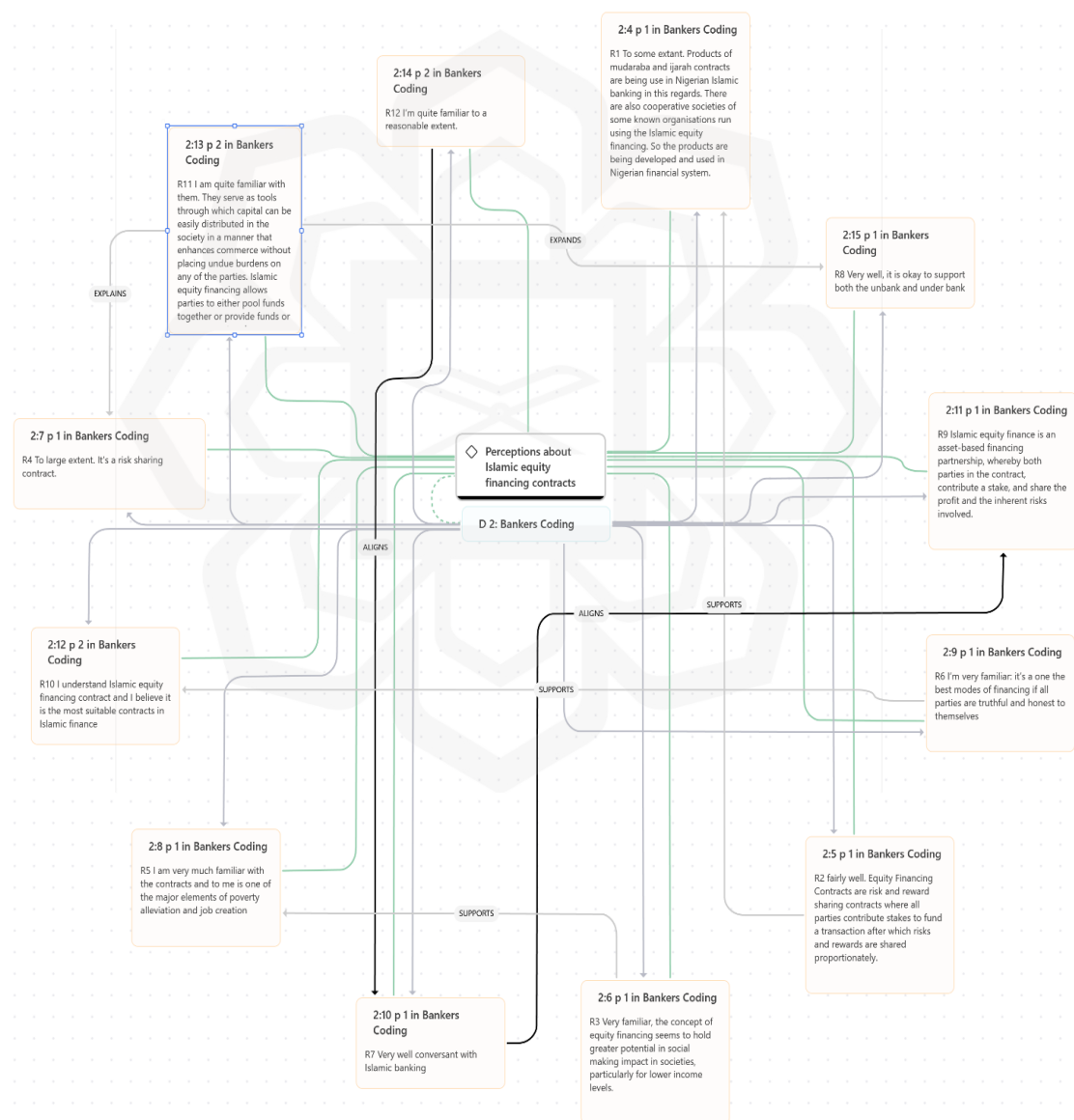


Figure 5.11. Insights on perceptions about Islamic equity financing contracts

The first theme addresses respondent's perceptions about Islamic equity financing contracts. R3, R4, R5, R6, R8, R10 and R11 (i.e., 7 out of 12 (58%)) were positive in their perception about Islamic equity financing contracts. According to R3 "... the concept of equity financing seems to hold greater potential in social making impact in societies, particularly for lower income levels." R5 sees the Islamic equity financing contracts to be "... one of the major elements of poverty alleviation and job creation". R6 notes that "... it's a one the best modes of financing if all parties are truthful and honest to themselves". R8 opines that Islamic equity financing contracts "... support both the unbank and under bank". R10 sees the contracts to be "... the most suitable contracts in Islamic finance", while R11 expands on the above position saying;

"...They serve as tools through which capital can be easily distributed in the society in a manner that enhances commerce without placing undue burdens on any of the parties. Islamic equity financing allows parties to either pool funds together or provide funds or management and entrepreneurial on a particular project in order to share profits according to a pre-agreed ratio."

R1, R2, R7, R9, and R12 (i.e., 5 out of 12 (42%)) are neutral in their responses about their perceptions about Islamic equity financing contracts. Notwithstanding, R1 opines that "... Products of mudaraba and ijarah contracts are being use in Nigerian Islamic banking in this regards. There are also cooperative societies of some known organisations run using the Islamic equity financing. So the products are being developed and used in Nigerian financial system".

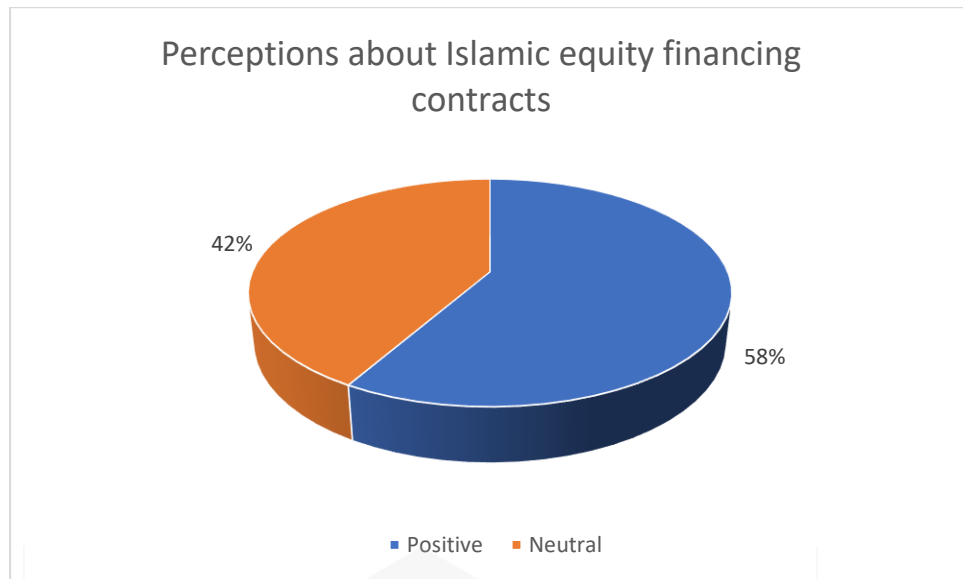


Figure 5.12. Distribution of perceptions about Islamic equity financing contracts

Notably responses of R3, R8 and R11 aligns with the position of (Biancone & Radwan, 2018, 2019). The duo made a case for a socially impacting alternative mode of financing against the background of emerging global economic predicament, exacerbating unemployment and poverty, and shrinking public expenditure.

The second theme addresses the most preferred financing contract in northern Nigeria. The respondents are divided into 3 groups in this respect. Some prefer *Qard*, some favour debt financing contracts, while a majority are for the Islamic equity financing contracts.

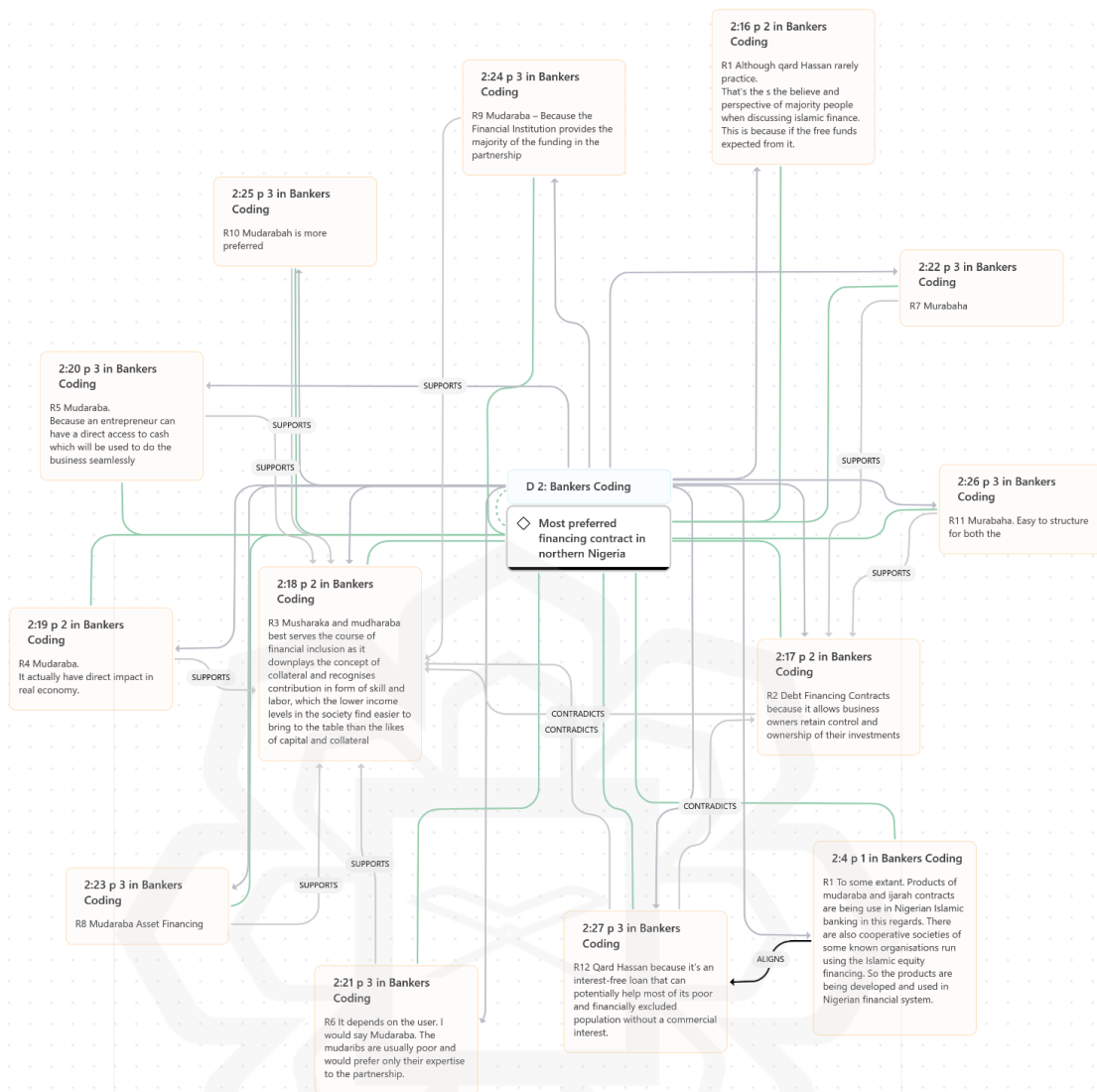


Figure 5.13. Insights on most preferred financing contract in northern Nigeria

R1 and R12 favours the *Qard Hassan* financing option as the most preferred financing contract in northern Nigeria. R1 opines that “Although qard Hassan rarely practice. That's the believe and perspective of majority people when discussing islamic finance. This is because if the free funds expected from it”. On his part, R12 opines that “Qard Hassan because it's an interest-free loan that can potentially help most of its poor and financially excluded population without a commercial interest”. R2, R7 and R11 sees the debt financing contracts to be the most preferred. R11 believes that the debt financing contracts are easy to structure for the banks and the customers. R2 prefers the “Debt Financing Contracts because it allows business owners retain control and ownership of their investments”. R3, R4, R5, R6, R8, R9, and R10 all favour the Islamic

equity financing to be the most preferred financing contracts for individuals and corporates in northern Nigeria. R3 explains that “Musharaka and mudharaba best serves the course of financial inclusion as it downplays the concept of collateral and recognises contribution in form of skill and labor, which the lower income levels in the society find easier to bring to the table than the likes of capital and collateral”. R4 notes that Islamic equity contracts are better, because “...It actually have direct impact in real economy”, while R6 maintains that “It depends on the user. I would say Mudaraba. The mudaribs are usually poor and would prefer only their expertise to the partnership”. When analysed, Figure 19 below discloses that more banker respondents (58%) (i.e., 7 out of 12 respondents) view Islamic equity financing contracts to be most referred set of contracts in northern Nigeria. 25% (i.e., 3 out of 12) of the banker respondents thinks debt financing contracts are most preferred, while 17% (i.e., 2 out of 12 respondents) believes *Qard Hassan* is the most preferred financing contract in northern Nigeria.

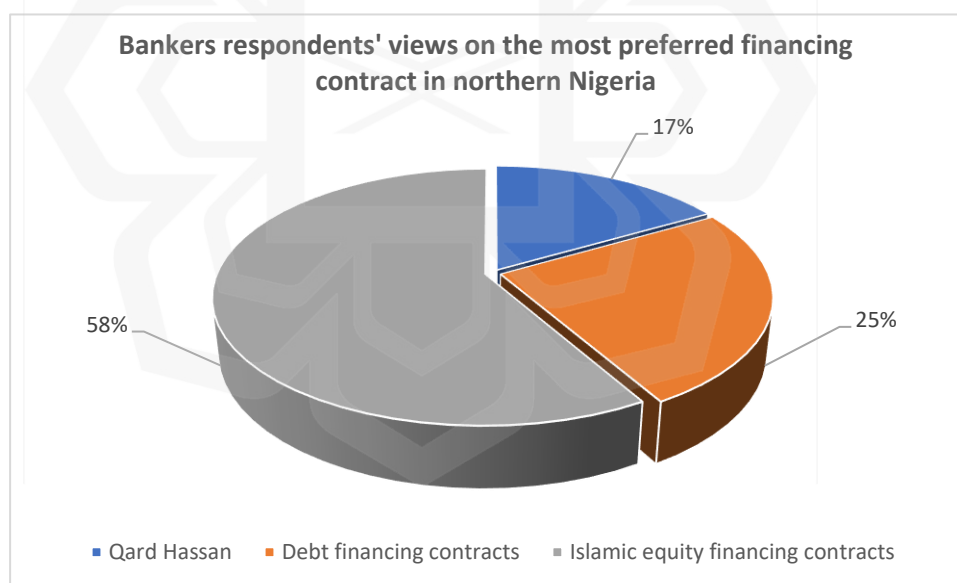


Figure 5.14. Segmentation of Banker respondents on most preferred financing contract in northern Nigeria

R3, R4 and R6 positions tends to align with previous literatures, notably (Ayayi, 2012; Azmat & Ghaffar, 2021b) in their position that deploying Islamic equity financing contract will bring down the cost of accessing financing on the demand side. While on the supply side, it will instil some bit of ownership and entrepreneurial growth support

by the banks. Also their position aligns with that of (Hamid, 2020) in his views that other advantages of Islamic equity financing include being a source of cheaper business start-up cost and that it promotes the spirit of responsible and responsive investment by investors.

The third theme borders on regulatory and policy issues with Islamic equity finance as a financial inclusion tool for northern Nigeria. Figure 5.15 below presents the Atlas.ti 24 analysis of the respondents:

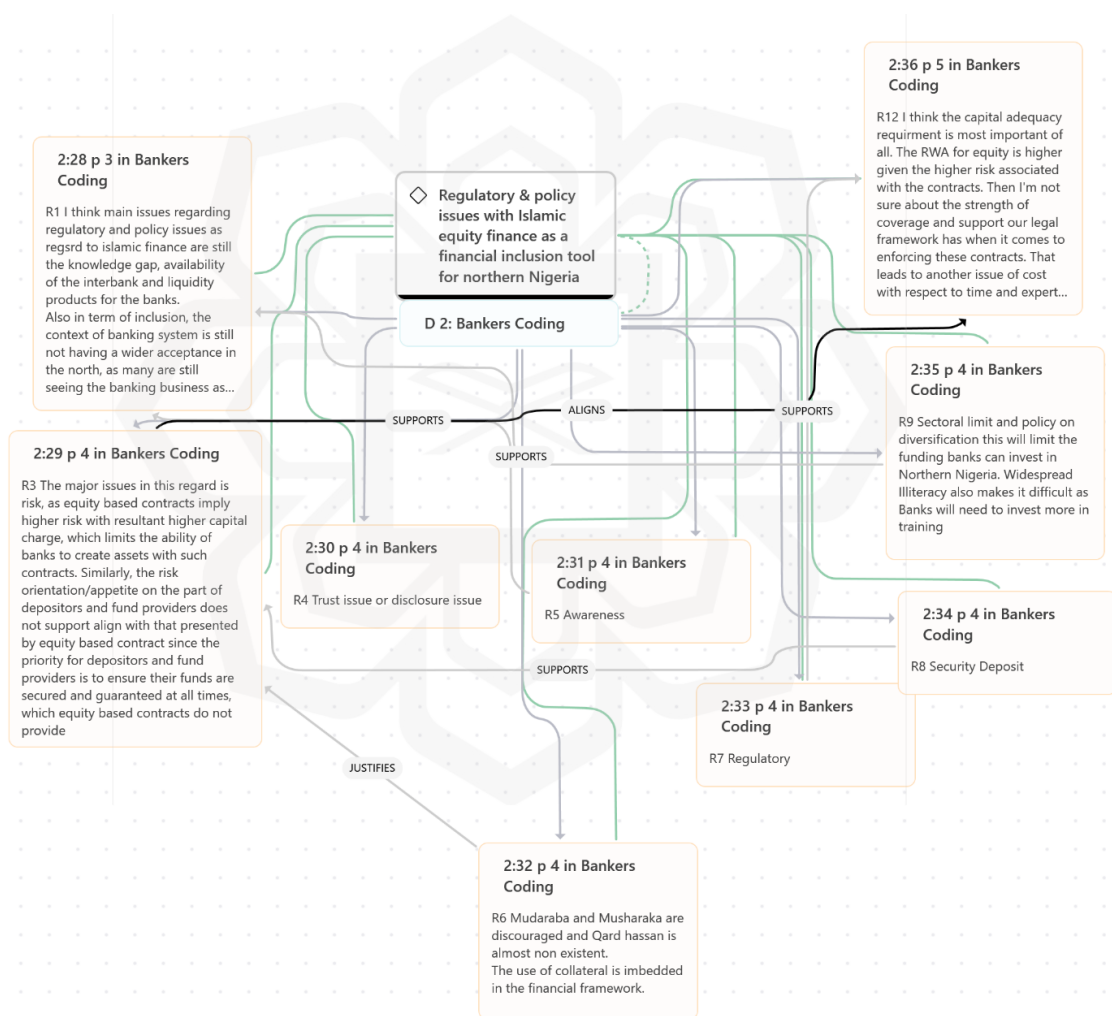


Figure 5.15. Insights on regulatory & policy issues with Islamic equity finance as a financial inclusion tool for northern Nigeria

On this, the respondents provided differing, insightful and interesting responses.

R1 in his response opines that:

“I think main issues regarding regulatory and policy issues as regards to Islamic finance are still the knowledge gap, availability of the interbank and liquidity products for the banks. Also in terms of inclusion, the context of the banking system is still not having a wider acceptance in the north, as many are still seeing the banking business as usury business, even though non-interest banking is facing such challenges. Many are seeing the profit margin by the banks just like the interest of conventional banks”

R5 and R9 align with R1 in the area of awareness. However, R9 further observes that the issues include “Sectoral limit and policy on diversification- this will limit the funding banks can invest in Northern Nigeria. Widespread illiteracy also makes it difficult as banks will need to invest more in training”. R3 opines that, issues constituting challenges include;

“The major issues in this regard is risk, as equity based contracts imply higher risk with resultant higher capital charge, which limits the ability of banks to create assets with such contracts. Similarly, the risk orientation/appetite on the part of depositors and fund providers does not support align with that presented by equity based contract since the priority for depositors and fund providers is to ensure their funds are secured and guaranteed at all times, which equity based contracts do not provide”

R6, on his part, opines that; “Mudaraba and Musharaka are discouraged and Qard Hassan is almost non-existent. The use of collateral is imbedded in the financial framework”. R12’s views highlight issues such as legal impediments, costs and expertise when he said:

“I think the capital adequacy requirement is most important of all. The RWA for equity is higher given the higher risk associated with the contracts. Then I'm not sure about the strength of coverage and support our legal framework has when it comes to enforcing these contracts. That leads to another issue of cost with respect to time and expertise as effective risk sharing contracts are highly customized to nature of business and functions”

The view expressed by R12 and other views seem not too different from the view of (Maikabara, 2019) when he opined that equity mode of financing is more conducive to the realization of objectives of the Shari’ah in financial transactions. He noted that

Islamic banks avoid deploying equity-based financing modes because of issues like; lack of capital guarantee, high risk, and cost of special business skills, information asymmetry, and inadequate consumer awareness about equity financing. He recommended that regulators and responsible authorities should stimulate the adoption of equity-based financing through provision of frameworks, policies and incentives. Similar position like the above is shared by authors like (Mejía et al., 2014; Mohd Ariffin et al., 2015).

### **5.3.3 Insights On the Perception of Selected Stakeholders Towards the Role of Islamic Equity Financing in Improving Financial Inclusion in Northern Nigeria**

The Insight on the perception of selected stakeholders towards the role of Islamic equity financing in improving financial inclusion in northern Nigeria emerged from organizing and streamlining four (4) interview questions. These are questions (2a – d) in the bankers' version of the interview question (see Appendixes 1A) and questions (2a – d) in the individual and corporate customers' version of the interview question (see Appendixes 1B and 1C). The responses were coded and analysed using the Atlas.ti 24 software. The figures below present network responses and visualizes the result accordingly;

The first theme addresses reasons for low financial inclusion in northern Nigeria. Figure 5.16 below presents the analysis of the respondents using the Atlas.ti 24 software.

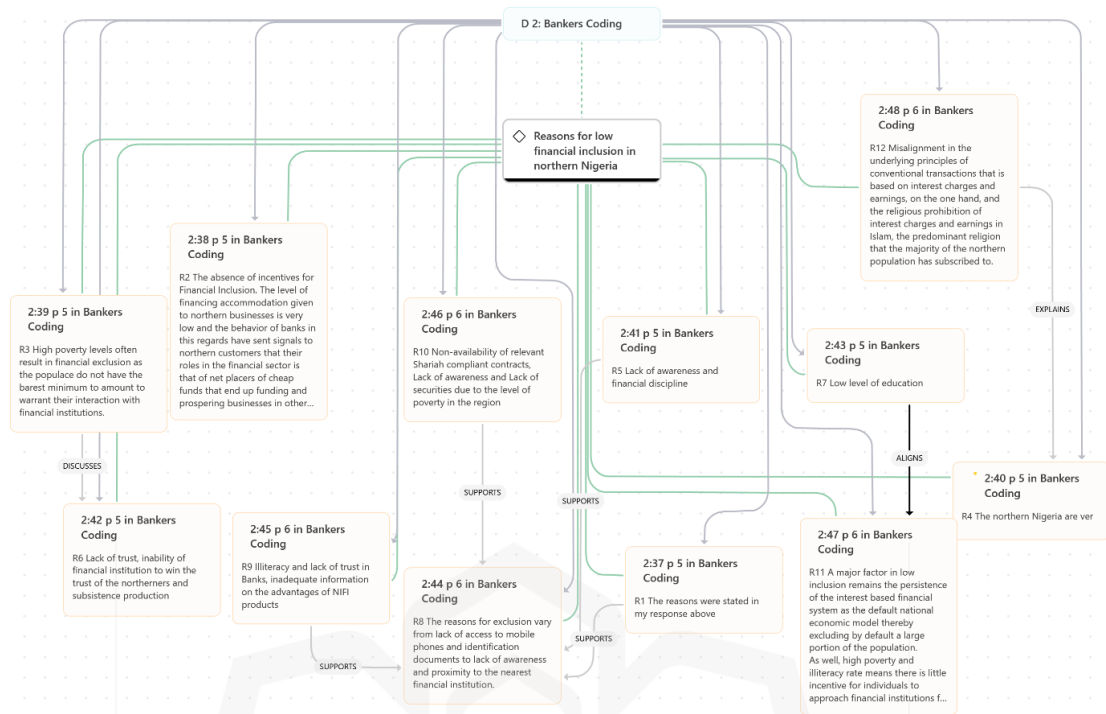


Figure 5.16. Insights on banker responses on reasons for low financial inclusion in northern Nigeria

On this, the respondents identified reasons to include factors like religiosity, awareness, poverty, conservativeness, distrust, among others. R1, R5, R7, R8, R9 and R10 mentioned illiteracy and lack of awareness of part of the factors. R2 believes that there is systematic marginalization of the northern Nigerians by the Nigerian banks;

“The absence of incentives for Financial Inclusion. The level of financing accommodation given to northern businesses is very low and the behavior of banks in this regard have sent signals to northern customers that their roles in the financial sector is that of net placers of cheap funds that end up funding and prospering businesses in other parts of the country”

R3 highlights poverty level as factor; “High poverty levels often result in financial exclusion as the populace do not have the barest minimum to amount to warrant their interaction with financial institutions”. R4 opines that “The northern Nigeria are very Conservative”, while R6 maintains that “Lack of trust, inability of financial institution to win the trust of the northerners and subsistence production”. R8 further adds the “know your customer (KYC)” requirements when he said “The reasons for exclusion vary from lack of access to mobile phones and identification documents

to lack of awareness and proximity to the nearest financial institution”. R9 included the mistrust as a factor in his own response when he said “Illiteracy and lack of trust in Banks, inadequate information on the advantages of NIFI products”. R10 included the religiosity factor in his response when he opines that the reason includes “Non-availability of relevant Shariah-compliant contracts, Lack of awareness and Lack of securities due to the level of poverty in the region”. R11 and R12 equally indicates the religiosity factor in their responses. R11 opines that:

“A major factor in low inclusion remains the persistence of the interest based financial system as the default national economic model thereby excluding by default a large portion of the population. As well, high poverty and illiteracy rate means there is little incentive for individuals to approach financial institutions for their services.”

According to R12, the reasons for low financial inclusion in northern Nigeria include:

“Misalignment in the underlying principles of conventional transactions that is based on interest charges and earnings, on the one hand, and the religious prohibition of interest charges and earnings in Islam, the predominant religion that the majority of the northern population has subscribed to.”

Responses by R1, R10, R11 and R12 strengthens the fact that religiosity is a key factor for dismal financial inclusion in northern Nigeria. It further validates the position of authors such as (Abiola et al., 2019; Naceur et al., 2015; Sadiq et al., 2020; Sayed, Mohamed Noureldin, 2019) who held the view that religious reason is a key factor a sizeable population of Nigerians voluntarily exclude themselves from the organised conventional financial services.

The responses from the individual customer respondents are analysed in Figure 5.17 below using the Atlas.ti 24 software;

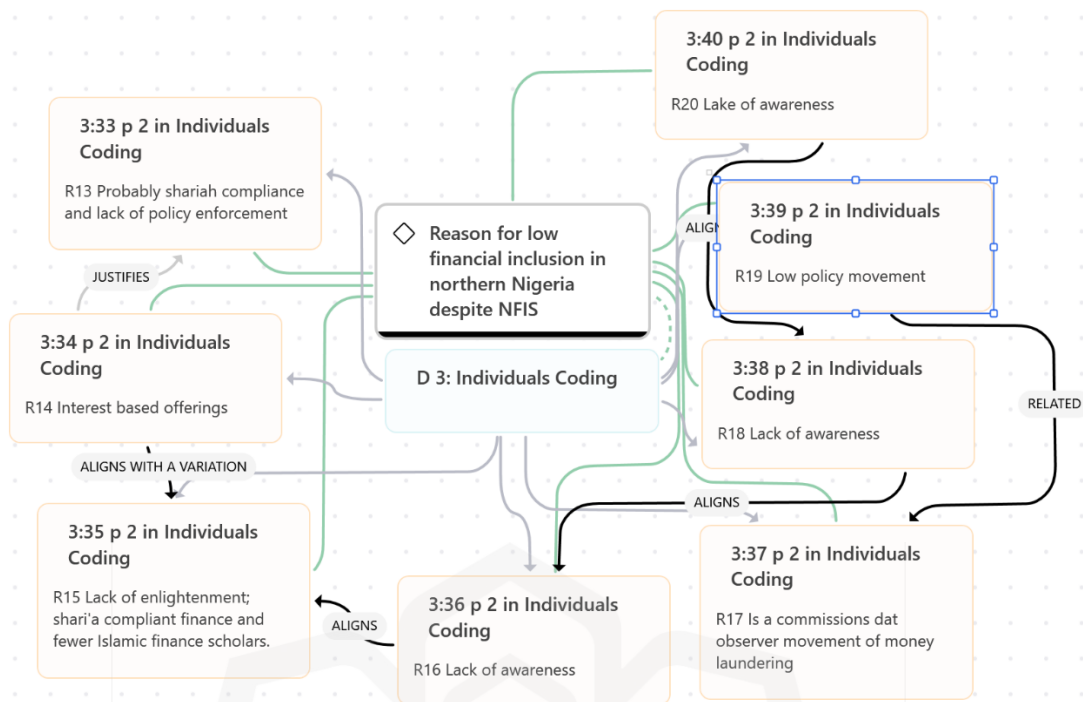


Figure 5.17. Insights on Individuals’ responses on reasons for low financial inclusion in northern Nigeria

In their responses, R16, R18 and R20 opines that lack of awareness is responsible for low financial inclusion in northern Nigeria. R15 aligns with R16, R18 and R20, but with a variation when he said that the reasons are “Lack of enlightenment; Shari’a compliant finance and fewer Islamic finance scholars”. Responses by R13 and R14 aligns with R15 on the fact that Shari’ah compliance of financial products and services is a factor in the low financial inclusion of northern Nigeria. While R19 is alone in his view that “low policy movement” is a factor in low financial inclusion.

The responses from the corporate customer respondents also discloses factors such awareness and literacy, policy issues, and Islamic finance patronage. There responses are analysed in Figure 5.18 below using the Atlas.ti 24 software;

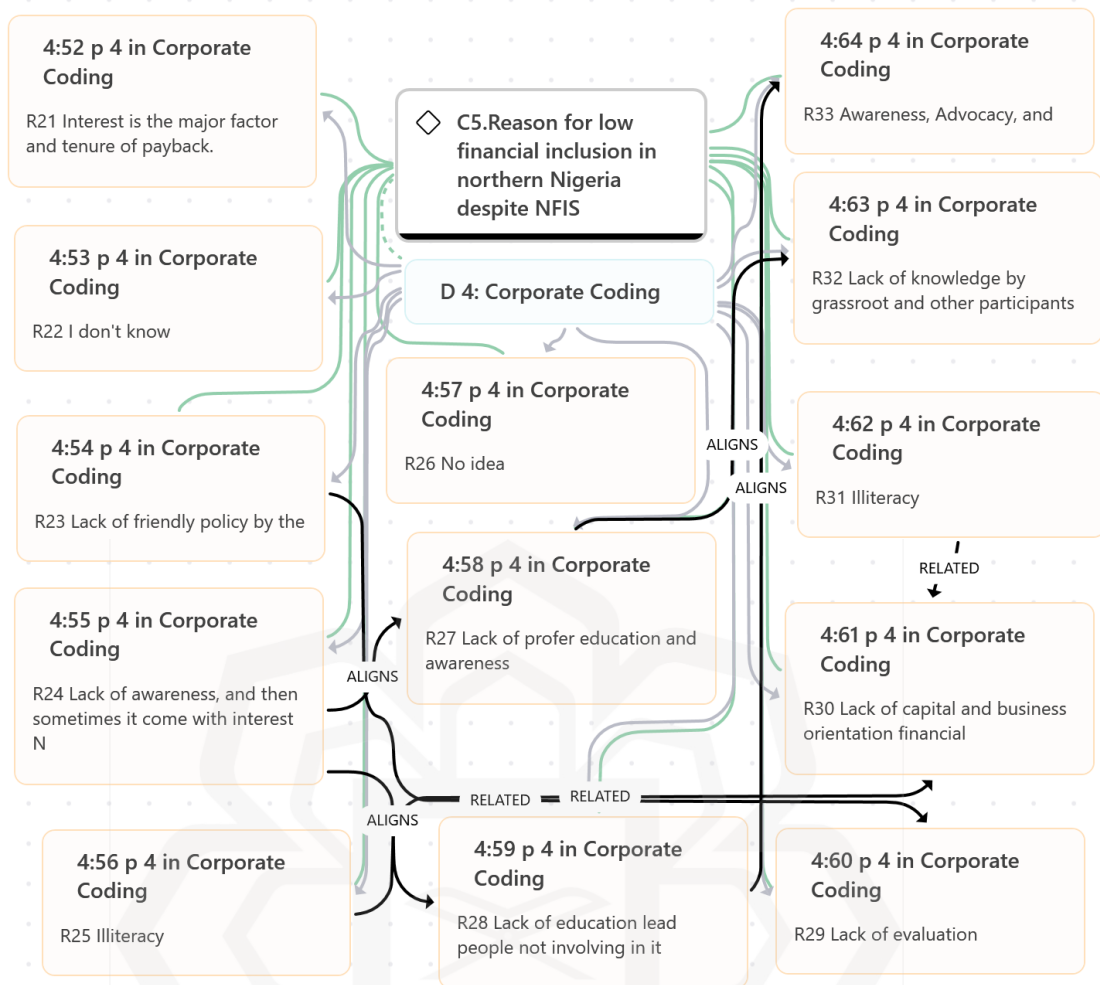


Figure 5.18. Insights on reasons for low financial inclusion in northern Nigeria despite NFIS

From their responses, R24, R25, R27, R28, R30, R31, R32 and R33 all identified financial literacy, education and awareness as a key factor for northern Nigeria posting a successive low financial inclusion over the years. R21 identified Shari’ah compliance product and services as a factor, R23 notes that it is “Lack of friendly policy by the CBN”, while R29 believes it is “Lack of evaluation”.

When aggregated, responses from the bankers, individuals and corporate customer reveal that the three prime reasons for low financial inclusion in northern Nigeria are financial illiteracy and unawareness, religiosity, and regulatory and policy issues as tabulated below;

Table 5.3. Primes reason for low financial inclusion in northern Nigeria despite NFIS

	Religiosity	Regulatory & Policy issues	Financial illiteracy & unawareness	Others
Bankers	5	4	7	5
Individuals	3	2	3	0
Corporates	1	2	8	0
<b>Total</b>	<b>9</b>	<b>8</b>	<b>18</b>	<b>5</b>
	27%	24%	55%	15%

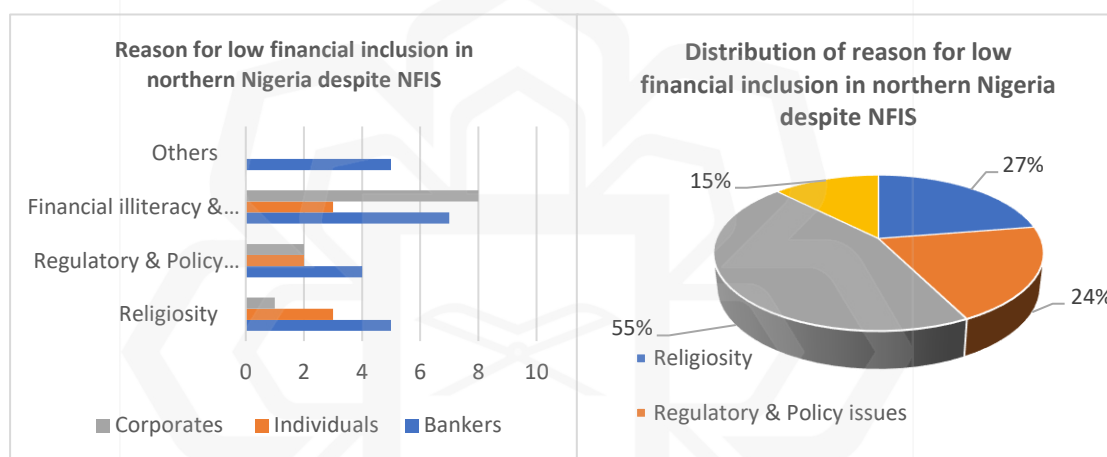


Figure 5.19. Reasons for low financial inclusion in northern Nigeria despite NFIS

The second theme under this heading is peculiar to the bankers' version of the interview questions. It focuses on the need to review national financial inclusion strategy (NFIS) to facilitate financial inclusion in northern Nigeria. Notably, the respondents outline steps such as the risk and reward profile for financial inclusion, more patronage of Islamic finance offerings and the need to align finance with religious belief of the financially excluded groups. Figure 5.20 below presents the coded responses using the Atlas.ti 24 software.

In their responses, R1, R4, R6, and R7 suggest awareness and orientation about Islamic finance and banking offerings as a key strategy for financial inclusion. R1 opines that; "More enlightenment is required for the people to understand the concepts

of the Islamic banking. People need to understand that the banks business oriented, thus are also there to make profit like the conventional but through halal means”. R3 observes that “NFIS need to realize apparent opportunities with the desired risk/reward profile to pursue financial inclusion initiatives”. R5 believes that one of the ways forward is “... to involve the Ulamas in the processes”. R11 wants that “... the NFIS should be reviewed to place more emphasis on Islamic financing approaches to financial inclusion”. While R12 maintains that “... the NFIS needs to review its current provision to include faith-based contracts that would align with the religious convictions of the majority of the financially excluded segment of the population”.

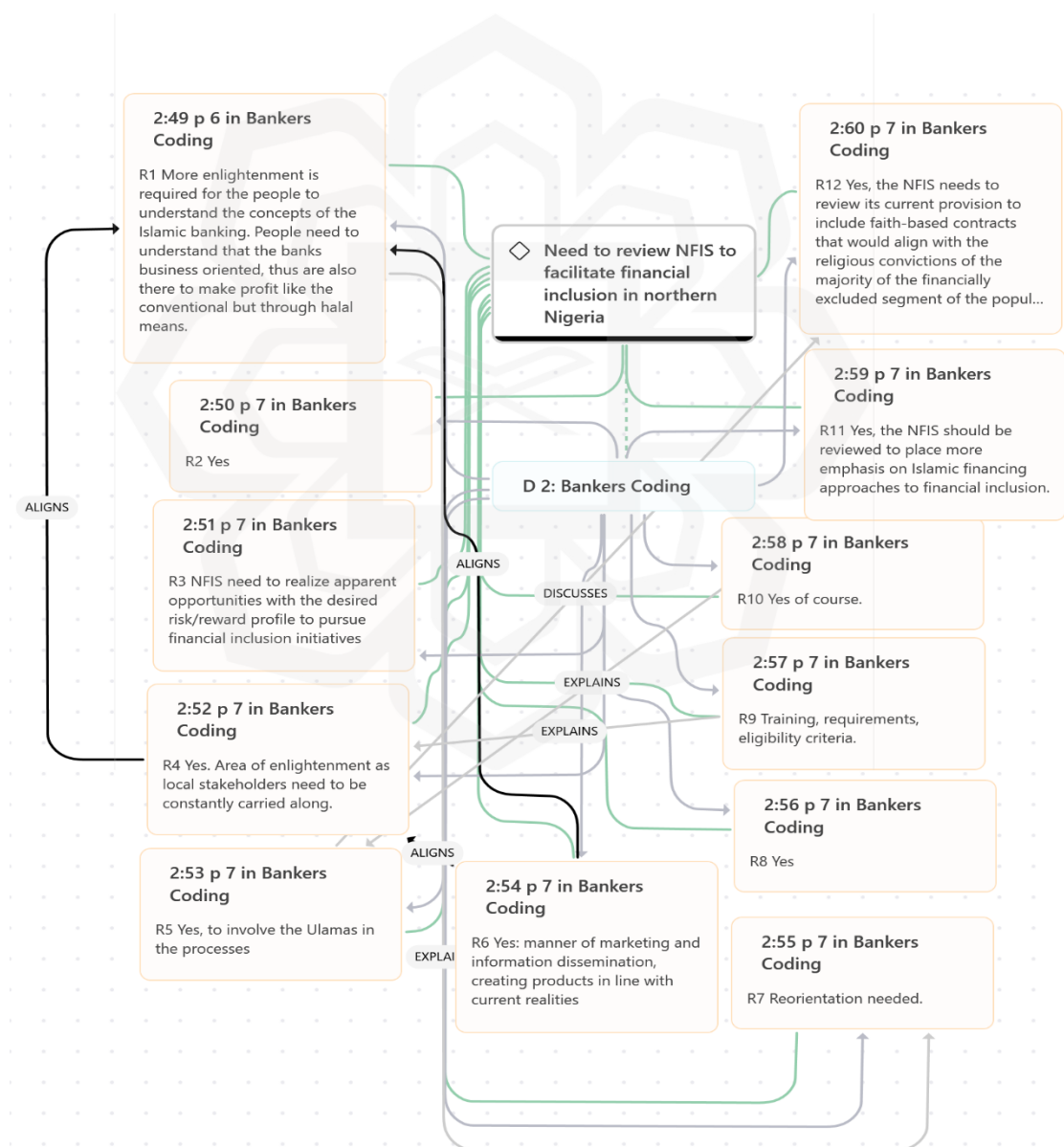


Figure 5.20. Insights on need to review NFIS to facilitate financial inclusion in northern Nigeria



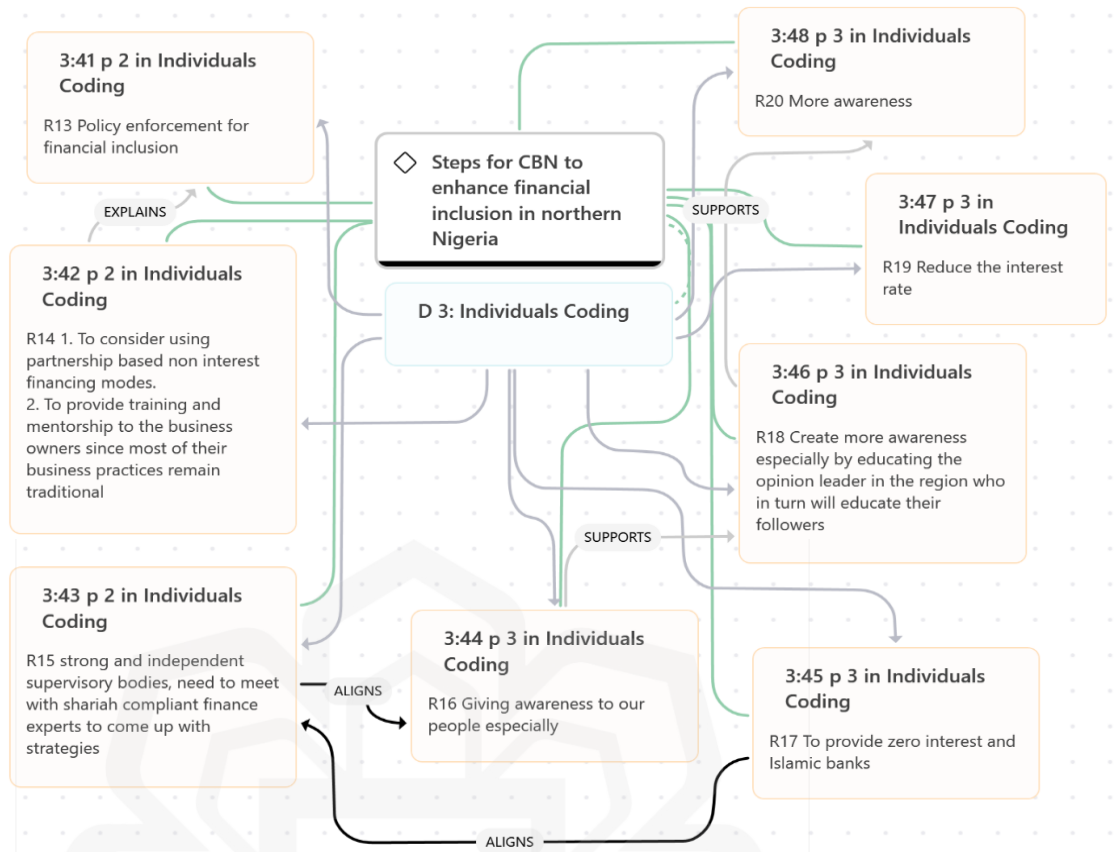


Figure 5.22. Insights on Individuals’ response on steps for CBN to enhance financial inclusion in northern Nigeria

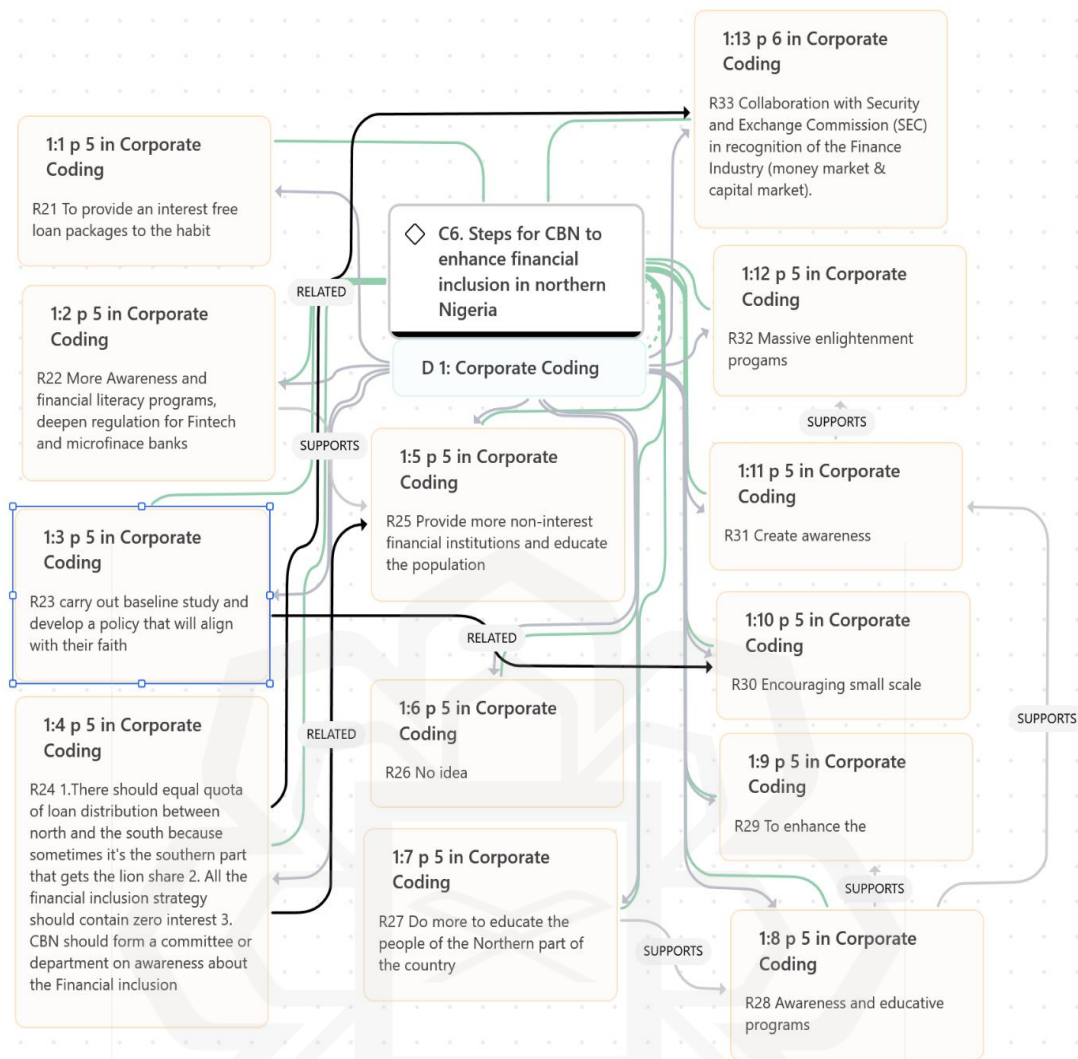


Figure 5.23. Insights on Corporate customers' response on steps for CBN to enhance financial inclusion in northern Nigeria

Considering the responses from the bankers; R1 suggests more products by financial institutions tailored for financial inclusion. R2 suggests incentivization when he said "Make it incentives-based. There is an increasing financial consciousness of the new generation of fast-growing customers and small-scale business owners who want more than transactional banking products". R3 builds on R2's suggestion saying "Regulators need to introduce incentives to entice financial institutions to key into financial inclusion initiatives and perhaps sanctions for financial institutions not seen to be making meaningful steps in driving financial inclusion". R4, R5, R7 and R9 suggest the incorporation of religious scholars in the awareness and financial literacy process. R4 opines that the steps to take is "Awareness at grassroot. Technology penetrative. Sensitization of religious leaders". R5 suggests "Involvement of Ulama and media

campaigns”, while R9 suggests that the regulator “Improve financial literacy education. Improvement in means of information dissemination on financial inclusion. Create a means of ID creation at the point of account opening”. R10 favours capacity building for the would-be beneficiaries when he said “Simplify the procedures for accessing funds/facilities. Invest more in capacity building of the poor before extending any financing”. R6 advocates business friendly atmosphere; “Sincerity in dealing with people. Providing guaranties and enabling environment for business”. R8, R11 and R12 advocate a number of steps the regulators can take to enhance financial inclusion in northern Nigeria. R8 outlines as follows;

1. Foster a diversity of financial institutions,
2. Facilitate the use of innovative technologies and entry of technology-driven, non-traditional institutions,
3. Expand agent-based banking and other cost-effective delivery channels,
4. Invest in supervision and leverage technology to optimize limited resources,
5. Implement risk-based, tiered AML/CFT requirements,
6. Encourage the development of low-cost, innovative financial products,
7. Strengthen financial infrastructure,
8. Protect consumers by establishing rules for disclosure, fair treatment, and recourse.

R11 on his part advises advocacy by Islamic financial institutions and regulatory support for a level playground thus;

“Islamic finance products and tools need to be made more prominent and strengthened to allow more people embrace the services of financial institutions. Likewise, Islamic finance institutions need to be encouraged to engage in advocacy, education and more retail and MSME financing services to capture a greater number of people. The regulator must be intentional in providing level plain ground for both the conventional and the NFIS”.

R12 suggests the identification and mapping of stakeholders and then regulatory and supervisory adjustments;

“Stakeholder identification, mapping and engagement are a crucial starting point for understanding the extent of financial exclusion, its underlying factors, and probable remedies. Then, establish an entity to design a plan to be reviewed (regulatory and supervisory entities) in line with the nation's macroeconomic objectives, and follow through with its execution”

Responses from the individual respondents in Figure 5.22 above reveal that R13 canvases “Policy enforcement for financial inclusion”. R14 advises regulatory promotion of Islamic equity financing and capacity building when he advises the regulators “1. To consider using partnership based non interest financing modes. 2. To provide training and mentorship to the business owners since most of their business practices remain traditional”. R15 proposes “strong and independent supervisory bodies, need to meet with shariah compliant finance experts to come up with strategies”. R16 advises that “Giving awareness to our people especially during Juma’at prayer” is the way to go. Similarly, R18 holds the view that regulators “Create more awareness especially by educating the opinion leader in the region who in turn will educate their followers”. R20 aligns with R16 and R18 on the need for more awareness. R17 believes that the step is “To provide zero interest and Islamic banks facility”. While R19 opines that the steps to be taken the regulator is to “Reduce the interest rate”.

Responses from the corporate customer respondents in Figure 5.23 above shows that R21 canvases that “To provide an interest free loan packages to the habitants”. R22, R24, R25, R27, R29 and R29 all route for awareness in addition to other suggestions. R22 opines that “More Awareness and financial literacy programs, deepen regulation for Fintech and microfinance banks” are steps for the regulators. R25 surmises that the steps are to “Provide more non-interest financial institutions and educate the population”. R27 notes that the regulators need to “Do more to educate the people of the Northern part of the country”. R24 suggests that

1. There should equal quota of loan distribution between north and the south because sometimes it's the southern part that gets the lion share
2. All the financial inclusion strategy should contain zero interest
3. CBN should form a committee or department on awareness about the Financial inclusion.

R23 suggests that the regulator “carry out baseline study and develop a policy that will align with their faith”. R30 proposes empowerment through “Encouraging small scale businesses”. While R33 recommends a multi-sector collaboration by the CBN “Collaboration with Security and Exchange Commission (SEC) in recognition of the Finance Industry (money market & capital market)”.

The fourth theme in the bankers’ version of the interview questions is the third in the individual and corporate customer version of the interview questions. This theme

bothers on the suitability of Islamic equity financing contracts for businesses (individual or corporate) and the regulatory patronage for it. Figures 5.24, 5.25, and 5.26 below presents the coded responses using the Atlas.ti 24 software;

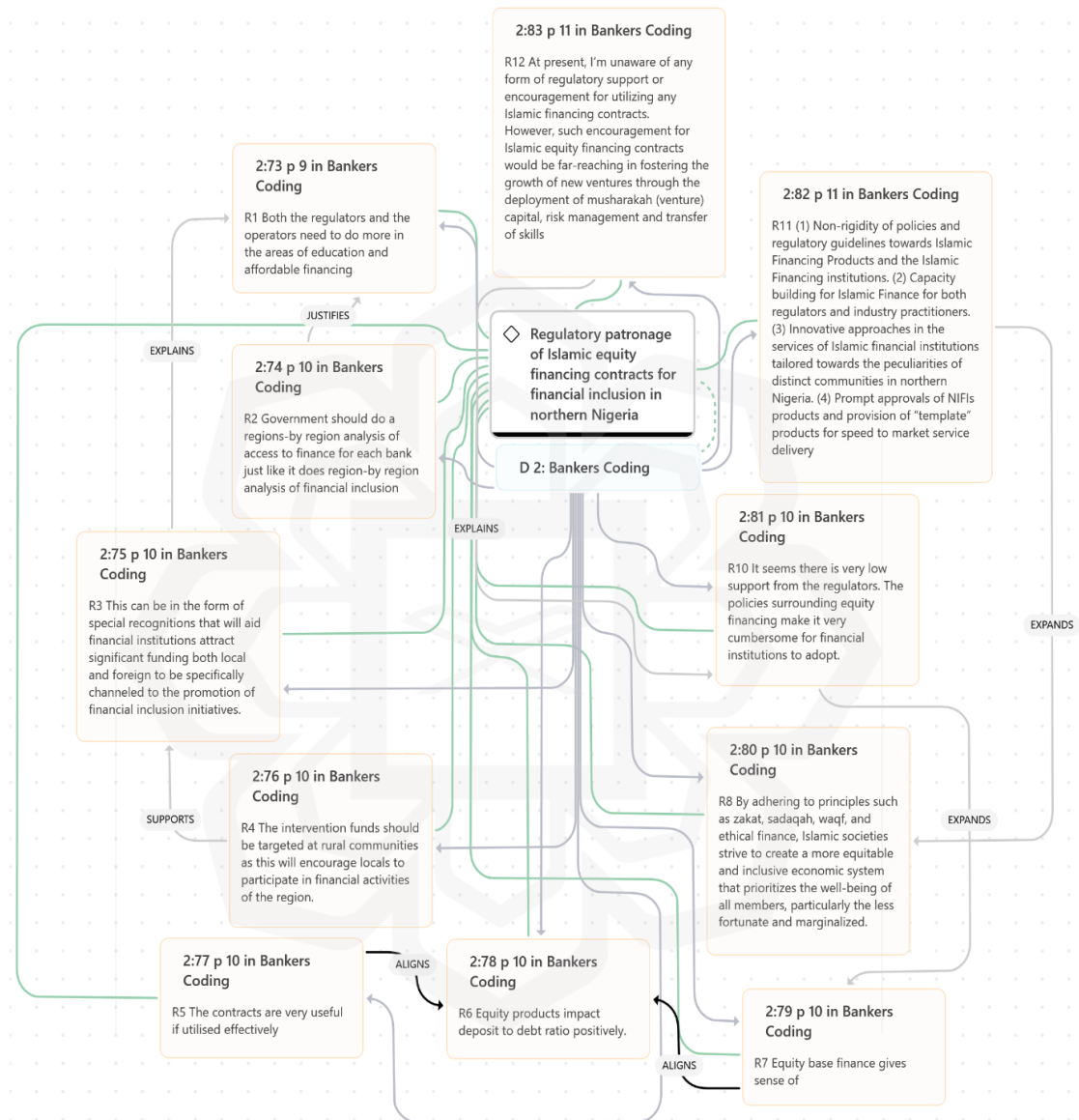


Figure 5.24. Insights on regulatory patronage of Islamic equity financing contracts for financial inclusion in northern Nigeria

In the responses, R1 advises that “Both the regulators and the operators need to do more in the areas of education and affordable financing”. R2 canvasses for a bank focused assessment on contribution to financial inclusion, in his words, “Government should do a regions-by- region analysis of access to finance for each bank just like it

does region-by-region analysis of financial inclusion”. R3 routes for regulatory support for “This can be in the form of special recognitions that will aid financial institutions attract significant funding both local and foreign to be specifically channelled to the promotion of financial inclusion initiatives”. R4 surmises that “The intervention funds should be targeted at rural communities as this will encourage locals to participate in financial activities of the region”. R5 views is that the Islamic equity financing “... contracts are very useful if utilised effectively”. R6 noted that “Equity products impact deposit to debt ratio positively”. R7 approaches it from the investor perspective when he said; “Equity base finance gives sense of belonging and ownership right”. R10 expresses his concerns that “It seems there is very low support from the regulators. The policies surrounding equity financing make it very cumbersome for financial institutions to adopt”. R11 opines as follows;

“(1) Non-rigidity of policies and regulatory guidelines towards Islamic Financing Products and the Islamic Financing institutions. (2) Capacity building for Islamic Finance for both regulators and industry practitioners. (3) Innovative approaches in the services of Islamic financial institutions tailored towards the peculiarities of distinct communities in northern Nigeria. (4) Prompt approvals of NIFIs products and provision of “template” products for speed to market service delivery”

R12 shares his view on the regulatory patronage saying;

“At present, I’m unaware of any form of regulatory support or encouragement for utilizing any Islamic financing contracts. However, such encouragement for Islamic equity financing contracts would be far-reaching in fostering the growth of new ventures through the deployment of musharakah (venture) capital, risk management and transfer of skills”.

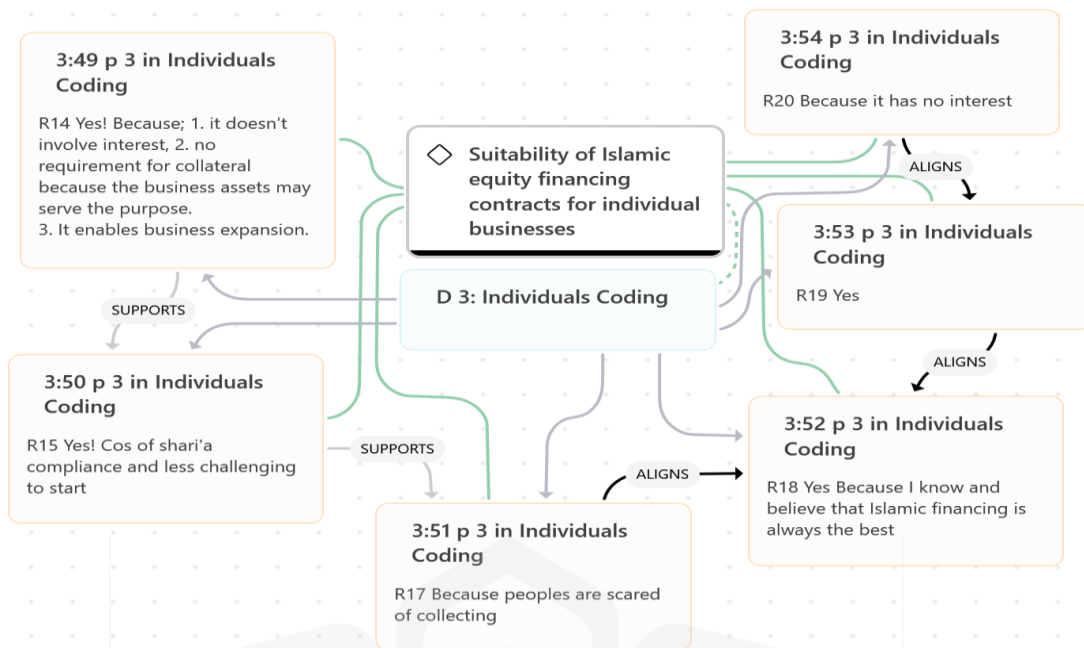


Figure 5.25. Insights on suitability of Islamic equity financing contracts for individual businesses

The Individual responses were unanimous on the suitability of Islamic equity financing contracts for businesses. Additional comments on their suitability according to R14 is that “1. it doesn't involve interest, 2. no requirement for collateral because the business assets may serve the purpose.3. It enables business expansion.” R15 stated that their suitability is because of “... shari'a compliance and less challenging to start”. R17 opines that “Because peoples are scared of collecting interest loan”. R18 says “...Because I know and believe that Islamic financing is always the best”. While R20 said its “Because it has no interest”.

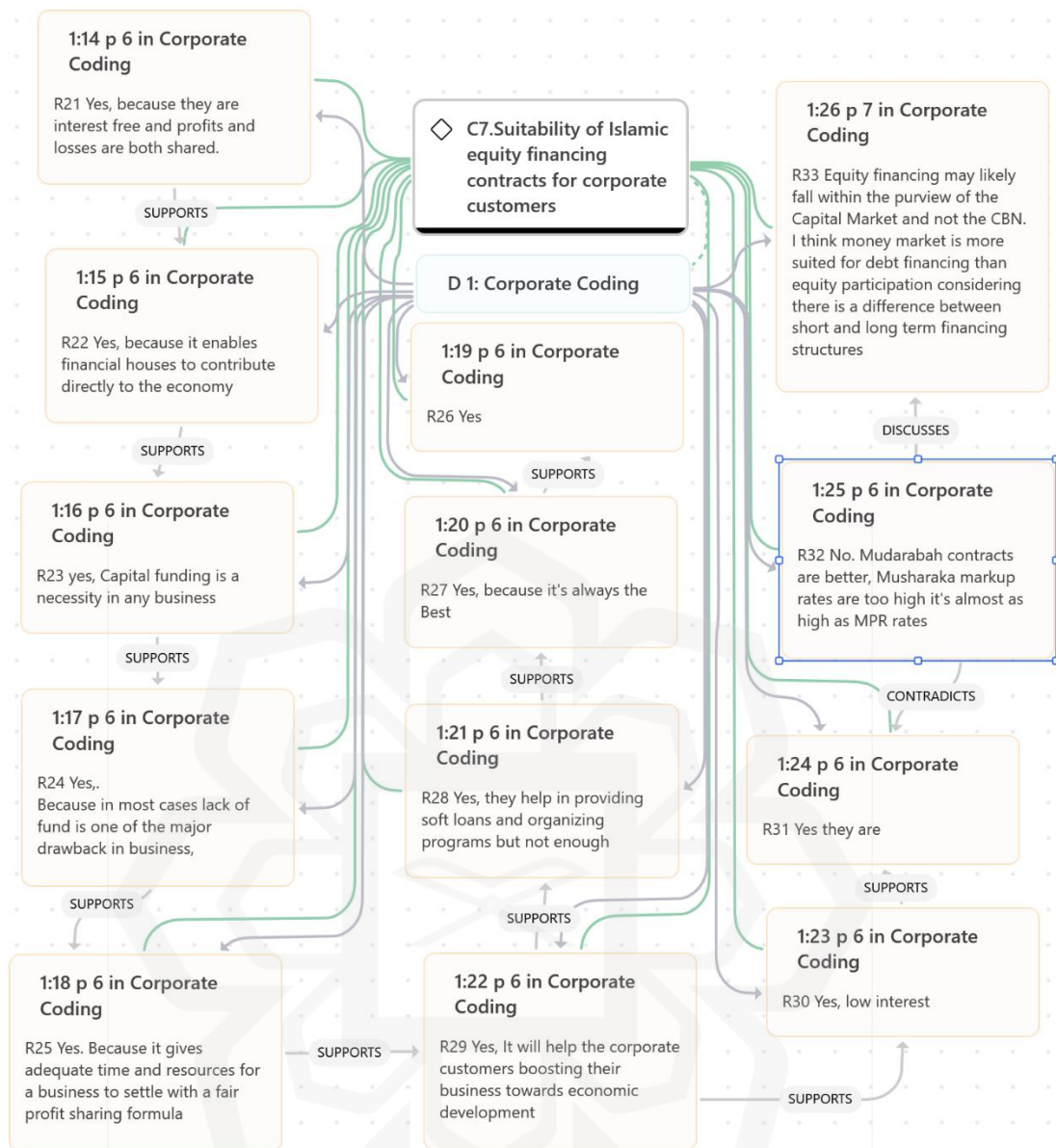


Figure 5.26. Insights on suitability of Islamic equity financing contracts for corporate customers

Almost all of the corporate respondents too indicated that Islamic equity financing contracts are the most suitable for businesses. R21 opines that “Yes, because they are interest free and profits and losses are both shared”. R22 endorses the contract “Yes, because it enables financial houses to contribute directly to the economy”. R23 states that “yes, Capital funding is a necessity in any business”. R24 notes that ““Yes, Because in most cases lack of fund is one of the major drawback in business”. R25 opines that “Yes. Because it gives adequate time and resources for a business to settle with a fair profit sharing formula”. R28 is of the view that “Yes, they help in providing

soft loans and organizing programs but not enough”. R29 also notes that “Yes, It will help the corporate customers boosting their business towards economic development”. R30 and R31 also shares positive view of Islamic equity financing as the most suitable for businesses. However, R32 notes that “No. Mudarabah contracts are better, Musharaka markup rates are too high it's almost as high as MPR rates”, while R33 speaks in favour of exploring capital market option, saying “Equity financing may likely fall within the purview of the Capital Market and not the CBN. I think money market is more suited for debt financing than equity participation considering there is a difference between short and long term financing structures”.

The fifth theme is peculiar to the individual and corporate customer version of the interview questions. This theme bothers on the regulatory and policy adjustments on Islamic financing contracts for financial inclusion in northern Nigeria. Figures 5.27, and 5.28 below presents the coded responses using the Atlas.ti 24 software;

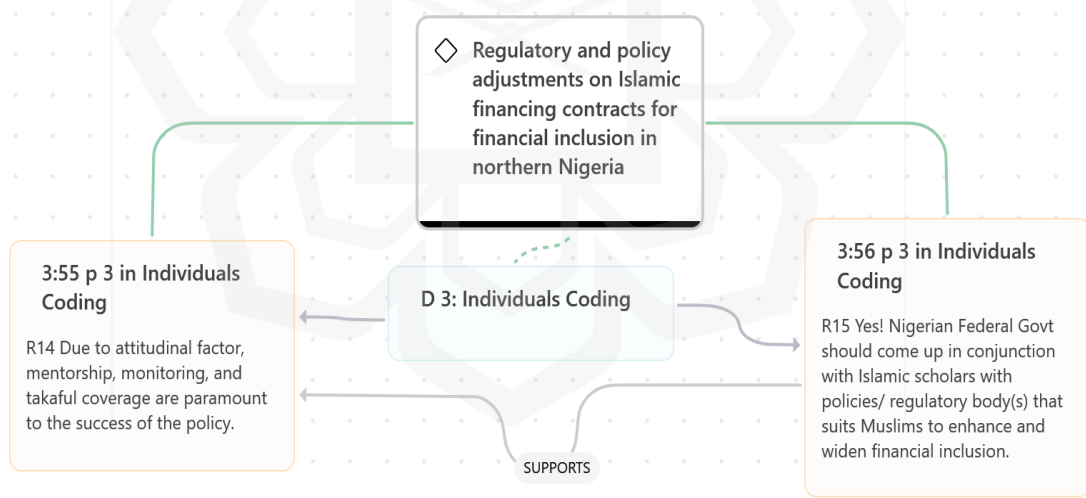


Figure 5.27. Insights on regulatory and policy adjustments on Islamic financing contracts for financial inclusion in northern Nigeria

Responses on this theme were provided by just 2 individual respondents; R14 and R15. R14 hinted at attitude, mentoring, monitoring and Takaful as further regulatory and policy adjustments that will further financial inclusion in northern Nigeria, in his words, “Due to attitudinal factor, mentorship, monitoring, and takaful

coverage are paramount to the success of the policy”. R15 on his part dwells on religiosity as a factor that must be addressed for effective financial inclusion in northern Nigeria. He says “Yes! Nigerian Federal Govt should come up in conjunction with Islamic scholars with policies/ regulatory body(s) that suits Muslims to enhance and widen financial inclusion”.

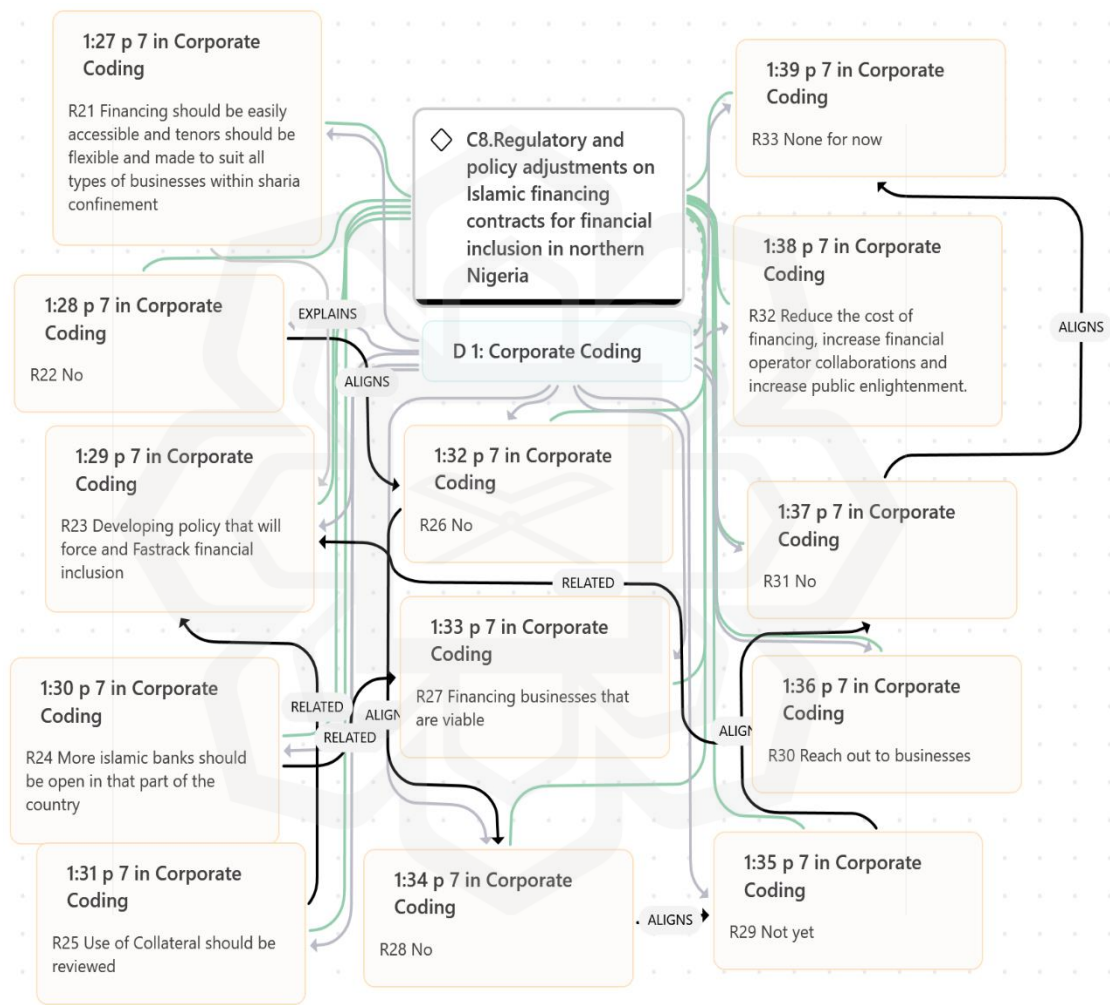


Figure 5.28. Insights on regulatory and policy adjustments on Islamic financing contracts for financial inclusion in northern Nigeria

The corporate respondents provide differing perspectives. R21 speaks about accessible, *Shari’ah* compliant and flexible tenure, saying “Financing should be easily accessible and tenors should be flexible and made to suit all types of businesses within sharia confinement”. R23 speaks in favour of tailor-made policies; “Developing policy

that will force and Fastrack financial inclusion”. R24 believes that “More Islamic banks should be open in that part of the country”. R25 is of the view that “Use of Collateral should be reviewed”. R30 wants that businesses should be reached out to by the regulators, while R27 believes that only viable businesses should get the benefit of been financed through Islamic equity contracts. Finally, R32 insists on cheap access to finance, in addition to sufficient awareness as the necessary regulatory and policy adjustments that has to be made to engender effective financial inclusion in northern Nigeria; “Reduce the cost of financing, increase financial operator collaborations and increase public enlightenment”.

#### **5.3.4 Insights On Proposed Possible Regulatory and Policy Adjustments to Improve Financial Inclusion in Northern Nigeria Through Islamic Equity Financing**

The Insight on proposed possible regulatory and policy adjustments to improve financial inclusion in northern Nigeria through Islamic equity financing emerged from organizing and streamlining four (4) interview questions. These are questions (3a – d) in the bankers’ version of the interview question (see Appendixes 1A). The responses were coded and analysed using the Atlas.ti 24 software.

The first theme bothers on the appropriate Islamic financing contract to drive financial inclusion in northern Nigeria. Figure 5.29 below presents the coded responses using the Atlas.ti 24 software.

The responses on the appropriate Islamic finance contract shows that R1, R4, R6 believe that *Qard Hassan* contract is most appropriate to drive financial inclusion. R1 opines that “I already spoke of benevolent loans, this will woe the non-banking public more to the islamic banking system net”. R2, R6, R7, R9, R10 and R11 believes that sale-based Islamic finance contracts are most appropriate for financial inclusion. R11 opines that “Murabahah as a financing contract will be good in this regard as it is possible to utilize it for facilitating the fast and easy acquisition of stocks for small traders who constitute a large proportion of those requiring financial services”. R7 adds lease-based contract to the list of appropriate Islamic finance contracts. R10 also added guarantee contract to the list. R3, R4, R5, R6, R7, R9, R10, and R12 all believes that Islamic equity financing contracts are most appropriate for financial inclusion. R10

surmises that “I think Mudarabah and Salam may be the most appropriate. However, there is a need for proper risk mitigation measures to be taken. In addition, the government may consider introducing third-party guarantees in the transactions”. R3 on his part notes that;

The most appropriate Islamic financing contract to drive financial inclusion will be mudharaba as it places value on skills the counterparty has to offer (which is usually all they can bring to the table) and musharaka which in addition to skills, requires the counterparty to make some form of capital contribution which will go a long way in driving positive behaviour and preventing moral hazard.



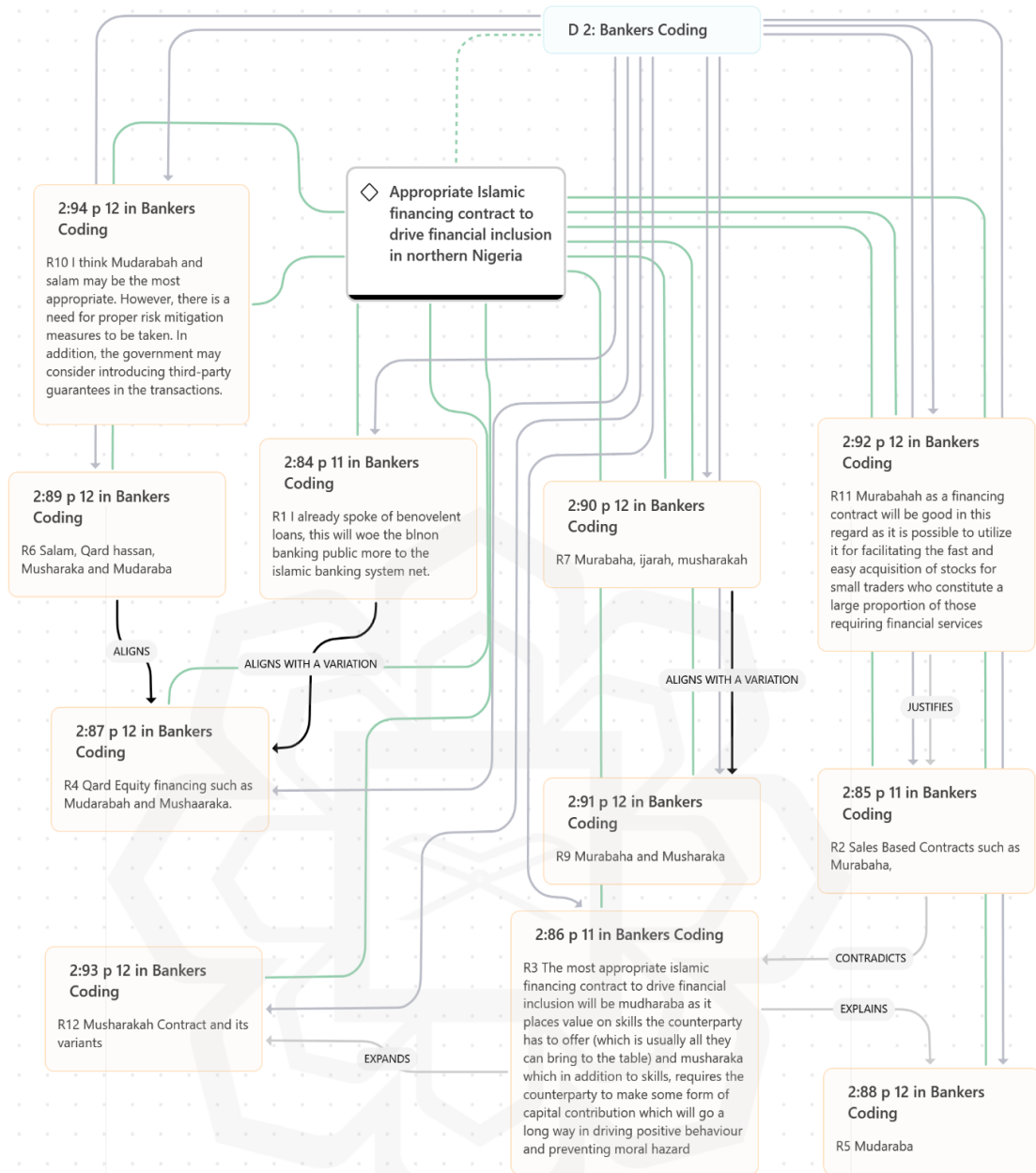


Figure 5.29. Insights on appropriate Islamic financing contract to drive financial inclusion in northern Nigeria

When aggregated, the responses show that 6 out of 12 (i.e., 50%) banker respondents believe that sale-based Islamic finance contracts are appropriate to drive financial inclusion in northern Nigeria. 3 out of 12 (i.e., 25%) respondents see that *Qard Hassan* contract is appropriate. Lease-based and guarantee (*Kafalah*) contracts are seen by 1 respondent each (i.e. 8%). While 8 out of the 12 respondents are of the view that Islamic equity financing contracts are appropriate for financial inclusion drive in

northern Nigeria. Figure 5.30 below present a graphical data on the distribution of the views;

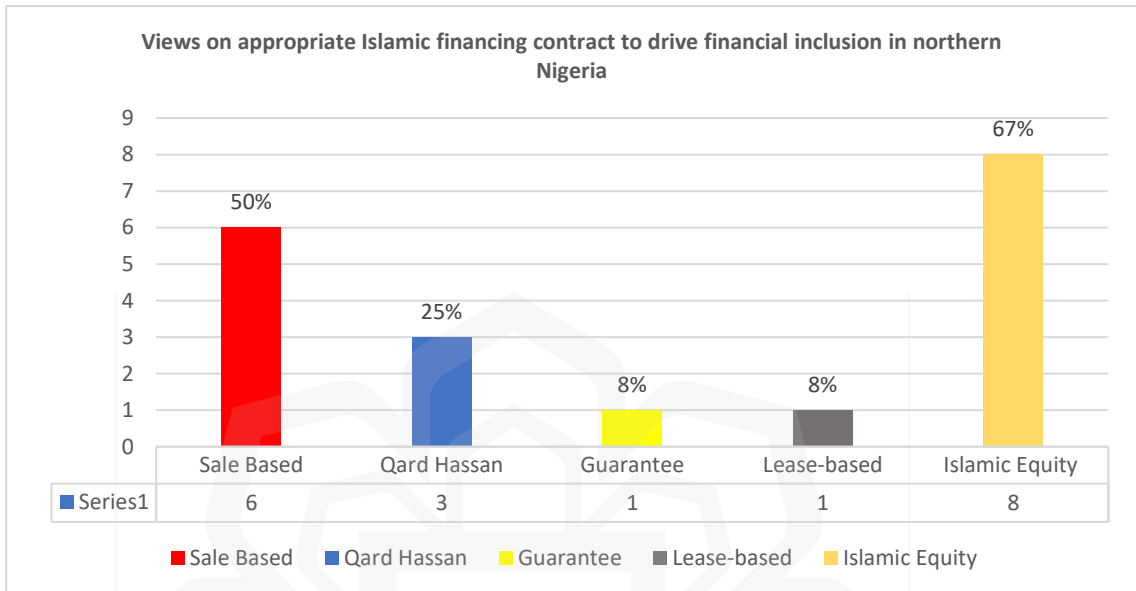


Figure 5.30. Views on appropriate Islamic financing contract to drive financial inclusion in northern Nigeria

The second theme bothers on the effect of Islamic equity financing on northern markets and stakeholders. Figure 5.31 below presents the coded responses using the Atlas.ti 24 software.

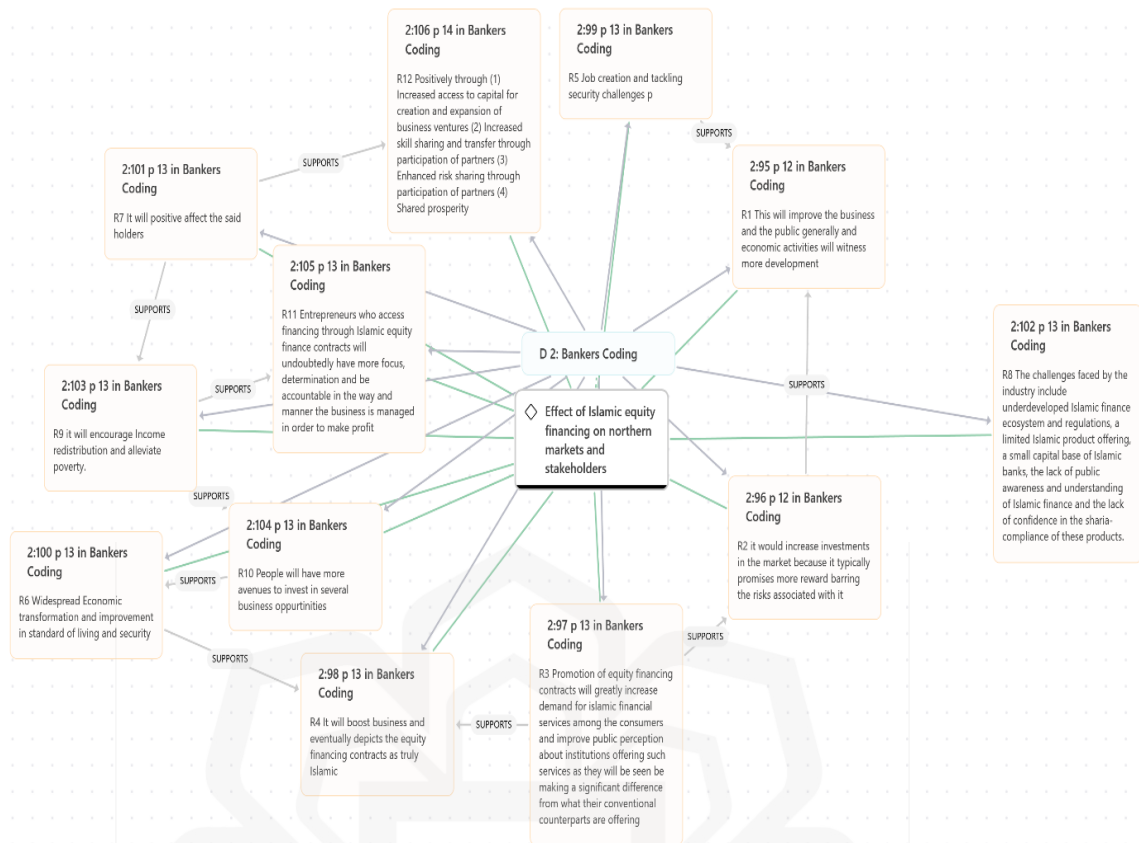


Figure 5.31. Insights on effect of Islamic equity financing on northern markets and stakeholders

All respondents show positive outlook on the effect the promotion of Islamic equity financing contracts on stakeholders and market dynamics in northern Nigeria. R1 opines that “This will improve the business and the public generally and economic activities will witness more development”. R2 stated that “it would increase investments in the market because it typically promises more reward barring the risks associated with it”. R3 notes that

“Promotion of equity financing contracts will greatly increase demand for Islamic financial services among the consumers and improve public perception about institutions offering such services as they will be seen making a significant difference from what their conventional counterparts are offering”.

R4 surmises that “It will boost business and eventually depicts the equity financing contracts as truly Islamic”. R5 believes its effect will be that of “Job creation and tackling security challenges”. R6 holds that it will have “Widespread Economic

transformation and improvement in standard of living and security”. R8 tilts towards neutrality when he said;

“The challenges faced by the industry include underdeveloped Islamic finance ecosystem and regulations, a limited Islamic product offering, a small capital base of Islamic banks, the lack of public awareness and understanding of Islamic finance and the lack of confidence in the sharia-compliance of these products”

R9 opines that “it will encourage Income redistribution and alleviate poverty”. R10 notes that “People will have more avenues to invest in several business opportunities”. R11 observes that “Entrepreneurs who access financing through Islamic equity finance contracts will undoubtedly have more focus, determination and be accountable in the way and manner the business is managed in order to make profit”. R12 hold the view that it will impact “Positively through (1) Increased access to capital for creation and expansion of business ventures (2) Increased skill sharing and transfer through participation of partners (3) Enhanced risk sharing through participation of partners (4) Shared prosperity”.

The third theme bothers on the essential inclusions in the national financial inclusion strategy (NFIS). Figure 5.32 below presents the coded responses using the Atlas.ti 24 software.

In their responses, R1, R4 and R5 canvases stakeholder engagement. R1 advises “More enlightenment and capacity building for both regulators”. R4 advises “Intervention funds and Qard should be availed to local community”, while R5 advises “Involvement of Ulamas as stakeholders”. R2 suggests “Incentives in terms of access to finance on the basis of NIB”.

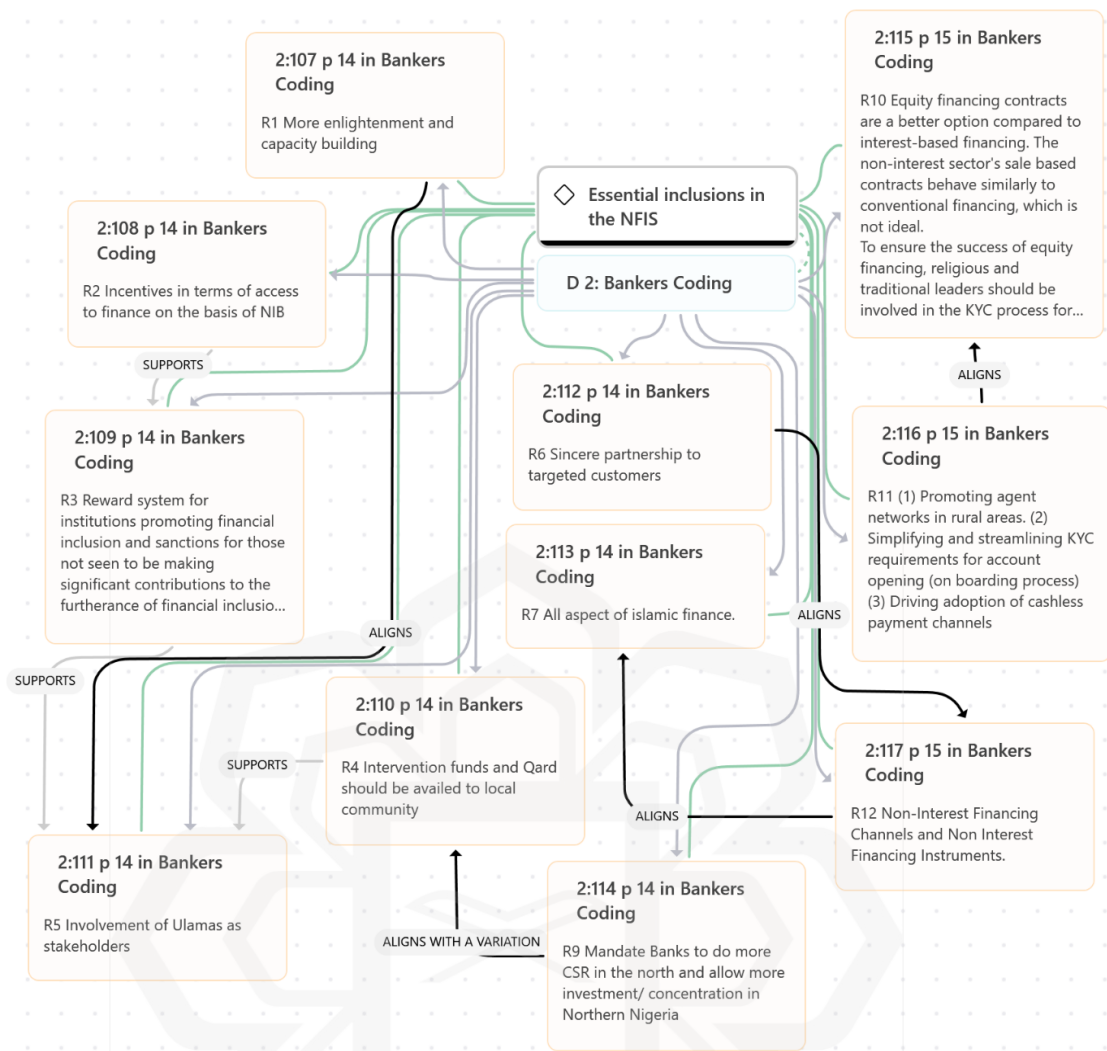


Figure 5.32. Insights into essential inclusions in the NFIS

R3 suggests “Reward system for institutions promoting financial inclusion and sanctions for those not seen to be making significant contributions to the furtherance of financial inclusion initiatives”. This aligns with R2’s incentivization outlook. R9 advises that the regulators “Mandate Banks to do more CSR in the north and allow more investment/ concentration in Northern Nigeria”. Aligned to this view is that of R6 who counselled “Sincere partnership to targeted customers” primarily in northern Nigeria. R7 aligns with R12 who opines that essential inclusion in the NFIS should be the “Non-Interest Financing Channels and Non-Interest Financing Instruments”. R11 further advises that the regulator should consider “(1) Promoting agent networks in rural areas. (2) Simplifying and streamlining KYC requirements for account opening (on boarding process) (3) Driving adoption of cashless payment channels”. R10 shares is views thus;

Equity financing contracts are a better option compared to interest-based financing. The non-interest sector's sale-based contracts behave similarly to conventional financing, which is not ideal. To ensure the success of equity financing, religious and traditional leaders should be involved in the KYC process for customers. Additionally, a mandatory capacity-building program should be implemented to overcome moral hazards from customers. Introducing mandatory savings for each participant in such schemes would also help closely monitor their progress.

R10's views notably aligns with views and findings of authors such as Ayayi (2012) and Azmat and Ghaffar (2021a) in the aspects of their submissions that preference for debt-based financing over equity-based financing by most financial institutions is been to be another obstacle against financial inclusion.

The fourth and final theme bothers on regulation of Islamic finance to deepen financial inclusion in northern Nigeria. Figure 5.33 below presents the coded responses using the Atlas.ti 24 software.

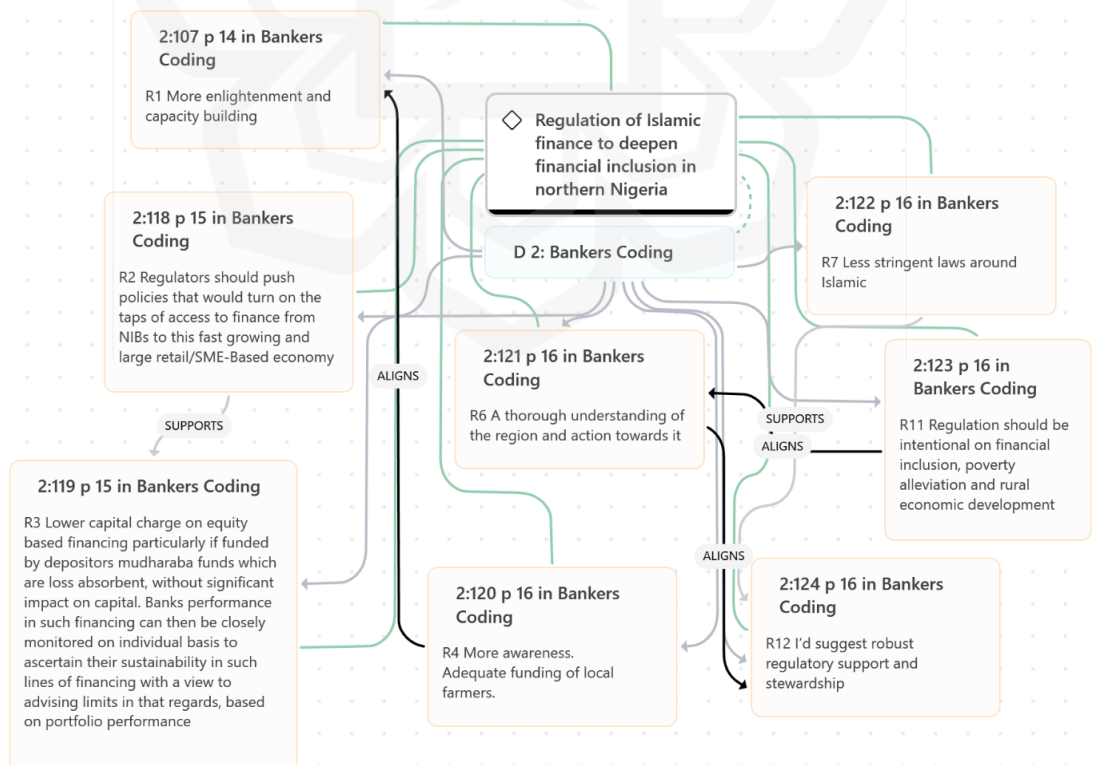


Figure 5.33. Insights on regulation of Islamic finance to deepen financial inclusion in northern Nigeria

In their responses, R12 holds that “I’d suggest robust regulatory support and stewardship”. R4 suggests “More awareness. Adequate funding of local farmers”. R11 suggests “Regulation should be intentional on financial inclusion, poverty alleviation and rural economic development”. R6 in furtherance of R4’s suggestions advise “A thorough understanding of the region and action towards it”. R7 pushes further suggesting “Less stringent laws around Islamic banking practices”. Building on R7’s view, R2 advises that “Regulators should push policies that would turn on the taps of access to finance from NIBs to this fast growing and large retail/SME-Based economy”. Finally, R3 recommends that;

Lower capital charge on equity based financing particularly if funded by depositors mudharaba funds which are loss absorbent, without significant impact on capital. Banks performance in such financing can then be closely monitored on individual basis to ascertain their sustainability in such lines of financing with a view to advising limits in that regards, based on portfolio performance.

#### **5.4 CHAPTER SUMMARY**

This chapter presents and analyses data obtained from semi structured interviews conducted on 33 respondents comprising of 3 segments. Respondents 1 – 12 are bankers with diverse backgrounds and institutions such as the central bank of Nigeria, the 4 full-fledged Islamic banks in Nigeria and the lone Islamic banking window of a conventional bank. Respondents 13 – 20 are individual business owners of minimum of 5 years business experience with varying backgrounds and resident in either northwest or northeast regions of Nigeria. Respondents 21 – 33 are corporate entities who are customers of Islamic banks and having their businesses domiciled and operational in northeast and northwest regions of Nigeria. The conversations brought to limelight several issues surrounding Islamic equity financing as a regulatory and policy instrument for furthering financial inclusion, especially in northern Nigeria. It discusses the methods used to select the respondents, procedure used for data collection, and its analysis through themes using the Atlas.ti 24 software. 27 themes in all were analysed, 11 for the banker respondents and 8 each for the individual and corporate respondents.

## **CHAPTER SIX**

### **DISCUSSION OF RESEARCH FINDINGS**

#### **6.1 INTRODUCTION**

This chapter discusses the study's key research findings, which are based on the study's research questions and objectives in relation to the literature review. The section is organized around the study's four objectives and the outcomes of the research questions produced in response to the study's problem.

#### **6.2 RESEARCH FINDINGS AND INTERPRETATION**

Following the data analysis and interpretation of the semi-structured interview results that takes into account the four research objectives, which are; (i) to evaluate regulatory approaches or policies available for financial inclusion in Nigeria, with a special focus on the northern States; (ii) to identify the real issues in the practice of Islamic equity financing by Islamic Banks in Nigeria; (iii) to gauge the perception of selected stakeholders towards the role of Islamic equity financing in improving financial inclusion in northern Nigeria; and (iv) to propose possible regulatory and policy adjustments to improve financial inclusion in northern Nigeria through Islamic equity financing. The findings based on the four research objectives are discussed below.

##### **6.2.1 Research Objective One**

This subsection discusses the findings of research objective one (RO-1); 'to evaluate regulatory approaches or policies available for financial inclusion in Nigeria, with a special focus on the northern States'. In 2012, the CBN put together a financial inclusion policy to drive access to finance and inclusion of all eligible adults into the formal financial system. In furtherance of the CBN's objectives, EFINA, a financial sector development organization conducted surveys and presented access to finance (A2F) survey reports that included reports for 2012, 2014, 2016, 2018, 2020 and 2023. Also, the CBN revised the financial inclusion policies in 2018 and 2022.

These efforts on financial inclusion reflects in the responses by the trade customers and corporate customer of Islamic banks, who are resident and having their businesses domiciled in the northwest and northeast of Nigeria. 6 out of the 8 individual trade customer respondents (i.e., 75%) and 8 out of the 13 corporate customer respondents (i.e., 62%) are aware of the CBN financial inclusion policy. Cumulatively, 67% of the trade customer and corporate customer respondents are aware of the CBN's financial inclusion policy. Although majority of respondents signify awareness of the policy, all may not be familiar with its content and objectives as hinted by R18 "I'm aware but not familiar with the policy".

Another finding of this study is that a lot of the respondents believe that residents of northern Nigeria are not effectively financially included. This aligns with Ringim (2014)'s position and what was successively reflected in the survey report by (EFInA, 2019, 2021, 2023). On this R14 maintains that "Most of the regulations were interest-lending oriented thereby leaving the vast majority of the Northern Muslim excluded from the financial services offered". R22 supports this position when he said "The Northern Nigeria is still largely financially excluded". R23 corroborates this by saying "Financial inclusion is necessary in Nigeria, Northern Nigeria is the most excluded". Same with R25 who opines that "Generally financial inclusion in Nigeria is fair to good range, while in Northern Nigeria it can be described as poor".

Thirdly, the trade customers and corporate customers in their responses largely think that the CBN has done enough in providing regulations and policies on access to finance as a means for financial inclusion. 48% of them rate CBN positively, 29% of them think the CBN has not done enough, 14% of them think there are more to be done by the CBN, while 10% of them are neutral about efforts of the CBN at providing enough regulations and policies on access to finance for financial inclusion.

Fourthly, this study finds that to encourage businesses in northern Nigeria to obtain bank facility as a means for financial inclusion several factors come into play. These factors include awareness, religiosity, *Shari'ah* compliant innovative industry initiatives, effective regulatory supervision and mandates where required. These were identified by (Abdullahi, 2016; EFInA, 2021; Akilu et al, 2023). In this regard, R15 specifically noted that there is a need for the "CBN to reduce interest rate and proper supervision of banks, while Islamic bank's should come up with simple products/

services”. R14 aligns when he opines that individual would be encouraged to access financing when there is “A more blended non-interest (Islamic) financing products need to be considered”. R24 said “The CBN should first make all the facilities and loan as an interest free initiative, and then it should carry the Imams along so that they enlightened people about facility because there is little awareness about facilities being granted”. R23 aligns with R24 on addressing the religiosity factor by saying that the CBN “Should make a policy that is in accordance with their faith (Islam)”. Also, R21 noted that “CBN Should offer a 0 interest loans for businesses and ensure a very close supervision on the businesses, it should provide a detailed professional guide as per business of interest of Companies or individuals”. R33 observes the need for the CBN to “Appreciate that Islamic Banks require extra support for growth in relation to joint advocacy projects, possible incentives or non-interest banking banded policies that reduce access requirements by businesses”.

This study has achieved its RO-1 by evaluating regulatory approaches or policies available for financial inclusion in Nigeria, with a special focus on the northern States. This study finds that through CBN’s efforts and initiatives as the key regulator of the financial industry, there is an appreciable awareness about financial inclusion. However, in the northern part of the country, more is still to be done especially in areas of awareness, taking care of the religiosity factor through regulatory support and patronage for *Sharī’ah* compliant offerings for effective financial inclusion. The findings are in agreement with outcome of previous literatures.

### **6.2.2 Research Objective Two**

The research objective two (RO-2) findings are discussed, that is; to identify the real issues in the practice of Islamic equity financing by Islamic Banks in Nigeria. It is worthy of note that the general perception of Islamic banking in Nigeria and around the globe, is that it is a banking system that emphasises and operates partnership contracts as alternative to the *riba* based conventional banking system. This had led to Islamic banking being referred to as profit and loss sharing banks or participation banks. These notions maybe based on the propositions and works of early authors on Islamic economic and banking system, such as (Ayub, 2007; Chapra, 1979, 1995; Siddiqi, 1981, 1983, 1985, 2004). Some author however, opine that the modern reality of the global

Islamic banking practise differs from this early proposition, they include (Kayed, 2012; Maikabara, 2019; Masih et al., 2018; Obaidullah et al., 2000). Ali (2020) specifically observed that the modern reality of Islamic finance industry globally is that it is; “operating in the ‘push’ mode, with incumbent players pushing their version of products in the market, rather than working in a ‘pull’ mode, where society’s requirements would drive industry evolution”.

First, this study finds that majority (7 out of 12 (i.e., 58%) of the banker respondents have positive perception of Islamic equity financing contracts, while the rest of 42% are neutral. No negative perception is recorded from the respondents. R10 notes that “I understand Islamic equity financing contract and I believe it is the most suitable contracts in Islamic finance”. R8 opines that “Very well, it is okay to support both the unbank and under bank”. R11 expands further “I am quite familiar with them. They serve as tools through which capital can be easily distributed in the society in a manner that enhances commerce without placing undue burdens on any of the parties. Islamic equity financing allows parties to either pool funds together or provide funds or management and entrepreneurial on a particular project in order to share profits according to a pre-agreed ratio”. These responses align with the previous literatures on the efficacy of Islamic equity financing contracts as potent tools for effective financial inclusion, especially when it involves micro-entrepreneurs, small businesses and start-ups (Akosile & Zain, 2023; Khan, 2015; Shaikh et al., 2017; Shinkafi et al., 2019a). Also, worthy of note is R6’s view when he maintained that “I’m very familiar: it’s a one the best modes of financing if all parties are truthful and honest to themselves”. It is in response to this situation that, Khan (2015) advocated the need for regulators to systematically promote morality ‘a moral policy’, through which honesty and doing things right will be encouraged, while cheating is discouraged. Perhaps, to manage the risks associated with moral hazard, while pursuing the enhancement of banking stakeholders value most, if not all Islamic banks tends mostly to the debt-based financing contracts than Islamic equity financing in Nigeria as observed by Ayayi (2012), and around the globe as observed by (Kayed, 2012; Azmat & Ghaffar, 2021a).

Secondly, this study finds that responses of the banker respondents reveals that the most preferred financing contract in northern Nigeria is Islamic equity financing contract (i.e., according to 58% of the respondents). R3 notably maintained that “Musharaka and mudharaba best serves the course of financial inclusion as it downplays

the concept of collateral and recognises contribution in form of skill and labor, which the lower income levels in the society find easier to bring to the table than the likes of capital and collateral”. 25% of the respondents believe that debt-based financing is the most preferred. In this regard, R2 provided an insight when he noted that some prefer “Debt Financing Contracts because it allows business owners retain control and ownership of their investments”. While 17% of the respondents believe that the most preferred contract in northern Nigeria is “Qard Hassan because it's an interest-free loan that can potentially help most of its poor and financially excluded population without a commercial interest”. The above position tallies with literatures where it was suggested that Islamic equity financing is one of the viable products in improving financial inclusion in the society (Akosile & Zain, 2023; H. Khan, 2015; Shaikh et al., 2017; Shinkafi et al., 2019a). It also provides justification for Sadiq et al. (2020)’s advocacy on the imperative for Nigerian financial industry regulators to consider the Islamic equity financing contracts as monetary policy instruments.

Third, another finding of this study is that the regulatory and policy issues with Islamic equity finance as a financial inclusion tool for northern Nigeria include; (a) knowledge gap, (b) operational infrastructure (c) issues of capital charge and risk weighting (d) depositor and investor risk aversion (e) trust and disclosure (f) collateral requirement (g) legal impediments (h) sectoral limit issues (i) awareness and requisite expertise, and (j) attendant cost. R3 notes that

The major issues in this regard is risk, as equity based contracts imply higher risk with resultant higher capital charge, which limits the ability of banks to create assets with such contracts. Similarly, the risk orientation/appetite on the part of depositors and fund providers does not support align with that presented by equity-based contract since the priority for depositors and fund providers is to ensure their funds are secured and guaranteed at all times, which equity-based contracts do not provide.

R3’s position strengthens Maikabara (2019)’s position, when he identified the reasons why Islamic banks avoid deploying equity-based financing modes to include issues such as; lack of capital guarantee, high risk, and cost of special business skills, information asymmetry, and inadequate consumer awareness about equity financing. R4 identifies “Trust issue or disclosure issue”, true to Khan (2013)’s observation that

the low ebb of morality and integrity in the modern Muslim societies is a key obstacle to integrity in financial reporting especially from the obligor. R1 opines that;

“I think main issues regarding regulatory and policy issues as regard to Islamic finance are still the knowledge gap, availability of the interbank and liquidity products for the banks.

Also in term of inclusion, the context of banking system is still not having a wider acceptance in the north, as many are still seeing the banking business as usury business, even the non-interest banking is facing such challenges. Many are seeing the profit margin by the banks just like the interest off conventional banks”

The position of R1 above validates the opinion of Dar and Presley (2000), Masih et al. (2018) and Visser (2019) on the dismay of the stakeholders who are waiting to the see the manifestation of the Islamic economic philosophy (i.e. Islamic equity financing) in credit advancements by Islamic banks around the globe. R12 opines that;

“I think the capital adequacy requirement is most important of all. The RWA for equity is higher given the higher risk associated with the contracts. Then I'm not sure about the strength of coverage and support our legal framework has when it comes to enforcing these contracts. That leads to another issue of cost with respect to time and expertise as effective risk sharing contracts are highly customized to nature of business and functions”.

R12's opinion strengthens and aligns with Onagun (2017)'s proposition that the minimum capital adequacy requirement for Islamic equity financing contracts should be reviewed and categorised. Same with (Yustiardi et al., 2020). Onagun (2017) further advocated for well-defined property rights, favourable and stable regulatory environment, fair taxation treatment, facilitating efficient secondary markets for trading in Islamic financial instruments, and providing legal and regulatory for enforceability of obligations under the Islamic equity financing contracts.

This study has achieved its RO-2 of identifying the real issues in the practice of Islamic equity financing by Islamic Banks in Nigeria. It identifies that Islamic equity contracts are sparsely used in asset creation, unlike deposit mobilization due to several regulatory and policy requirements that are discouraging factors for Islamic banks, even when their deployment in financing holds a lot of good for financial inclusion, especially in northern Nigeria.

### 6.2.3 Research Objective Three

The research objective three (RO-3) findings are discussed, that is; to gauge the perception of selected stakeholders towards the role of Islamic equity financing in improving financial inclusion in northern Nigeria.

First this study finds that reasons for low financial inclusion in northern Nigeria despite national financial inclusion strategy (NFIS) by the CBN, according to the bankers, individual trade customers and corporate customer respondents are principally; financial illiteracy and unawareness, religiosity, and regulatory and policy issues, among others. Cumulatively, 55% (i.e., 18 out of the 33) respondents indicates financial illiteracy and unawareness, 27% (i.e., 9 out of 33) respondents indicates religiosity (i.e., concerns on the *Shari'ah* compliance of the financial services and products), 24% (i.e., 8 out of 33) respondents indicates regulatory and policy issues. Other reasons such as systematic marginalization of northern Nigerians, high poverty level, conservativeness, distrust, KYC issues, proximity of location of financial service providers, and lack of incentive were indicated by 15% (i.e., 5 out of 33) of the respondents.

Second, the study finds that the respondents indicate the need to review NFIS to facilitate financial inclusion in northern Nigeria. The respondents suggest approaches such as (a) intensified orientation and enlightenment on Islamic finance products (b) positive engagement of *Ulama* (Islamic scholars) in the enlightenment and orientation process (c) aligning financial products and services with religious belief of the target segment. On this, R3 notes that “NFIS need to realize apparent opportunities with the desired risk/reward profile to pursue financial inclusion initiatives”. R11 suggests that “Yes, the NFIS should be reviewed to place more emphasis on Islamic financing approaches to financial inclusion.” Also, R12 opines that “Yes, the NFIS needs to review its current provision to include faith-based contracts that would align with the religious convictions of the majority of the financially excluded segment of the population”.

Third, the study finds that suggested steps regulator can take to enhance financial inclusion in the northern Nigeria. These steps include granting incentives and a range of regulatory initiatives and regulatory patronage for Islamic equity financing. R3 suggests that “Regulators need to introduce incentives to entice financial institutions

to key into financial inclusion initiatives and perhaps sanctions for financial institutions not seen to be making meaningful steps in driving financial inclusion”. R2 strengthens this by saying “Make it incentives-based. There is an increasing financial consciousness of the new generation of fast-growing customers and small-scale business owners who want more than transactional banking products”. R14 was more specific in his suggestion that “1. To consider using partnership based non interest financing modes. 2. To provide training and mentorship to the business owners since most of their business practices remain traditional”.

Fourth, this study finds that the individual trade customer and corporate customer respondents largely believe that the Islamic equity financing contracts better suits their business financing needs. According to R14, the Islamic equity financing contracts “Yes! Because; 1. it doesn't involve interest, 2. no requirement for collateral because the business assets may serve the purpose. 3. It enables business expansion”. R22 opines that “Yes, because it enables financial houses to contribute directly to the economy”. R25 surmises that “Yes. Because it gives adequate time and resources for a business to settle with a fair profit sharing formula”. R33 notes that “Equity financing may likely fall within the purview of the Capital Market and not the CBN. I think money market is more suited for debt financing than equity participation considering there is a difference between short and long term financing structures”.

This study has achieved its RO-3 of gauging the perception of selected stakeholders towards the role of Islamic equity financing in improving financial inclusion in northern Nigeria. Responses of the selected stakeholders discloses a positive perception of Islamic equity financing contracts as a veritable tool to achieve financial inclusion in northern Nigeria. Reasons for their responses include the fact that Islamic equity financing contracts offer cheap access to finance, collateral requirements and attendant costs are cut down, and importantly, it meets the aspiration of a conservative region that places *Sharī'ah* compliance of financial products and services in high esteem.

#### **6.2.4 Research Objective Four**

The research objective three (RO-4) findings are discussed, that is; to propose possible regulatory and policy adjustments to improve financial inclusion in northern Nigeria through Islamic equity financing.

First the study finds that majority of the respondents (67%) see the Islamic equity financing contracts to be the appropriate financing contract to drive financial inclusion in northern Nigeria. In this regard, R3 notably states that;

The most appropriate Islamic financing contract to drive financial inclusion will be mudharaba as it places value on skills the counterparty has to offer (which is usually all they can bring to the table) and musharaka which in addition to skills, requires the counterparty to make some form of capital contribution which will go a long way in driving positive behaviour and preventing moral hazard.

Second, the study finds that regulatory promotion and patronage for Islamic equity financing will positively impact the northern Nigeria markets and stakeholders. R3 opines that “Promotion of equity financing contracts will greatly increase demand for Islamic financial services among the consumers and improve public perception about institutions offering such services as they will be seen be making a significant difference from what their conventional counterparts are offering”. R9 suggests that “it will encourage Income redistribution and alleviate poverty”. R11 observes that “Entrepreneurs who access financing through Islamic equity finance contracts will undoubtedly have more focus, determination and be accountable in the way and manner the business is managed in order to make profit”. While R12 believes that Islamic equity financing contracts will impact northern Nigeria “Positively through (1) Increased access to capital for creation and expansion of business ventures (2) Increased skill sharing and transfer through participation of partners (3) Enhanced risk sharing through participation of partners (4) Shared prosperity.”

Third, the study finds that suggestions towards regulatory and policy adjustments to improve financial inclusion in northern Nigeria through Islamic equity financing include robust regulatory adjustment of prudential guidelines for Islamic equity finance and adequate monitoring. It also includes flexibility by regulatory authorities on Islamic equity financing contracts specifically for microfinancing. Also,

curating specific Islamic equity financing-based programmes to enhance fast growth of large retail/SME-Based economy. R3 opines that the regulator should;

Lower capital charge on equity-based financing particularly if funded by depositors mudharaba funds which are loss absorbent, without significant impact on capital. Banks performance in such financing can then be closely monitored on individual basis to ascertain their sustainability in such lines of financing with a view to advising limits in that regards, based on portfolio performance.

R8 suggests about eight (8) regulatory initiatives that encompasses Islamic equity financing contracts and other incidental areas;

1. Foster a diversity of financial institutions,
2. Facilitate the use of innovative technologies and entry of technology-driven, non-traditional institutions,
3. Expand agent-based banking and other cost-effective delivery channels,
4. Invest in supervision and leverage technology to optimize limited resources,
5. Implement risk-based, tiered AML/CFT requirements,
6. Encourage the development of low-cost, innovative financial products,
7. Strengthen financial infrastructure,
8. Protect consumers by establishing rules for disclosure, fair treatment, and recourse.

This study has achieved its RO-4 of proposing possible regulatory and policy adjustments to improve financial inclusion in northern Nigeria through Islamic equity financing. The respondents provided insights into the fact that Islamic equity financing contracts continue to be, not just the most preferred, but the most appropriate regulatory tool to enhance financial inclusion in northern Nigeria. Survey reports EFINA, (2019; 2021; and 2023) has shown that this part of the country has consistently posted the lowest in financial inclusion. From the responses of the respondents, regulatory promotion and patronage for Islamic equity financing contracts will positively impact the northern Nigeria markets and stakeholders.

Table 6.1. Key to Research Objectives & Questions

S/N	Research Objectives	Research Questions
1.	<p>RO 1 – To evaluate regulatory approaches or policies available for financial inclusion in Nigeria, with a special focus on the northern States</p> <ul style="list-style-type: none"> <li>• RO1 Archived</li> </ul>	<p>RQ 1 – How adequate are the regulatory approaches or policies for financial inclusion in the northern states of Nigeria?</p> <ul style="list-style-type: none"> <li>• The regulatory approaches and policies for financial inclusion in northern states of Nigeria is not adequate. More is still to be done especially in areas of awareness, taking care of the religiosity factor through regulatory support and patronage for <i>Sharī'ah</i> compliant offerings for effective financial inclusion.</li> <li>• Details can be found at pages 86 – 94, 124 – 126.</li> </ul>
2.	<p>RO 2 – To identify the real issues in the practice of Islamic equity financing by Islamic Banks in Nigeria</p> <ul style="list-style-type: none"> <li>• RO2 Achieved</li> </ul>	<p>RQ 2 – (a) How well is Islamic equity financing practiced by Nigerian Islamic Banks?            (b) What are the challenges in the practice of Islamic equity financing by Islamic Banks in Nigeria?            (c) What are the opportunities in the practice of Islamic equity financing by Islamic Banks in Nigeria?</p> <ul style="list-style-type: none"> <li>• Islamic equity contracts are sparsely used in asset creation, unlike deposit mobilization</li> <li>• The challenges in the practice of Islamic equity financing by Islamic Banks in Nigeria include; operational infrastructure, issues of capital charge and risk weighting, knowledge gap, depositor and investor risk aversion, trust and disclosure, collateral requirement, legal impediments, sectoral limit issues, awareness and requisite expertise, lack of capital guarantee, high risk, cost of special business skills, information asymmetry, fair taxation treatment, inefficient secondary markets for trading in Islamic financial instruments and attendant costs.</li> </ul>

S/N	Research Objectives	Research Questions
		<ul style="list-style-type: none"> <li>• The opportunities in the practice of Islamic equity financing by Islamic Banks in Nigeria include; access to the vast customer base of the northern Nigerian to grow their asset and balance sheet size while fostering financial inclusion, the increasing support of the federal government for Islamic finance and preference for equity over debt financing, among others</li> <li>• Details can be found at pages 94 – 100, 126 – 129.</li> </ul>
3.	RO 3 – To gauge the perception of selected stakeholders towards the role of Islamic equity financing in improving financial inclusion in northern Nigeria <ul style="list-style-type: none"> <li>• RO3 Achieved</li> </ul>	RQ 3 – What is the selected stakeholders’ perception towards the role of Islamic equity financing in improving financial inclusion in northern Nigeria? <ul style="list-style-type: none"> <li>• Responses of the selected stakeholders discloses a positive perception of Islamic equity financing contracts as a veritable tool to achieve financial inclusion in northern Nigeria.</li> <li>• Details can be found at pages 101 – 116, 129 – 131</li> </ul>
4.	RO 4 – To propose possible regulatory and policy adjustments to improve financial inclusion in northern Nigeria through Islamic equity financing <ul style="list-style-type: none"> <li>• RO4 Achieved</li> </ul>	RQ 4 – What are the possible regulatory and policy adjustments that will promote financial inclusion in northern Nigeria through Islamic equity financing? <ul style="list-style-type: none"> <li>• The possible regulatory and policy adjustments that will promote financial inclusion in northern Nigeria include, among others, the regulatory patronage for Islamic equity financing, by lower capital charge on equity-based financing contracts, particularly if funded by depositors <i>Muḍārabah</i> funds which are loss absorbent, without significant impact on capital, etc.</li> <li>• Details can be found at pages 117 – 123, 131 – 133.</li> </ul>

### 6.3 HYPOTHESES TESTING

Chapter 1 of this study suggests two main hypotheses for the research. They are:

- i. Regulation and policy adjustments in favour of Islamic equity financing may promote effectiveness and deepened financial inclusion in the northern Nigeria; and,
- ii. Financial inclusion in the northern Nigeria may be enhanced with the application of Islamic equity financing.

The first of the hypotheses is partly addressed by the outcome of RO-1, which is that due to CBN's regulations and policies on financial inclusion, there is an appreciable awareness. However, more is still to be done in the northern part of the country, especially in areas of awareness, taking care of the religiosity factor through regulatory support and patronage for *Shari'ah* compliant offerings. Responses from the trade customers and corporate customers shows that 48% of them rate CBN positively, 29% of them think the CBN has not done enough, 14% of them think there are more to be done by the CBN, while 10% of them are neutral about efforts of the CBN at providing enough regulations and policies on access to finance for financial inclusion. Outcome of RO-2 finally addresses the first hypothesis; it identifies that Islamic equity contracts are sparsely used in asset creation, unlike deposit mobilization due to several regulatory and policy requirements that are discouraging factors for Islamic banks, even when their deployment in financing holds a lot of good for financial inclusion, especially in northern Nigeria. Responses from the several bank personnel shows that 58% believe that the most preferred financing contract in northern Nigeria is Islamic equity financing contract based on the potential to promote effectiveness and deepened financial inclusion. 25% of the respondents believe that debt-based financing is the most preferred. While 17% of the respondents believe that the most preferred contract in northern Nigeria is *Qard Hassan*, because it "...can potentially help most of its poor and financially excluded population without a commercial interest".

The second of the hypothesis is addressed by the outcome of RO-3, which gauged the perception of selected stakeholders towards the role of Islamic equity financing in improving financial inclusion in northern Nigeria. A cumulation of the responses of the stakeholders drawn across individual trade customers, corporate customer and bank personnel discloses a positive perception of Islamic equity financing

contracts as a veritable tool to achieve financial inclusion in northern Nigeria. Reasons for their responses include the fact that Islamic equity financing contracts offer cheap access to finance, collateral requirements and attendant costs are cut down, and importantly, it meets the aspiration of a conservative region that places *Shari'ah* compliance of financial products and services in high esteem.

Therefore, the two hypotheses are proven by the outcomes of the study.

#### 6.4 SWOT ANALYSIS OF ISLAMIC EQUITY FINANCING CONTRACTS BASED ON RESEARCH FINDINGS

From the cumulative responses of the bankers, individual trade and corporate customer respondents, a SWOT analysis on the areas of strength and weakness of the Islamic equity financing contracts as financial inclusion enabler in northern Nigeria can be aggregated as follows;

Table 6.2. SWOT analysis on the areas of strength and weakness of the Islamic equity financing as financial inclusion enabler in northern Nigeria

<b>STRENGTH</b>	(a) They are supported by earliest and current literatures on Islamic banking and finance as the alternative to the conventional interest-based banking and finance system. These literatures include (Ayub, 2007; Maududi, 1947; Schoon, 2008; Siddiqi, 1981, 1983, 1985, 2004; Usmani, 2021).
	(b) They are seen to be a potent tool for effective financial inclusion, especially when it involves micro-entrepreneurs, small businesses and start-ups.
	(c) They are believed to further the Islamic ideal of economic and financial inclusion, equitable resource distribution, and socio-economic justice which may be practically elusive in various development goals.
	(d) They are believed by most respondents to be a potent monetary policy instrument that the regulator can use to complement available government economic policies and monetary instruments for financial inclusion, especially in northern Nigeria, which has consistently recorded dismal financial inclusion according to (EFInA, 2019, 2021, 2023).

	<p>(e) They are believed to bring down the cost of accessing financing on the demand side, while instilling some bit of ownership and entrepreneurial growth support from the supply side.</p>
	<p>(f) They are believed to promote the spirit of responsible and responsive investment by investors.</p>
	<p>(g) They are believed to better foster the objectives of the <i>Sharī'ah</i> (<i>Maqāsid Al Sharī'ah</i>) and aid the attainment of the SDGs. This is because they directly or indirectly impact positively on entrepreneurships, innovation, job creation, while inhibiting the upward trajectory of unemployment, poverty and hunger.</p>
WEAKNESSES	<p>(a) They are adopted mostly for deposit mobilization, but avoided by most Islamic financial institutions for risk asset creation (i.e., financing).</p>
	<p>(b) The understanding that profit and losses would be shared and or borne with the bank or financier is said to provide a leverage for the obligor (customers) to be inefficient in the utilization of Islamic equity financing funds.</p>
	<p>(c) The lack of market rate or benchmark to determine the expected returns in an Islamic equity finance contract could potentially lead to exploitation of the weaker party in the contractual arrangement.</p>
	<p>(d) They are plagued with agency problem, lack of capital guarantee, high risk, and cost of special business skills, information asymmetry, and inadequate consumer awareness.</p>
	<p>(e) Due to the uncertain nature of their returns, financiers are unable to plan cash flow.</p>
	<p>(f) Their structures are not suitable for personal financing needs in areas like health and education financing, short term financing, excess liquidity, among others.</p>
OPPORTUNITIES	<p>(a) Fintech adoption such as smart contracts and block-chain technology, may be adopted to reduce the problem of asymmetric information and moral hazard that are associated with Islamic equity financing contracts.</p>
	<p>(b) Facilitative frameworks, policies and incentives by CBN through a systematic reward modality whereby concessions are given on capital charge on Islamic equity financings may spur their adoption.</p>

	<p>(c) Due to the socioeconomic, religious and cultural nature of the northern Nigerian, Islamic financial services are preferred over conventional financial services. In particular, Islamic equity finance is preferred over debt-based financing especially in pursuing financial inclusion. Islamic equity financing contracts are positively perceived and seen to be the most preferred financing contract in northern Nigeria by 58% of the respondents. 67% of the respondents believe they are the most suitable financing contracts to drive financial inclusion in northern Nigeria.</p> <p>(d) The CBN has created a favourable credit reporting system, (Credit Risk Management System (CRMS) and licensed business and credit information outfits to collate credit history information. This initiative, among its other supervisory objectives, collates and monitors credit consumer behaviours. The initiative comes handy to manage and mitigate moral issues associates with the effective adoption of Islamic equity financing contracts for risk asset creation (i.e., financing)</p> <p>(e) Moreover, the Nigerian minister of finance and coordinating minister of economy was reported to have restated the federal government of Nigeria’s preference for equity financing over debt financing on account of country’s financial constraint because of the high revenue to debt service ratio (Okpale and Nwachukwu, 2023)</p>
<b>THREATS</b>	<p>(a) Regulatory issues such as (i) higher capital charge for Islamic equity financing due to the higher risk involved. Thus, the ability of banks to create assets with such contracts are limited (ii) inadequate well-defined property rights (iii) concerns for fair taxation treatment (iv) lack of efficient secondary markets for trading in Islamic financial instruments (v) reviewing and categorizing the minimum capital adequacy requirement for Islamic equity financing contracts (vi) restrictions against the investors in actual participation in running and decision making and voting rights in the obligor entity also discourages the wider adoption of Islamic equity financing contracts</p> <p>(b) The risk orientation/appetite on the part of depositors and fund providers does not support or align with the reality of Islamic equity financing contracts. The priority for depositors and fund providers is to ensure their</p>

	funds are secured and guaranteed at all times. This is a requirement that Islamic equity financing contracts do not satisfy.
	(c) There is dearth of time and expertise on the part of the banks/financiers, to effectively contend with the requirements of Islamic equity financing contracts which are expected to be highly customized to meet the nature of business and functions of the obligors/customers.
	(d) The quest by Islamic banks to not only survive, but also be profitable in dual banking systems is another factor working against the easy adoption of Islamic equity financing contracts.
	(e) Moral hazard and the integrity of financial reporting especially from the obligor misreporting the true state of accounts of an Islamic equity investment.

## 6.5 CHAPTER SUMMARY

This chapter addresses the findings reported in chapter five, where the interview results were coded and analysed using Atlas.ti 24 software. The results of the exercise in chapter five are examined and analysed in light of existing researches in the study area. Answers are provided for all four research questions of this study, and consequently, the four objectives of the research are met. For the first research objective, this research finds that due to CBN's initiatives, there is an appreciable awareness about financial inclusion, although a lot still needs to be done in areas that include awareness, and the religiosity factor in northern Nigeria. For the second objective, the study finds that the Islamic equity contracts are deployed by Nigerian Islamic banks majorly for deposit mobilization and rarely for financing, chiefly due to regulatory and policy requirements. With respect to the third objective, the study finds that there is a positive perception of Islamic equity financing contracts as veritable tools to achieving financial inclusion in northern Nigeria. In relation to the fourth objective, the study finds that majority the respondents see Islamic equity financing contracts as the most preferred, and the most appropriate regulatory tool to enhance financial inclusion in northern Nigeria. This chapter finally closes by presenting the SWOT analysis of the areas of strength and weaknesses of the Islamic equity financing contracts as strategic and veritable

instruments for effective financial inclusion in northern Nigeria, based on research findings and responses.



## **CHAPTER SEVEN**

### **RECOMMENDATION AND CONCLUSION**

#### **7.1 INTRODUCTION**

This chapter concludes this study. The recommendations and conclusions discussed in this chapter are premised on the research objectives and questions articulated in chapter one, and the analyses and answers proffered to the research questions in chapter six. This chapter discusses the literature, methodological, practical contributions, and recommendations of this research. It then outlines the study's limitations and recommends area for further research. This chapter concludes with the researchers' final thoughts.

#### **7.2 RESEARCH CONTRIBUTION**

##### **7.2.1 Literature Contribution**

The contribution of this study to literature is by bringing to the fore, insights into the potentials of Islamic equity financing contracts as veritable monetary policy instruments that can be used to complement available government economic policies and monetary instruments for financial inclusion in northern Nigeria. Although there are existing literatures on the general role of Islamic finance at enhancing financial inclusion and engendering the SDGs, this research comes to add to the currently scant literature on the specific potentials of Islamic equity financing contracts in this regard. Further, to the researcher's limited knowledge, little or no studies exists directly addresses potentials of Islamic equity financing contracts as potential tools for financial inclusion in northern Nigeria, considering the dismal inclusion according to (EFInA, 2019, 2021, 2023). Instead, issues of financial inclusion are mostly viewed and discussed from the prism of the volume of Automatic Teller Machines (ATMs) deployed to underserved or unserved interiors, or by credit-deposit ratio (CDR) or by volume of agency bankers. Meanwhile, Sofi and Zamir (2019) observed that in reality, discussions on financial inclusion ought to focus on, or be gauged by creative banking products and other

financial services such as equity financing, among others. Therefore, this study fills this existing research gap.

### 7.2.2 Practical Contribution

This study's practical contribution to research is multidimensional and holds some implications for the Nigeria's financial ecosystem, policy and regulatory authorities, economic and financial landscape. Some of this study's practical Implications include:

1. In effectively driving financial inclusion, this study emphasizes the need for Islamic banks in Nigeria to increasingly curate Islamic equity financing-based products and services, targeted as smaller and viable businesses domiciled in northern Nigeria. This is due to its suitability for entrepreneurial endeavours, and its alignment to their Islamic leanings. Most or all of the very limited Islamic equity financing are done between Islamic banks and big corporate entities and businesses, mostly to the exclusion of small businesses. Also, the extensive usage of debt-based Islamic finance contracts with the conventionally styled facility pricing method, negatively impacts the perception of the religiously conservative northern Nigeria society. They mostly believe that only equity financing contracts are the true Islamic contracts, and hardly see the difference between Islamic banking and conventional banking offerings;
2. This study proposes that beyond the traditional conception of Islamic equity financing contracts to be basically *Muḍārabah* and *Muṣhārah* by Islamic banks in Nigeria, there is a need to increasingly look towards Diminishing *Muṣhārah* and *Wākālāh Bil Istiḥmār* in product structuring. Understandably, the Nigerian Islamic banking landscape is rapidly growing in volume and sophistication by the day;
3. This study acknowledges that while there are wider preferences for Islamic equity financing for small business and entrepreneurs to enable access to cheap funding, there are instances where some business owners prefer debt-based Islamic financing contracts. This is because it allows such business owners retain absolute control and ownership of their investments and intellectual properties;

4. This study identifies the pressing need for Islamic banks to be encouraged to engage in advocacy, stakeholders' awareness and education of the banking public. It is noted that lack of awareness, illiteracy and high poverty rate are factors creating little incentives for individuals to approach financial institutions for their services. Additionally, financial literacy and targeted capacity-building programmes on Islamic equity financing contracts should be encouraged to enhance the product knowledge and workings, while mitigate moral hazards from customers, among others;
5. This study provides policymakers suggestions that the national financial inclusion strategies should be tailored to different needs and requirements of regions of the country. The strategy for northern Nigeria may be specifically designed to integrate or emphasis Islamic equity financing, among other Islamic finance options, and drive this, a model of legal and *Shari'ah* compliant instruments for Islamic equity financing can be evolved. Also enhanced data collection, analysis, and measurement frameworks may be initiated, to monitor progress, track indicators of financial inclusion, and identify gaps and opportunities for targeted interventions and policy adjustments. This is considering the fact that some economic empowerment initiatives involve cash payments or distribution of items without continuous incentives to capture and integrate the beneficiaries into the financial system. These suggested steps will sure, be useful to the broader efforts to expand access to finance and promote inclusive economic development of the northern region especially and Nigeria at large;
6. This study notes that CBN, the regulator for Islamic banks, must be intentional in providing levelled playing ground for both the conventional and the non-interest banks in its pursuit of effective financial inclusion of all segments of the Nigerian society. To this end, CBN may explore a model regulation and policies on financial inclusion for Northern Nigeria;
7. This study has accessed the preference for, and suitability of Islamic equity financing for effective financial inclusion in northern Nigeria, thus the research adds to the body of literature on this idea.

### **7.2.3 Methodology Contribution**

To the researcher's best of knowledge, no previous study has attempted to employ Atlas.ti 24 to access Nigerian regulation and policies on financial inclusion, particularly in making a case for targeted utilization of Islamic equity financing in northern Nigeria. Bryda & Costa, (2023) had observed that, compared to other statistical tools, Atalst.ti provides an enhanced ability to extract and interpret intricate qualitative data garnered from respondents. In the same vain, (Herbst et al., 2024) surmised that the Atlas.ti software enriches a research study's methodology robustness and depth, thus, facilitating more in-depth probe of a research area based on the software's coding and annotation tools. This study therefore, uses a more recent statistical instrument than the conventional approaches, previous studies on Islamic equity financing have made use of.

## **7.3 RECOMMENDATION**

This study generates the following recommendations based on the research findings earlier highlighted. The recommendation is hoped to provide a direction on the usage of Islamic equity financing as a potent regulatory and policy tool for financial inclusion tool in northern Nigeria by the several stakeholders. It serves as a guide for policy makers, the regulators, investors, entrepreneur's and other stakeholders in the pursuit of genuine and effective financial inclusion that looks elusive in northern Nigeria:

### **7.3.1 Policy Makers**

1. The national financial inclusion strategy should adopt the tailor-made strategy approach to considers and factors the specific need of regions of the country, putting the northern region in perspective. To this end, an enhanced data collection, analysis, and measurement frameworks may be initiated, to monitor progress, track indicators of financial inclusion, and identify gaps and opportunities for targeted interventions and policy adjustments. The importance of this can be appreciated from the inability of the country to achieve the financial inclusion mark of 80% by year 2020,

and which is yet to be achieved according to the latest survey report of (EFInA, 2023).

2. Advertently integrate Islamic financing options, and particularly Islamic equity financing contracts into the NFIS and the various intervention programmes and initiates as essential tool towards improving financial inclusion in northern Nigeria. This will constitute the required policy advocacy to enhance broader efforts to expand access to finance and promote inclusive and enduring economic development of the northern region especially, and Nigeria at large.
3. Initiate financial literacy campaigns, awareness, educational programs, and sensitization sessions. This can be in collaboration with necessary stakeholders like influential and respected Muslim clerics, to enlighten business owners, investors, and the public about Islamic finance generally and Islamic equity financing contracts in particular. By this, entrepreneurs and business owners will be enlightened about the processes, requirements and the benefits of the contracts. It will also improve access to finance by more educated users, it will boost their participation, and foster trust between the providers of Islamic financial services and users of same.

### **7.3.2 The Regulator**

1. The CBN should be more flexible on its regulatory and supervisory guidelines as they relate to the usage of Islamic equity financing contracts for risk asset creation (i.e., financing). It can lower the capital charge on these financing contracts, particularly if the funding source is from the loss absorbing depositors' *Mudārabah* funds, and when the capital would not be significantly impacted negatively. Banks' performance in such financing can then be closely monitored on individual basis to ascertain their sustainability in such lines of financing with a view to advising limits in that regards, based on portfolio performance.
2. The CBN should make necessary adjustments in the areas of capital adequacy requirements for Islamic equity financing contracts. The risk-weighted assets ratio (RWA) for Islamic equity financing contracts are

known to be higher given the higher risk associated with the contracts. CBN may explore the regulatory slotting criteria approach as suggested in IFSB-2 (i.e., Capital adequacy standard for institutions (other than insurance institutions) offering only Islamic financial services).

3. The CBN can mandate the development finance institutions to include the Islamic equity financing options or programmes in their various empowerment programmes targeted at the small, micro-enterprises and specifically the northern region of Nigeria, and in furtherance of this, the CBN can create model regulation and policies on financial inclusion for northern Nigeria.
4. The CBN can explore the option of well-articulated incentives to entice financial institutions to be innovative about Islamic equity financing products that furthers the overall financial inclusion initiatives, and addresses the specific needs of the underserved northern Nigeria, in areas that particularly include collateral issues, among others.
5. Capacity building on the intricacies of Islamic equity financing contracts can be invested in. It can be a multistakeholder project to include regulatory personnel, policy makers, industry practitioners, government agencies, and other stakeholders involved in promoting financial inclusion. This will further provide a platform for regulatory alignment and ecosystem collaboration among different stakeholders.
6. The CBN should consolidate on the existing credit history database, credit monitoring and reporting system, and related initiatives, to address the issues of adverse selection, moral hazard, among other challenges usually identified as factors discouraging the effective usage of the Islamic equity financing contracts in risk asset creation. Also, financial technology (fintech), artificial intelligence (AI), among other modern tools may be explored in this regard.
7. The CBN may pursue the path of stakeholder identification, mapping and engagement as crucial steps for understanding the extent of financial exclusion, its underlying factors, and probable remedies. Then, mandate regulatory and supervisory units or entities to design a plan to be reviewed in line with the nation's macroeconomic objectives, and follow through with its execution.

8. The CBN should work with other regulatory bodies and government agencies, such as the Federal Inland Revenue Services (FIRS) etc, to mitigate or abate legal and regulatory issues that negatively impact the smooth operation of Islamic equity financing contracts, while pursuing the development of a model of legal and *Shari'ah* compliant instruments for Islamic equity financing for northern Nigeria.

### **7.3.3 The Islamic Banks and Industry Practitioners**

1. General education and awareness about Islamic finance products within the northern Nigeria communities cannot be over-emphasised. This includes educating both potential customers and staff of Islamic banks about the features, benefits, and mechanisms of Islamic equity financing contracts, as well as their rights and responsibilities under these arrangements. It worthy of note that a lot of bank personnel struggle to unlearn the conventional banking principles and modalities, under which system they have operated prior to moving to Islamic banks.
2. Islamic Banks in particular needs to work on the risk orientation and appetite of majority of their depositors and fund providers. Most of them are yet to come to terms with the realities of liability (i.e., deposit) products structured on Islamic equity contracts. In placing funds or investing, the priority for most of the depositors and fund providers is to ensure their funds are secured, with fixed returns, and guaranteed at all times. This expectation is in contrast to the true workings of Islamic equity contracts.
3. The Islamic banks may consider creating specific desks or units that understudy businesses of Islamic equity financing customers. This will enhance the bank personnel skills and expertise. It will enhance their effective risk analysis and management of their customers usually are highly customized to nature of business, while abating the issues of adverse selection and moral hazards usually ascribed to Islamic equity financing.

#### **7.4 LIMITATIONS**

While this study provides significant insights into the potentials of Islamic equity financing as a veritable regulatory and policy tool for effective financial inclusion in northern Nigeria, it is not without limitations. First, the study focuses on just the banking sector, which is regulated by the CBN, although it is about the strongest sector of the Nigerian financial industry. Other sectors of the non-interest (Islamic) finance, such as cooperative societies, takaful, asset management or capital market and other financial institutions are not within the immediate focus of this study. Moreover, these other sectors are regulated by entities other than the CBN, such as the National Insurance Commission (NAICOM) and the Securities and Exchange Commission (SEC). Secondly, the research focuses a selected respondents who reside and have their businesses domiciled in the north-eastern and north-western states of Nigeria, to the exclusion of potential respondents from the north-central states. Inclusion of the potential respondents from the later region may provide more and enriched perspectives, however, the said region enjoys more financial inclusion than the two former regions, hence the focus on the most affected regions. Thirdly, although there were efforts to get more respondents who are personnel of the CBN to share their thoughts and to enrich the perspectives, however, the data gathering period coincided with a turbulent period for the Nigerian financial industry. There was a change in the leadership of the CBN, there were re-alignments that impacted daily schedules of regulatory officials, consequently, getting their attention was difficult. Securing their attention and cooperation would have presented an opportunity to gain greater insight accordingly. Lastly, the study is restricted to northern Nigerian and may be difficult to utilize its findings or generalize the findings for other regions of Nigeria. This is because of the disparity in the legal environments, religious and conservative leanings, market conditions, and cultural influences.

These limitations notwithstanding, this study has provided in-depth insight into the potentials of Islamic equity financing as a veritable regulatory and policy tool for effective financial inclusion in northern Nigeria. It offers valuable literature, methodological and practical contributions. It has achieved its objectives and addressed all the research questions.

## 7.5 RECOMMENDATIONS FOR FUTURE RESEARCH

Sequel to the limitations of this study, opportunities for future research can be articulated. Suggestions for further research are outlined as follows:

1. Future study should explore the suitability of Islamic equity financing contracts as regulatory and policy tool for enhancing financing inclusion from the other non-bank financial institutions, asset management, capital market and takaful perspective, focusing on northern Nigeria because of its dismal financial inclusion among other regions of Nigeria.
2. Subsequent research may aggregate data from individuals and businesses domiciled in the north central region of Nigeria to compare and enrich the perspectives on Islamic equity financing contracts as a suitable regulatory and policy tool for effective financial inclusion. Notably, the north central region successively records better financial inclusion than the north-eastern and north-western regions of Nigeria.
3. Although the number of respondents for this study sufficient, future research on this subject may be expanded to include more respondents who are personnel of the CBN. This could generate a more diversified insights and perspective on the suitability of Islamic equity financing as a tool for effective financial inclusion in northern Nigeria specifically and Nigeria in general.
4. Future researches may extend the test of suitability of Islamic equity financing contracts as essential regulatory and policy instrument for financial inclusion to cover the whole of Nigeria. By this, the propositions by several literatures that Islamic equity financing contracts are generally preferred to debt-based financing contracts may be validated or otherwise.
5. Quantitative research on viability and suitability of Islamic equity financing contracts as instruments for effective financial inclusion may be pursued to explore its areas of strength and weakness. This may be of use to regulators and policy makers in crafting appropriate legal instruments, policies and regulations on how to best implement these set of contracts which are believed to be closer to the objectives of the *Shari'ah* and are equipped with requisite features for the attainment of the SDGs.

## 7.6 CONCLUSION

Citizens' general socio-economic wellbeing is the concern of every sovereign country, Nigeria is not an exception. In fact, the Constitution of the Federal Republic of Nigeria, 1999 (as amended) enjoins the State to ensure the common and balanced economic good of its citizens. This objective is consistent with the objectives of the *Sharī'ah* and the SDGs. In pursuing this objective through financial inclusion, the CBN, an agency of the Nigerian government, explored its delegated legislative powers to license the operation of Islamic banking in Nigeria in 2011, with the aim to financially including the largely Muslim northern Nigeria. The overall target was to achieve 80% financial inclusion by year 2020.

Factors that include heavy deployment of debt-based financing contracts by Islamic banks in Nigeria is said to continue to keep away the conservative northern Nigerians from access to finance, despite the financial inclusion drive by the CBN. This is because most northern Nigerians see little or no difference between the conventional and Islamic banks in their financing operations.

This study thus advocates the need for the CBN as the regulator to promote the wider adoption and usage of Islamic equity financing contracts as a regulatory and policy instrument for financial inclusion in northern Nigeria. This can be done by the CBN through flexibility on some of its regulatory and supervisory guidelines as they relate to the usage of Islamic equity financing contracts for risk asset creation. Further, incentives and regulatory forbearance can be granted to Islamic banks with innovative deployment of Islamic equity financing for financial inclusion in northern Nigeria. Also, the CBN could mandate specific interventions financing programmes under purview to be structured on Islamic equity financing contracts, among others.

To complement the efforts of the CBN on financial inclusion, collaborations from policy makers, financial institutions, and other stakeholders towards the integration of the recommendations of this study is desired. This will considerably promote financial inclusion, entrepreneurial development, attainment of the SDGs, shared prosperity and balanced economic development envisioned by the provisions of the Constitution of the Federal Republic of Nigeria, 1999 (as amended).

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# APPENDIX 1: PRE-TEST QUALITATIVE INTERVIEW

## QUESTIONS VALIDATION



### Subject: Invitation to Participate in the Pre-test Qualitative Interview Questions for Validation

Dear Prof/Assoc. Prof/Dr./Sir/Madam,

My name is Tesleem Akosile, I worked with Jaiz Bank Plc, TAJBank Ltd and currently with The Alternative Bank Ltd as Risk Management Officer; Team Lead, Shari'ah Non-Compliance Risk & Product Development Unit and Head, Internal Review and Shari'ah Compliance respectively. My responsibility is mainly to conduct ex-ante Shari'ah review and assurance of my financial institution's businesses, processes and policies. These include the day-to-day review of credit facility documentation pre and post disbursement, product papers and propositions, go-to market strategy and media creatives in that light, among others.

Financial inclusion is aimed at making all strata of the society sustainably and effectively access financial products and services. Islamic finance is said to offer viable solutions in this regard through its risk sharing and wealth redistribution mechanisms. In Nigeria, factors militating effective financial inclusion have among others been identified to include; religiosity, dearth of Islamic equity financing, excessive debt financing, and agency problem. To surmount these issues, efficient strategies, and consistent regulatory framework is required. This study thus seeks to examine strategies that can enhance and deepen financial inclusion, particularly in the Muslim majority northern Nigeria.

Nigeria's target had been to achieve effective financial inclusion of her citizens by reducing exclusion rate which was 53% in 2008 to at most 20% by 2020. However, this target was not achieved as evidenced by a recent survey result released by EFInA, which reveals that about 36% of Nigeria's adult population, mostly from the north, are financially excluded (EFInA, 2021). This study thus assesses the effectiveness of Nigeria's financial inclusion strategy, while suggesting policy and regulatory steps that will enhance financial inclusion, especially in the northern region of the country.

I thank you in advance for your precious time in reviewing the items.

Yours Sincerely,

Tesleem Akosile,  
Ph.D Candidate, IIUM Institute of Islamic Banking and Finance, Kuala Lumpur, Malaysia.  
[tesy100@gmail.com](mailto:tesy100@gmail.com)  
+2348052031207

**TOPIC: AN ASSESSMENT OF NIGERIAN REGULATION AND POLICIES ON FINANCIAL INCLUSION: A CASE FOR ISLAMIC EQUITY FINANCING FOR NORTHERN NIGERIA**

Dear Expert,

This document contains 4 research objectives and a total of 22 related qualitative interview question to make a case for Islamic equity financing as a regulatory and policy instrument for financial inclusion enhancement in northern Nigeria. We need your expert judgment on the *Degree of Relevance and Clarity* of each of the questions to the research objectives. We therefore kindly request that your review should be based on the definition, relevance, clarity and essentiality of the questions to the related research objective. Please be as objective and constructive as possible in your review and use the following rating scales:

**Degree of relevance**

- 1= the question is not clear or relevant to the research area
- 2= the question is somewhat clear or relevant to the research area
- 3= the question is quite clear or relevant to the research area
- 4= the question is very clear and highly relevant to the research area

<b>Research Objective 1</b> <i>To evaluate regulatory approaches or policies available for financial inclusion in Nigeria, with a special focus on the northern States</i>	<b>Relevance &amp; Clarity</b>	<b>Question or Suggestions for improvement</b>
In 2012, the Central Bank of Nigeria put together a financial inclusion policy. The policy was revised in 2018 and 2022. Are you aware or familiar with this policy?	① ② ③ ④	
Tell me about your perception of financial inclusion in Nigeria.	① ② ③ ④	
Can you share your thoughts about financial inclusion in northern Nigeria?	① ② ③ ④	
What are your thoughts on the adequacy of the regulatory approach or policies on financial inclusion in Nigeria, as they relate to access and usage of credit facilities?	① ② ③ ④	
What do you think should be done to promote effective financial inclusion in northern Nigeria as they relate to access and usage of credit facilities?	① ② ③ ④	
<b>Research Objective 2</b> <i>To identify the real issues in the practice of Islamic equity financing by Islamic Banks in Nigeria</i>	<b>Relevance &amp; Clarity</b>	<b>Question or Suggestions for improvement</b>

Do you understand the classification and characteristics of Islamic financing contracts? Yes/No	① ② ③ ④	
To what extent are you familiar with Islamic equity financing contracts? What is your perception of them?	① ② ③ ④	
In your opinion which of the financing contracts best serves the course of financial inclusion in the aspect of access to, and usage of credit facilities?	① ② ③ ④	
In your opinion which of the financing contract(s) is/are preferred in the northern Nigeria, and why?	① ② ③ ④	
Do you have any more thoughts or recommendations on the most suitable Islamic financing contract for effective financial inclusion in northern Nigeria?	① ② ③ ④	
<b>Research Objective 3</b> <i>To gauge the perception of selected stakeholders towards the role of Islamic equity financing in improving financial inclusion in northern Nigeria</i>	<b>Relevance &amp; Clarity</b>	<b>Question or Suggestions for improvement</b>
From your perspective, why have the northern Nigeria consistently recorded dismal financial inclusion, despite the National Financial Inclusion Strategy?	① ② ③ ④	
Do you think that the NFIS need review to facilitate financial inclusion in the northern states?	① ② ③ ④	
What do you think is or are the steps that can best taken by the regulator to enhance and or deepen financial inclusion, especially in the northern Nigeria?	① ② ③ ④	
Do you think there are specific Islamic financing contracts that are best suited for enhancing financing inclusion in northern Nigeria? What are they?	① ② ③ ④	
What is your perspective on the express inclusion of Islamic equity financing options in the NFIS?	① ② ③ ④	
Can you share your thoughts on regulatory promotion of some specific Islamic financing contracts for effective financial inclusion in northern Nigeria?	① ② ③ ④	
Do you have any other suggestions on regulatory approaches and policy adjustments on Islamic financing contracts that can enhance and deepen financial inclusion in northern Nigeria?	① ② ③ ④	

<b>Research Objective 4</b> <i>To propose possible regulatory and policy adjustments to improve financial inclusion in northern Nigeria through Islamic equity financing</i>	<b>Relevance &amp; Clarity</b>	<b>Question or Suggestions for improvement</b>
In your view and taking into consideration the unique financial landscape and Islamic finance prevalent in the country, what would be the appropriate Islamic financing contract to drive effective financial inclusion in northern Nigeria?	① ② ③ ④	
What would be the benefit of promoting Islamic equity financing contracts ahead of other classes of contracts in northern Nigeria?	① ② ③ ④	
How will the promotion of Islamic equity financing contracts affect stakeholders and market dynamic in northern Nigeria?	① ② ③ ④	
In your view, what essential components do you believe should be included in national financial inclusion strategy in Nigeria?	① ② ③ ④	
Do you have any suggestions or comments regarding the regulation of Islamic finance in such a way that best enhances and deepens financial inclusion in northern Nigeria?	① ② ③ ④	

**Additional Questions:**

What are your general comments on the **relevance** and **clarity** of the interview questions in achieving the research objectives?

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Other Comments (optional)

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**Respondent Data**

Name:

Department/Area of Specialisation/Area of Research:

Gender:

Years of Experience:

-THANK YOU-

## APPENDIX 2: PILOT STUDY INTERVIEW QUESTIONS



### AN ASSESSMENT OF NIGERIAN REGULATION AND POLICIES ON FINANCIAL INCLUSION: A CASE FOR ISLAMIC EQUITY FINANCING FOR NORTHERN NIGERIA

#### INTERVIEW QUESTIONS

**Dear Participant,**

I hope this letter finds you well. My name is Tesleem Olajuwon Isa Akosile, a PhD student at the Institute of Islamic Banking and Finance, International Islamic University Malaysia (IIUM). I am conducting research on the topic **"An Assessment of Nigerian Regulation and Policies on Financial Inclusion: A Case for Islamic Equity Financing for Northern Nigeria"**

This research assesses the adequacy of regulation and policies on financial inclusion with a particular focus on northern Nigeria. The region has consistently recorded dismal inclusion despite the several programmes and initiatives in that regards. This study thus aims to make a case for regulatory mainstreaming of Islamic equity financing on the access to credit aspect of its drive for financial inclusion particularly in northern Nigeria. It is hoped that such step will further enhance and deepen financial inclusion in that region of the country.

I kindly request your cooperation and participation in an interview session. Your valuable insights, based on your expertise and experience will greatly contribute to the success of this research. I understand that some of the interviewees are Islamic Finance product development & Structuring personnel, Risk Management personnel or Manager, regulatory agency personnel, Corporate and retails customers from Northern Nigeria.

The interview session will be brief, lasting about 30 to 45 minutes. It can be conducted either virtual or in person, as long as it is convenient for you. The interview questions are straightforward and easy to understand.

Please be assured that all information provided will be treated with the utmost confidentiality and will be used solely for academic purposes.

Thank you in advance for your participation. Your contribution will greatly enhance the quality and relevance of this research.

Best regards,

Tesleem Olajuwon Isa Akosile

*PhD candidate,  
Institute of Islamic Banking and Finance, International Islamic University Malaysia,  
[tesv100@gmail.com](mailto:tesv100@gmail.com)  
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#### **Supervisors,**

*Prof. Dr. Engku Rabiah Adawiah Bt Engku Ali*

*Asst. Prof. Dr. Nor Razinah Mohd Zain*

*Prof. Dr. Salina Kassim*

*IIUM Institute of Islamic Banking and Finance (IIBF),*

**Definitions**

**Financial Inclusion:** efforts by the federal government (through CBN, etc) to make everyone (rich or poor) have access to financial products and services (bank, insurance, takaful etc) in and very cheap and easy way.

**Islamic equity financing:** using partnership contracts (e.g. mudarabah and musharakah) to finance businesses.

**1. To identify the real issues in the practice of Islamic equity financing by Islamic Banks in Nigeria; (RO – 2)**

- a) Do you understand the classification and characteristics of Islamic financing contracts? Yes/No/Interested to know
- b) To what extent are you familiar with Islamic equity financing contracts? What is your perception of them?
- c) In your opinion which of the financing contracts best serves the course of financial inclusion in the aspect of bank financing?
- d) In your opinion which of the financing contract(s) is/are preferred in the northern Nigeria, and why?
- e) Do you have any more thoughts or recommendations on the most suitable Islamic financing contract for effective financial inclusion in northern Nigeria?

**2. To gauge the perception of selected stakeholders towards the role of Islamic equity financing in improving financial inclusion in northern Nigeria; (RO – 3)**

- a) From your perspective, why have the northern Nigeria consistently recorded low financial inclusion, despite the National Financial Inclusion Strategy?
- b) Do you think that the NFIS need review to facilitate financial inclusion in the northern states?
- c) What do you think is or are the steps that can best taken by the regulator to enhance and or deepen financial inclusion, especially in the northern Nigeria?
- d) Do you think there are specific Islamic financing contracts that are best suited for enhancing financing inclusion in northern Nigeria? What are they?
- e) What is your thought on the express inclusion of Islamic equity financing options in the NFIS?
- f) Can you share your thoughts on regulatory encouragement of the utilization some specific Islamic financing contracts for effective financial inclusion in northern Nigeria?
- g) Do you have any other suggestions on regulatory approaches and policy adjustments on Islamic financing contracts that can enhance and deepen financial inclusion in northern Nigeria?

**3. To propose possible regulatory and policy adjustments to improve financial inclusion in northern Nigeria through Islamic equity financing (RO – 4)**

- a) In your view and taking into consideration the unique financial landscape and Islamic finance prevalent in the country, what would be the appropriate Islamic financing contract to drive effective financial inclusion in northern Nigeria?

- a) What would be the benefit of promoting Islamic equity financing contracts ahead of other classes of contracts in northern Nigeria?
- b) How will the promotion of Islamic equity financing contracts affect stakeholders and market dynamic in northern Nigeria?
- c) In your view, what essential components do you believe should be included in national financial inclusion strategy in Nigeria?
- d) Do you have any suggestions or comments regarding the regulation of Islamic finance in such a way that best enhances and deepens financial inclusion in northern Nigeria?

**Respondent Data**

Name:

Department/Area of Specialisation/Area of Research:

Gender:

Years of Experience:



## APPENDIX 3A: BANKERS' VERSION INTERVIEW QUESTIONS



### AN ASSESSMENT OF NIGERIAN REGULATION AND POLICIES ON FINANCIAL INCLUSION: A CASE FOR ISLAMIC EQUITY FINANCING FOR NORTHERN NIGERIA

#### INTERVIEW QUESTIONS

**Dear Participant,**

I hope this letter finds you well. My name is Tesleem Olajuwon Isa Akosile, a PhD student at the Institute of Islamic Banking and Finance, International Islamic University Malaysia (IIUM). I am conducting research on the topic "**An Assessment of Nigerian Regulation and Policies on Financial Inclusion: A Case for Islamic Equity Financing for Northern Nigeria**"

This research assesses the adequacy of regulation and policies on financial inclusion with a particular focus on northern Nigeria. The region has consistently recorded dismal inclusion despite the several programmes and initiatives in that regards. This study thus aims to make a case for regulatory mainstreaming of Islamic equity financing on the access to credit aspect of its drive for financial inclusion particularly in northern Nigeria. It is hoped that such step will further enhance and deepen financial inclusion in that region of the country.

I kindly request your cooperation and participation in an interview session. Your valuable insights, based on your expertise and experience will greatly contribute to the success of this research. I understand that some of the interviewees are Islamic Finance product development & Structuring personnel, Risk Management personnel or Manager, regulatory agency personnel, Corporate and retails customers from Northern Nigeria.

The interview session will be brief, lasting about 30 to 45 minutes. It can be conducted either virtual or in person, as long as it is convenient for you. The interview questions are straightforward and easy to understand.

Please be assured that all information provided will be treated with the utmost confidentiality and will be used solely for academic purposes.

Thank you in advance for your participation. Your contribution will greatly enhance the quality and relevance of this research.

Best regards,

Tesleem Olajuwon Isa Akosile

*PhD candidate,*

*Institute of Islamic Banking and Finance, International Islamic University Malaysia,*

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**Supervisors,**

*Prof. Dr. Engku Rabiah Adawiah Bt Engku Ali*

*Prof. Dr. Salina Kassim*

*Asst. Prof. Dr. Nor Razinah Mohd Zain*

*IIUM Institute of Islamic Banking and Finance (IIiBF),*

**Definitions**

**Financial Inclusion:** efforts by the federal government (through CBN, etc) to make everyone (rich or poor) have access to financial products and services (bank, insurance, takaful etc) in and very cheap and easy way.

**Islamic equity financing:** using partnership contracts (e.g. *Muḍārabah* and *Muṣhārahah*) to finance businesses.

**Note:** RO – 1 refers to research objective 1, etc

**1. To identify the real issues in the practice of Islamic equity financing by Islamic Banks in Nigeria; (RO – 2)**

- a) To what extent are you familiar with Islamic equity financing contracts? What is your perception of them?
- b) In your opinion which of the financing contracts best serves the course of financial inclusion in the aspect of bank financing and are preferred in the northern Nigeria? And why?
- c) What do you think are the specific regulatory, policy or other issues banks have with Islamic equity financing contracts as financial inclusion instrument in northern Nigeria?

**2. To gauge the perception of selected stakeholders towards the role of Islamic equity financing in improving financial inclusion in northern Nigeria; (RO – 3)**

- a) From your perspective, why have the northern Nigeria consistently recorded low financial inclusion, despite the National Financial Inclusion Strategy (NFIS)?
- b) Do you think that the NFIS need review to facilitate financial inclusion in the northern states? What aspects specifically?
- c) What do you think is or are the steps that can best taken by the regulator to enhance and or deepen financial inclusion, especially in the northern Nigeria?
- d) Can you share your thoughts on regulatory encouragement of the utilization of Islamic equity financing contracts for effective financial inclusion in northern Nigeria?

**3. To propose possible regulatory and policy adjustments to improve financial inclusion in northern Nigeria through Islamic equity financing (RO – 4)**

- a) In your view and taking into consideration the unique financial landscape and Islamic finance prevalent in the country, what would be the appropriate Islamic financing contract to drive effective financial inclusion in northern Nigeria?
- b) How will the promotion of Islamic equity financing contracts affect stakeholders and market dynamic in northern Nigeria?
- c) In your view, what essential components do you believe should be included in national financial inclusion strategy in Nigeria?
- d) Do you have any suggestions or comments regarding the regulation of Islamic finance in such a way that best enhances and deepens financial inclusion in northern Nigeria?

**Respondent Details:**

Name:

Department/Area of Specialization/Area of Research:

Gender:

Years of Experience:

## APPENDIX 3B: CORPORATE CUSTOMERS' VERSION

### INTERVIEW QUESTIONS



#### AN ASSESSMENT OF NIGERIAN REGULATION AND POLICIES ON FINANCIAL INCLUSION: A CASE FOR ISLAMIC EQUITY FINANCING FOR NORTHERN NIGERIA

#### INTERVIEW QUESTIONS

Dear Participant,

I hope this letter finds you well. My name is Tesleem Olajuwon Isa Akosile, a PhD student at the Institute of Islamic Banking and Finance, International Islamic University Malaysia (IIUM). I am conducting research on the topic "**An Assessment of Nigerian Regulation and Policies on Financial Inclusion: A Case for Islamic Equity Financing for Northern Nigeria**"

This research assesses the adequacy of regulation and policies on financial inclusion with a particular focus on northern Nigeria. The region has consistently recorded dismal inclusion despite the several programmes and initiatives in that regards. This study thus aims to make a case for regulatory mainstreaming of Islamic equity financing on the access to credit aspect of its drive for financial inclusion particularly in northern Nigeria. It is hoped that such step will further enhance and deepen financial inclusion in that region of the country.

I kindly request your cooperation and participation in an interview session. Your valuable insights, based on your expertise and experience will greatly contribute to the success of this research. I understand that some of the interviewees are Islamic Finance product development & Structuring personnel, Risk Management personnel or Manager, regulatory agency personnel, Corporate and retails customers from Northern Nigeria.

The interview session will be brief, lasting about 30 to 45 minutes. It can be conducted either virtual or in person, as long as it is convenient for you. The interview questions are straightforward and easy to understand.

Please be assured that all information provided will be treated with the utmost confidentiality and will be used solely for academic purposes.

Thank you in advance for your participation. Your contribution will greatly enhance the quality and relevance of this research.

Best regards,

Tesleem Olajuwon Isa Akosile

*PhD candidate,*

*Institute of Islamic Banking and Finance, International Islamic University Malaysia,*

*tesy100@gmail.com*

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*Asst. Prof. Dr. Nor Razinah Mohd Zain*

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**Definitions**

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**Islamic equity financing:** using partnership contracts (e.g. *Muḍārabah* and *musharakah*) to finance businesses.

**Note:** RO – 1 refers to research objective 1, etc

**1. To evaluate regulatory approaches or policies available for financial inclusion in Nigeria, with a special focus on the northern States (RO – 1)**

- a) In 2012, the Central Bank of Nigeria put together a financial inclusion policy. The policy was revised in 2018 and 2022. Are you aware or familiar with this policy?
- b) Tell me what you think of financial inclusion in Nigeria? What about in northern Nigeria?

- c) Do you think the CBN has done enough in providing regulations policies on access to finance as a means for financial inclusion?
- d) To encourage businesses in northern Nigeria to obtain bank facility as a means for financial inclusion, what do you think should be done by the CBN?

**2. To gauge the perception of selected stakeholders towards the role of Islamic equity financing in improving financial inclusion in northern Nigeria; (RO – 3)**

- a) It is reported that financial inclusion in northern Nigeria is the least despite the National Financial Inclusion Strategy (NIFS), what do you think could be responsible for this?
- b) What do you think is /or are the steps that can best taken by the CBN to enhance and or deepen financial inclusion, especially in the northern Nigeria?
- c) As a corporate customer, do you think Islamic equity financing contracts are best suited for financing your businesses? Why?
- d) Do you have any other suggestions on regulatory approaches and policy adjustments on Islamic financing contracts that can enhance and deepen financial inclusion in northern Nigeria?

**Respondent Details**

Name:

Business Classification and Area of Specialization:

Gender:

Years of Business Experience:

## APPENDIX 3C: INDIVIDUAL CUSTOMERS' VERSION

### INTERVIEW QUESTIONS



### AN ASSESSMENT OF NIGERIAN REGULATION AND POLICIES ON FINANCIAL INCLUSION: A CASE FOR ISLAMIC EQUITY FINANCING FOR NORTHERN NIGERIA

#### INTERVIEW QUESTIONS

**Dear Participant,**

I hope this letter finds you well. My name is Tesleem Olajuwon Isa Akosile, a PhD student at the Institute of Islamic Banking and Finance, International Islamic University Malaysia (IIUM). I am conducting research on the topic "**An Assessment of Nigerian Regulation and Policies on Financial Inclusion: A Case for Islamic Equity Financing for Northern Nigeria**"

This research assesses the adequacy of regulation and policies on financial inclusion with a particular focus on northern Nigeria. The region has consistently recorded dismal inclusion despite the several programmes and initiatives in that regards. This study thus aims to make a case for regulatory mainstreaming of Islamic equity financing on the access to credit aspect of its drive for financial inclusion particularly in northern Nigeria. It is hoped that such step will further enhance and deepen financial inclusion in that region of the country.

I kindly request your cooperation and participation in an interview session. Your valuable insights, based on your expertise and experience will greatly contribute to the success of this research. I understand that some of the interviewees are Islamic Finance product development & Structuring personnel, Risk Management personnel or Manager, regulatory agency personnel, Corporate and retails customers from Northern Nigeria.

The interview session will be brief, lasting about 30 to 45 minutes. It can be conducted either virtual or in person, as long as it is convenient for you. The interview questions are straightforward and easy to understand.

Please be assured that all information provided will be treated with the utmost confidentiality and will be used solely for academic purposes.

Thank you in advance for your participation. Your contribution will greatly enhance the quality and relevance of this research.

Best regards,

Tesleem Olajuwon Isa Akosile

*PhD candidate,*

*Institute of Islamic Banking and Finance, International Islamic University Malaysia,*

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**Financial Inclusion:** efforts by the federal government (through CBN, etc) to make everyone (rich or poor) have access to financial products and services (bank, insurance, takaful etc) in and very cheap and easy way.

**Islamic equity financing:** using partnership contracts (e.g. *Muḍārabah* and *musharakah*) to finance businesses.

**Note:** RO – 1 refers to research objective 1, etc

**1. To evaluate regulatory approaches or policies available for financial inclusion in Nigeria, with a special focus on the northern States (RO – 1)**

- a) In 2012, the Central Bank of Nigeria put together a financial inclusion policy. The policy was revised in 2018 and 2022. Are you aware or familiar with this policy?
- b) Tell me what you think of financial inclusion in Nigeria? What about in northern Nigeria?
- c) Do you think the CBN has done enough in providing regulations and policies on access to finance as a means for financial inclusion?

- d) To encourage individual businesses owners like you in northern Nigeria to obtain bank facility as a means for financial inclusion, what do you think should be done by the CBN?

**2. To gauge the perception of selected stakeholders towards the role of Islamic equity financing in improving financial inclusion in northern Nigeria; (RO – 3)**

- a) It is reported that financial inclusion in northern Nigeria is the least despite the National Financial Inclusion Strategy (NIFS), what do you think could be responsible for this?
- b) What do you think is /or are the steps that can best taken by the CBN to enhance and or deepen financial inclusion, especially in the northern Nigeria?
- c) As an individual business owner, do you think Islamic equity financing contracts are best suited for financing your businesses? Why?
- d) Do you have any other suggestions on regulatory approaches and policy adjustments on Islamic financing contracts that can enhance and deepen financial inclusion in northern Nigeria?

**Respondent Details**

Name:

Business Classification and Area of Specialization:

Gender:

Years of Business Experience:

## APPENDIX 4: EXCERPTS OF CODING PROTOCOL

### CODING PROTOCOL

Questions	Keywords	Respondent ID	Actual Conversation from the Respondents	Summary of main response	Themes	Rater		Comment
						Agree	Disagree	
<b>Q1a)</b> Do you understand the classification and characteristics of Islamic financing contracts? Yes/No/Interested to know	Understanding of classes of Islamic financing contracts	R1	Yes	Yes	(1) Islamic finance awareness			
		R2	Yes	Yes				
		R3	Yes	Yes				
		R4	Yes	Yes				
		R5	Yes	Yes				
<b>Q1b)</b> To what extent are you familiar with Islamic equity financing contracts? What is your perception of them?	Familiarity with Islamic equity financing contracts	R1	fairly well. Equity Financing Contracts are risk and reward sharing contracts where all parties contribute stakes to fund a transaction after which risks and rewards are shared proportionately	Islamic equity financing contracts are about risk and reward sharing	(2) Perceptions about Islamic equity financing contracts			
		R2	Have a fair knowledge of them and have not seen fairer contracts than them.	Islamic equity financing contracts are about fairness				
		R3	I am quite familiar with them. I think that they are a main differentiator between conventional and Islamic Banking products. However, the stringent guidelines around them have made them near impossible for Islamic Banks in Nigeria to participate in such contracts especially with SMEs and Start-ups that need it most.	Islamic equity financing contracts distinguishes Islamic from conventional finance, but Nigerian Islamic banks avoid them due to rigid regulations				