Kdz Uni Int J Islam Stud and Soc Sci 2025;2(2)254-262 DOI: https://doi.org/10.71082/ak3pyb97 KUIJIS

Open Access

The Role of Shari'ah-Compliant Banking in Nigeria's Economic Growth and Development

Muhammad Jumat Dasuki[1*]
1, Department of Religions, Faculty of University Malete, Kwara State, Nigeria
[*]Corresponding Email: dasukimuhammad23@gmail.com Phone Number: 08036933436

Article History:
Received: 02. 06.2025
Accepted: 14. 06.2025
Online First: 25.06.2025

Citation:
Dasuki, M J. (2025). The Role of *Shari'ah*-Compliant Banking in Nigeria's Economic Growth and Development. *Kdz Uni Int J Islam Stud and Soc Sci*;2(2):254-262

e-ISSN: 3078-3895

This is an open access article under the Higher Education license

Copyright:© 2025 Published by Kunduz Universty.

Abstract

This research delves into the impact of Islamic banking, guided by *Shari'ah* principles, on Nigeria's economic advancement. Recognizing its emergence as a pivotal alternative to conventional finance, this study investigates its theoretical foundations, practical implementation, and tangible contributions to Nigeria's economic growth. It meticulously analyses the core principles, such as the avoidance of interest and speculative practices, and contrasts them with traditional banking methods. The evolution of Islamic banking within Nigeria is traced, highlighting its role in expanding financial access, supporting small businesses, funding infrastructure through Islamic bonds, and fostering macroeconomic stability. Despite its potential, the sector grapples with regulatory hurdles, limited public understanding, and liquidity challenges. This analysis also identifies growth prospects, including rising demand for ethical financial solutions, government backing, and the integration of financial technology. Recommendations are offered to strengthen Islamic banking, focusing on policy improvements, public education, the development of diverse financial instruments, and investment in skilled personnel. By examining these factors, this research aims to illuminate the future trajectory of Islamic banking in Nigeria, underscoring its potential to drive sustainable economic progress.

Keywords: Economic Development, Financial Inclusion, Islamic Banking, *Shari'ah*- Compliant Finance.

Introduction

In Nigeria's evolving banking sector, the introduction of *Shari'ah*-compliant banking, adhering to Islamic principles like risk-sharing and asset-backed financing, represents a significant development (Adebayo, 2018; Kamali, 2018; Chapra, 2016). With a large Muslim population in Africa's largest economy (World Bank, 2020; Pew Research Center, 2019), this system provides an alternative to conventional banking, fostering financial inclusion (Adebayo, 2018). The Central Bank of Nigeria (CBN) has facilitated this growth with supportive regulations, recognising its potential for economic stability (Sanusi, 2011).

Sharia-compliant banking can stimulate economic growth by mobilizing investment, supporting SMEs, and funding infrastructure, promoting ethical practices and reducing speculative risks (Obaidullah, 2018). Its focus on asset-backed financing directs funds to

productive activities, aiding job creation and poverty reduction. However, challenges like regulatory constraints and limited public awareness remain.
The primary research question is: What are the roles *Shari'ah* plays in strengthening and institutionalizing the compliant banking, adhering to Islamic principles like risk-sharing and asset-backed financing The hypothesis is predicated on the notion that *Shari'ah* as sacred religion that generate knowledge and awareness, can significantly contribute to shaping financial sector in Nigeria.

The primary objectives of this study is to:

1. Examines the role of *Sharicah*-compliant banking on Nigeria's economic growth,
2. Explore its theoretical framework, practical application, and empirical contributions. By analyzing these factors,
3. Provide insights into its future prospects within Nigeria's financial landscape.
4. increase awareness of the Islamic financial approach in structuring and developing Islamic finance products,
5. Focuses on implementation of Islamic finance in Nigeria especially Islamic Banking sector which received the attention of most promoters in Nigeria. It further examines the implementation, challenges and prospects of Islamic finance system in Nigeria
6. Examines the implementation, challenges and prospects of Islamic finance system in Nigeria.

Material and Method

The article adopts academic databases, descriptive-analytical approach, historical and descriptive methodology. Library resources and online libraries are used as the primary data collection tool that includes books, scientific journals, and documents.

Main objective of sharah-compliant banking

The study finds that the Foundation and essential feature of Islamic Financial banking is interest-free. Islam has prohibited Muslims from taking or giving interest (*riba)* of any form regardless of the purpose connected with how the loans are made and also regardless of the rates at which interest is charged. (*Riba)* is a predetermined excess or surplus above the loan received by the creditor conditionally in relation to a specified period.
Islamic financial institutions must also ensure that all the transactions are *Sharicah* compliant not only in their forms and legal technicalities but in their economic substance which should be in accordance with the laid down objectives by the *Shari'ah.*

Concept of *Shariᶜah* -Compliant Banking

Shariᶜah -compliant banking, commonly referred to as Islamic banking, is a financial system that operates in accordance with Islamic law (*ShaIrʿah*). It prohibits interest-based transactions (riba) and promotes ethical, risk-sharing financial practices (Kamali, 2018). This form of banking adheres to core Islamic principles such as fairness, transparency, and social responsibility, ensuring that financial activities contribute positively to economic development and social welfare (Chapra, 2016).

The primary principles of *Shari'ah* -compliant banking include:

- Interest-Free Banking (Prohibition of Riba): Islamic banking strictly prohibits *riba* (usury or interest), as it is considered exploitative and unjust. Instead of earning interest, banks generate revenue through profit-sharing agreements and asset-backed financing (Ahmed, 2020).
- Risk-Sharing (Profit and Loss Sharing)**:** Unlike conventional banking, where lenders earn fixed interest regardless of business outcomes, Islamic banking emphasizes risk-sharing between financial institutions and their clients. Contracts such as *Mudarabah* (profit-sharing investment) and *Musharakah* (joint partnership) ensure that both parties share profits and losses (Obaidullah, 2018).
- Asset-Backed Financing (Avoidance of Speculation and Gambling)**:** Islamic banking prohibits speculative and uncertain transactions (*gharar*) as well as gambling-like activities (*maysir*). Financial transactions must be backed by tangible assets or services to ensure real economic value is created (Kamali, 2018).
- Ethical Investment**:** Islamic banks prioritise investments that align with ethical and moral standards, avoiding industries related to alcohol, gambling, pork products, and other prohibited (*haram*) activities (Chapra, 2016).

These principles collectively ensure that Islamic banking fosters economic stability, social justice, and sustainable development.

Differences between *Shariᶜah* -Compliant Banking and Conventional Banking

Islamic banking differs fundamentally from conventional banking in several key aspects:

Feature	*Shari'ah* -Compliant Banking	Conventional Banking
Interest (Riba)	Prohibited; banks earn through profit-sharing and service fees	Interest-based lending is central to revenue generation
Risk-Sharing	Encourages shared risk and profit/loss distribution	Lenders bear minimal risk; borrowers carry full risk
Investment Approach	Focuses on ethical, *Sharicah* -compliant investments	Investments are made based on profitability alone
Speculation (Gharar)	Prohibited; transactions must be clear and backed by assets	Speculative investments, such as derivatives, are common
Social Responsibility	Encourages charitable activities (*Zakat*) and ethical banking	Primarily profit-driven without mandatory social responsibility

These distinctions highlight the ethical and risk-sensitive nature of Islamic banking compared to the profit-maximizing approach of conventional banking.

Evolution of Islamic Banking in Nigeria

The development of Islamic banking in Nigeria has been driven by a growing demand for *Shari'ah* -compliant financial services and robust regulatory support from the government. The history of Islamic banking in Nigeria can be outlined in the following phases:

1. Early Initiatives (Pre-2000s): Informal Islamic financial practices were prevalent within Muslim communities, including cooperative societies and local savings schemes that operated on profit-sharing principles. However, formal Islamic banking institutions had not yet been established (Sanusi, 2011).
2. Regulatory Developments (2000–2010): Recognizing the need for alternative financial services, the Central Bank of Nigeria (CBN) introduced regulations for non-interest banking in 2009, providing a legal framework for the establishment of Islamic banks (Adebayo, 2018).
3. Introduction of Full-Fledged Islamic Banks (2011–Present): The first fully licensed Islamic bank, Jaiz Bank, commenced operations in 2012, followed by the emergence of non-interest banking windows within conventional banks. Regulatory bodies such as the Nigeria Deposit Insurance Corporation (NDIC) and the CBN have since strengthened policies to support the growth of Islamic finance (Obaidullah, 2018).
4. Expansion and Future Prospects: Islamic banking in Nigeria continues to expand, with increasing public awareness and institutional support. More financial institutions are exploring *Sharicah* -compliant banking models, and the introduction of *Sukuk* (Islamic bonds) has further integrated Islamic finance into Nigeria's capital markets (Ahmed, 2020).

The evolution of Islamic banking in Nigeria highlights its potential to contribute to financial inclusion, economic diversification, and sustainable development. However, challenges such as regulatory constraints, limited awareness, and infrastructural gaps remain obstacles to its widespread adoption.

Shari'ah -Compliant Banking and Economic Growth

Economic growth is a fundamental goal of any financial system, as it leads to improved living standards, increased employment, and overall national development. *Sharicah*-compliant banking contributes to economic growth by promoting financial inclusion, supporting small and medium-sized enterprises (SMEs), enhancing investment flows, and fostering macroeconomic stability:

a. Financial Inclusion and Access to Banking Services: *Shari'ah*-compliant banking significantly enhances financial inclusion in Nigeria. By offering an alternative to interest-based transactions, it draws in previously unbanked populations, particularly those in Muslim-majority regions, who were excluded due to religious concerns (Adebayo, 2018). This inclusion stimulates economic growth by enabling access to credit, savings, and investment through products like *Mudarabah* and *Murabaha,* allowing engagement in economic activities without compromising religious principles (Obaidullah, 2018). Consequently, the expansion of Islamic banking services broadens the economic base and reduces financial exclusion.

b. Supporting Small and Medium-Sized Enterprises (SMEs): *Shari'ah*-compliant banking significantly supports SMEs, a vital driver of Nigerian economic growth, by addressing their financing challenges (World Bank, 2020). Through profit-and-loss-sharing models like Musharakah, Islamic banks partner with SMEs, sharing risks and rewards, thus fostering

business sustainability (Ahmed, 2020). This equitable risk-sharing, unlike conventional fixed-interest loans, reduces financial burdens. Consequently, Islamic banking contributes to job creation, income generation, and economic diversification by empowering SMEs.

c. Enhancing Investment Flows and Capital Formation: Shari'ah-compliant banking fosters ethical and productive investments, driving real economic growth by prioritizing asset-backed and risk-sharing ventures over speculative activities, directing funds towards vital sectors like infrastructure, agriculture, and manufacturing (Chapra, 2016). The introduction of Sukuk in Nigeria has facilitated capital raising for large-scale development projects, with successful government issuances funding critical infrastructure like roads and public utilities, thus boosting public investment (Sanusi, 2011). Furthermore, growing foreign investor interest in Nigeria's Islamic banking sector has increased foreign direct investment (FDI), strengthening financial markets and enhancing economic stability (Adebayo, 2018).

d. Contribution to Macroeconomic Stability: *Shari'ah*-compliant banking enhances macroeconomic stability by mitigating systemic risks tied to excessive leverage and speculation. The prohibition of *riba* and *gharar* ensures a more sustainable and risk-averse operational basis (Kamali, 2018 & Mannan 1980). Unlike conventional systems prone to credit bubbles and excessive risk during crises, Islamic banking's focus on asset-backed financing and risk-sharing minimizes financial instability (Obaidullah, 2018). Thus, by fostering a responsible financial system, Sharia-compliant banking can protect Nigeria's economy from global financial shocks and strengthen long-term resilience.

Shari'ah Banking and Development in Nigeria

Shari'ah -compliant banking plays a significant role in the socio-economic development of Nigeria by promoting financial inclusion, supporting infrastructure development, reducing poverty, and generating employment. Given Nigeria's diverse financial needs and growing Muslim population, the expansion of Islamic banking has contributed to alternative financing solutions that align with ethical and sustainable economic practices.

i. Infrastructure Financing and Economic Development

Infrastructure development is a key driver of economic growth and national progress. *Shari'ah* -compliant banking has contributed to Nigeria's infrastructure development through financial instruments such as *Sukuk* (Islamic bonds), which provide non-interest financing for large-scale public projects. Unlike conventional bonds that generate interest, *Sukuk* are asset-backed securities that ensure returns are tied to tangible economic activities (Ahmed, 2020).

Nigeria has successfully issued several sovereign *Sukuk* to fund major infrastructure projects. For example, the Federal Government of Nigeria issued a ₦100 billion (*Sukuk* in 2017) to finance road construction across the country, and subsequent Sukuk issuances have further strengthened transport and energy infrastructure (Sanusi, 2011). These projects not only enhance connectivity and productivity but also create employment opportunities and stimulate local economies.

Furthermore, Islamic banks support real estate and housing development through *Ijara* (leasing) and *Istisna* (construction financing), providing affordable housing solutions for Nigerians. By financing essential infrastructure, *Shari'ah* banking contributes to long-term national development and economic sustainability.

ii. Poverty Alleviation and Social Welfare

Poverty remains a significant challenge in Nigeria, with millions of people lacking access to basic financial services and economic opportunities. *Shariʾah* -compliant banking addresses poverty alleviation through inclusive financial models that prioritize community welfare and wealth distribution (Chapra, 2016).

Notable poverty reduction mechanisms within Islamic banking include:

- *Zakat* (Charitable Giving)**:** Many Islamic financial institutions integrate *Zakat* collection and distribution into their operations, using funds to support low-income individuals, education, healthcare, and social welfare programmes (Obaidullah, 2018).
- *Qard al-Hasan* (Benevolent Loans)**:** Interest-free loans are provided to financially disadvantaged individuals to help them establish small businesses or meet urgent personal needs. These loans promote self-sufficiency without imposing financial burdens on borrowers (Adebayo, 2018).
- *Waqf* (Endowment Funds)**:** Islamic banking facilitates *Waqf* funds, which are used to finance community projects such as schools, hospitals, and vocational training centres, ensuring sustainable development in underserved regions (Kamali, 2018).

iii. Employment Generation and Skill Development

Sharicah-compliant banking significantly contributes to employment generation in Nigeria. It fosters job creation by financing SMEs through instruments like Musharakah and Murabaha, enabling business growth, particularly within the underserved informal sector (Ahmed, 2020). Furthermore, Islamic banks invest in human capital via educational programmes and vocational training, including scholarships and technical skill development, thereby enhancing workforce productivity and preparing individuals for emerging industries (Sanusi, 2011).

Challenges and Opportunities

Sharicah-compliant banking in Nigeria has made significant progress in providing an alternative financial system that aligns with ethical and religious principles. However, despite its potential to contribute to economic growth and development, the sector faces several challenges that hinder its widespread adoption. At the same time, emerging opportunities present pathways for further expansion and sustainability.

Challenges Facing *Sharicah* -Compliant Banking in Nigeria

Regulatory and Legal Constraints: One of the primary challenges facing *Sharicah*-compliant banking in Nigeria is the regulatory framework. While the Central Bank of Nigeria (CBN) has established guidelines for non-interest banking, there are still gaps in legal structures that limit the full integration of Islamic financial principles into the Nigerian financial system (Adebayo, 2018). Ambiguities in tax treatment, contract enforceability, and the lack of a dedicated Islamic financial regulatory body create operational challenges for *Sharicah*-compliant banks. (Hanafi, (2013))

Limited Public Awareness and Market Perception: Despite its growth, public awareness and understanding of *Sharicah* banking remain low. Many Nigerians, including business owners and potential investors, are unfamiliar with the principles and benefits of Islamic finance (Kamali, 2018). Additionally, misconceptions about Islamic banking being exclusively for Muslims have hindered its acceptance among the wider population. Without adequate

public education and sensitisation, market penetration remains slow. (Usman (2003)) Some of these challenges are:

i. Liquidity Management and Financial Instruments: Liquidity management remains a significant challenge for *Shariᶜah*-compliant banks in Nigeria. Unlike conventional banks that can easily access interbank lending markets, Islamic banks have limited *Shariᶜah* -compliant financial instruments for managing liquidity (Obaidullah, 2018). The absence of an Islamic interbank market and the limited availability of *Sukuk*, *Murabaha*, and other Islamic financial products restricts the ability of Islamic banks to compete effectively with conventional counterparts.

ii. Shortage of Skilled Professionals: The expansion of *Shariʾah* banking in Nigeria requires a workforce equipped with specialised knowledge of Islamic finance. However, there is a shortage of professionals trained in Islamic banking operations, risk management, and *Sharicah* -compliance (Ahmed, 2020). The limited availability of qualified *Shariᶜah* scholars further complicates governance and compliance in Islamic financial institutions.

iii. Competition with Conventional Banks: Islamic banks in Nigeria face stiff competition from well-established conventional banks. Since conventional banks offer a wider range of products, stronger market penetration, and extensive customer networks, Islamic banks often struggle to attract a broad customer base (Sanusi, 2011). Additionally, the relatively smaller capital base of Islamic banks limits their ability to expand operations and invest in large-scale projects.

Opportunities for Growth and Expansion

i. Increasing Demand for Ethical and Interest-Free Banking: There is a growing demand for ethical banking solutions in Nigeria, not only among Muslims but also among individuals and businesses seeking interest-free and socially responsible financial services. As awareness of *Shariʾah* -compliant banking increases, more customers are likely to adopt Islamic financial products (Chapra, 2016).

ii. Government Support and Policy Development: The Nigerian government has shown increasing support for Islamic finance, particularly through the issuance of *Sukuk* bonds for infrastructure development. Strengthening policy frameworks and introducing incentives for Islamic financial institutions can further accelerate the growth of the sector (Adebayo, 2018).

iii. Expansion of Islamic Microfinance and Fintech**:** Islamic microfinance has the potential to drive financial inclusion by providing *Shariʾah* -compliant credit to small businesses and low-income individuals. Additionally, the rise of financial technology (fintech) presents an opportunity for Islamic banks to offer innovative digital banking solutions, mobile payment platforms, and automated compliance tools to improve efficiency and accessibility (Obaidullah, 2018).

iv. Development of ***Shariᶜah***-Compliant Capital Markets: **T**he introduction of more *Shariʾah*-compliant financial instruments, including *Sukuk*, *Islamic mutual funds*, and *Takaful* (Islamic insurance**)**, can strengthen liquidity management and investment opportunities in Nigeria's Islamic finance sector (Kamali, 2018). Establishing an Islamic interbank market and promoting cross-border investments can also enhance market competitiveness.

v. Human Capital Development and Capacity Building: Investing in education and professional training for Islamic finance can bridge the skills gap and enhance the operational effectiveness of *Sharicah* -compliant banking institutions. Establishing dedicated

Islamic finance certification programmes and university courses can help cultivate a new generation of skilled professionals in the field (Ahmed, 2020 & Dusuki, (2011))

Conclusion

Shariᶜah -compliant banking has emerged as a significant financial model in Nigeria, offering an ethical and interest-free alternative to conventional banking. Its principles, rooted in risk-sharing, asset-backed financing, and ethical investment, make it a viable instrument for economic growth and sustainable development. The expansion of Islamic banking in Nigeria has contributed to financial inclusion, facilitated infrastructure development through *Sukuk* issuance, and supported SMEs through alternative financing mechanisms. Moreover, its emphasis on poverty alleviation, social welfare, and employment generation highlights its potential to contribute meaningfully to national development. Despite these contributions, the sector faces several challenges, including regulatory constraints, limited public awareness, liquidity management difficulties, and competition with conventional banks. However, increasing demand for ethical finance, government support for Islamic financial instruments, and the rise of fintech-driven solutions provide significant opportunities for growth. With the right policies and strategic interventions, *Shariᶜah*-compliant banking can play a transformative role in Nigeria's financial landscape.

Recommendations

1. It is advised that all university budgets be considered investments as opposed to expenses. By tackling issues in scientific research, this investment-focused strategy can help universities become self-sufficient.
2. It is necessary to broaden the worldview of universities. The reputation of colleges may suffer from a limited perspective in which they join the labor market only to sell their goods. It will need a more comprehensive view for universities to see themselves as important players in the labor market.
3. Universities should be obliged to get a portion of the research budget from both public and private entities in order to conduct cooperative studies.
4. Universities should set up research centers devoted to creativity and innovation across a range of disciplines. These centers ought to plan and suggest industrial and non-industrial research initiatives to public and commercial entities. Depending on the resources and requirements of each area, these research facilities ought to operate as scientific parks.
5. The chance to invest in significant, long-term initiatives should be granted to universities, with the proceeds going toward funding educational costs. For instance, constructing facilities for horticulture and cattle, agricultural processing, technology, psychotherapy, medical facilities, genetic and molecular research labs, microbiology, biochemistry, linguistics, etc.

Acknowledgment

The authors also thank the anonymous reviewers for their helpful comments and suggestions.

Data Availability Statement

The data that support the findings of this study are available from the corresponding author upon reasonable request.

Conflicts of Interest

The authors declare that they have no known competing financial interests or personal relationships that could have appeared to influence the work reported in this paper.

References

Adebayo, A. (2018). Islamic banking and finance in Nigeria: Challenges and prospects. *Journal of Islamic Business and Management*, 8(1), 1-15.

Ahmed, H. (2020). *Islamic banking and economic development: Theory and practice*. Routledge.

Chapra, M. U. (2016). *Islamic banking and finance: A moral and ethical perspective.* Edward Elgar Publishing.

Kamali, M. H. (2018). Islamic finance: Principles and practices. Routledge.

Obaidullah, M. (2018). Islamic financial services and economic growth: Challenges and prospects. Palgrave Macmillan.

Pew Research Center. (2019). The future of the global Muslim population. Retrieved from *https://www.pewresearch.org-1.pdf*, accessed on February, 20th, 2025

Sanusi, L. S. (2011). Islamic finance in Nigeria: Issues and prospects. Central Bank of Nigeria Occasional Paper Series, 4(1), 1-20.

World Bank. (2020). Nigeria overview. Retrieved from *https://www.worldbank.org on* January, 5, 2025.

Doi, A. I. (1990) Sharicah*: The Islamic Law*. (Ibadan: Ikhsan Islamic Publishers

Mahmud, A. B (1988) A *Brief History of the Shariᶜah in the Defunct Northern Nigeria*. (Jos: University of Jos Press.

Mannan, M. (1980) *A Islamic Economics Theory and Practice* (A comparative study) (Lahore, Pakistan: Muhammad Ashraf, Kashmiri Bazar,

Usman (2003) "The Legal and Regulatory Issues of Islamic Banking in Nigeria" ed. in *Islamic Banking: General Framework and case study,* International Institute of Islamic thought (IIIT),

Hanafi, (2013) "Challenges facing the implementation of Islamic Banking in Nigeria" ed. in, *the Learned* 7th Edition, Al-Fattah Publication Ltd

Adeshina, U.G.A (2008) "Between Prophet Muhammad Economic legacy and Modern banking ed. in *Muhammad: His immortal message, Al-Fattah* Production, Ilorin,

Al-Hashmiyy: *Majma' al-Zawaid* (Vol. 8) Dar al-Fikr Beirut, Lebanon,

Ibn al-Qayyim, *J. I'lam al-Muwaqqi'in a Rabb al-Alamined,* ed. T.A.R. *Sa'd, Dar al-Jil, Beirut*

A.W. Dusuki, (2011) and B. Said, "The Framework of *Maqasid Al-Shari'ah*" ed. *Islam and civilization Renewal,*
(Vol. 2) by the international institute of advanced Islamic studies, Malaysia,