SUKUK as a Viable Option Instrument of Financing Infrastructural Development in Nigeria

[1]SANI, Abdulrahman Bala PhD, [2]NASIR, A. Kaoje PhD & [3]BAKARE, Taophic Olarewaju

[1, 2,3]Department of Accounting and Finance, Usmanu Danfodiyo University Sokoto, Nigeria.
Email: [1]sonyaxle9@gmail.com, [2]naskaoje@yahoo.com, [3]abubackrie@gmail.com

Abstract
Infrastructure deficit is a major source of concern for stakeholders, as bad infrastructure is one of the country's biggest roadblocks to smooth corporate operations and capital inflows. Given the rise of population growth in Nigeria and the consequence need for infrastructure development to enhance the standard of living, it becomes necessary for government to build infrastructures at minimal cost. The present mode of financing infrastructure is usually marred due to high cost of servicing the debt secured to finance the infrastructure deficit in Nigeria. This has call for the best alternatives to finance the capital projects in Nigeria. Sukuk financing is one of the strategies for enhancing growth and development through capital project financing. Using exploratory research design, the study examines sukuk as a panacea for financing infrastructural deficit in Nigeria. The findings revealed that with the recent over-subscription with 346% (₦865bn) of just concluded offered, sukuk can be used to generate needed fund to finance infrastructural deficit in Nigeria. The study therefore concludes that if alternatives source with minimum cost are pursued, Sukuk can be a viable option for funding large-scale infrastructure investments in Nigeria, instead of seeking for external loans, which usually have negative effect on Nigeria economy. The study therefore recommends that government should take immediate steps to increase non-Muslim awareness of sukuk by engaging in more interactions with influential religious organizations, as sukuk might be utilized to fund Nigeria's deficit budget. This will improve capital market intermediation and stimulate the issuance of more sukuk as a reliable source of funding.

Keywords: SUKUK, finance, infrastructure, deficit, development, Nigeria

1. Introduction

Given the rise of population growth in Nigeria and the consequence need for infrastructure development to enhance the standard of living, it becomes necessary for government to build infrastructures at minimal cost. The present mode of financing infrastructure is usually marred due to high cost of servicing the debt secured to finance the infrastructure deficit in Nigeria. It has become a need of necessity for the government to seek alternative financing to meet its infrastructural needs (Oladunjoye, 2014). Poor health facilities, erratic supply of electricity, bad roads, and rail system repair, among other concerns, must be addressed urgently in Nigeria's infrastructure development.

It's against this background the government of Nigeria in 2017 decided to float Sukuk of N100bn which cost less when compared to conventional method of financing infrastructural development. Nigeria has maintained a low commitment to infrastructure spending in its annual budget over the years, despite a significant infrastructural shortfall that has been a stumbling block to economic growth and development as a result of increase in population of the country (Ahmad, 2019). Nigeria's expanding infrastructure deficit is a major source of concern for stakeholders, as bad infrastructure is one of the country's biggest roadblocks to smooth corporate operations and capital inflows. The foreign creditors such as World Bank, Africa Development Bank, International Monetary Fund (IMF) grant loan with stringent condition such as devaluation of the country's currency, removal of subsidy, privatization of public institutions and high interest rate among others. With Sukuk, all that need to be done is specified the projects to be financed by Sukuk which will give the opportunity for the country to leverage its massive natural and people resources in order to achieve broad-based, sustainable, and equitable growth (AbdulKareem & Mahmud, 2020; Rufus, 2017).

Despite the FGN's recent commitment to local productivity, the country's poor road network remains a major stumbling block to achieving the goal. To put things in perspective, terrible road sections are a nationwide phenomenon that adds significantly to the country's rising production costs (Ahmad, 2019).

Therefore, the current study attempts to examine how sukuk financing can be used as best alternative to develop deficit infrastructural development in Nigeria. The paper is a review in nature with special focus on Al-Ijarah sukuk.

2. Literature Review

Sukuk financing is one of the strategies for enhancing growth and development through capital project financing, and in order to facilitate such strategies, particularly in Nigeria. It is critical to gain a thorough understanding of what sukuk are, how they differ from conventional bonds, and what factors influence their issuance. In September 2017, the issue of sukuk began as a strategic endeavor to support infrastructure development, promote financial inclusion, and strengthen the local securities market (Rehman, 2020).

Sukuk has now become the strongest sector in Islamic finance, according to AbdulKareem, Mahmud, AbdulGaniyy and Yazid, (2020), since it is active in the world market and generates a significant cross-border flow of money that can be achieved outside of domestic markets. Sukuk investments demand a guaranteed return with minimal risk and Shariah compliance (Abdulkareem, & Mahmud, 2020; Ahmed, 2014; Ayub, 2007). In addition to the traditional investor base, sukuk provides corporations and governments with access to a liquidity pool (Ayu, Sary, & Nanygolan, 2020; Godlewski, Turk-ariss, & Weill, 2010).

The Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) defines sukuk as a certificate of equal value that symbolizes undivided ownership interests in tangible assets, usufructs, and services, or (in the ownership of) the assets of particular projects or special investment activities. Sukuk is a group of financial instruments used to raise funds in both the public and private sectors. They are considered financial instruments for resource mobilization (AAOIFI SS17). It is an Arabic word for "financial certificate." The construction of a sukuk is somehow related to that of a conventional bond: however it is structured according to Shari'a standards (Godlewski, Turk-ariss, & Weill, 2013). As a result, sukuk are referred to as "Islamic Bonds," with the fundamental difference being that the underlying assets' legal and/or beneficial owners are the sukuk holders (Thomson Reuters, 2015).

Historical Development of Sukuk as an Islamic Financial Instrument

Sukuk's evolution over time, from its beginnings in antiquity to the present, may be tracked. Under the rule of Caliph Marwan ibn al-Hakam during the Umayyad Caliphate in the first century AH, the term "sukuk" was first employed in classical literature. Sukuk is defined as a document that entitles its holders to receive commodities or grains when the sukuk matures, more specifically as commodity or grain coupons. When these certificates reached maturity, the holders used to exchange their cash for the sukuk and then receive the goods or grains

(AbdulKareem & Mahmud, 2020). By using this strategy, the underlying assets that the sukuk represented were sold before the holders acquired possession of the commodities or grains.

According to Izakça, the Ottoman Empire (1299-1923) has been financing public debt by issuing identical financial certificates known as esham from 1775 (2011). In order to raise money, the state's tax revenue had been securitized; the underlying assets of these certificates were the right to collect taxes (a form of financial right). The International Islamic Fiqh Academy of the Organization of Islamic Cooperation (IFA-OIC) discussed Muqaradah bonds in 1986 and 1988. The discussions defined the criteria for obtaining Muqaradah certificates, thereby legitimizing the Sukuk concept. After Jordan's Ministry of Awqaf, Islamic Affairs, and Holy Places began the process of issuing Muqaradah sukuk in 1977 (IFA-OIC, Resolution No. 30 (5/4), 1988), the IFA-OIC issued a resolution on the subject. Jordan's government had been looking for Shariah-compliant funding for waqf property renovations, and had planned to use earnings from specific projects to back the Sukuk issuance. It had started the process by enacting the Muqaradah Bonds Act, which went into effect in 1981 (AbdulKareem, Mahmud, AbdulGaniyy & Yazid, 2020).

Other countries, like Pakistan, Malaysia, and Turkey, attempted to issue Sukuk before 1990, but were unsuccessful. However, due to the prevailing conditions in those countries at the time, these issuances were short-lived (with the exception of Malaysian government issuances). Between 1990 and 2000, the Sukuk market was in its infancy. Stakeholders, including potential issuers and investors, refer to this period as the awareness-building phase (Rehman, 2020). In Malaysia at the time, there was a great deal of interest in the introduction of the Sukuk market, the participants, the concepts, the methods, and the structures of Sukuk.

The emergence of the Sukuk market can be traced back to 2001. In the midst of strong market growth, there has been a surge in the number of Sukuk issues. In terms of the many forms of Shariah contracts employed in its structuring, the underlying assets supporting the issuance, the varieties of Sukuk issued, and advancements in terms of participants, investors, markets, and infrastructures, among other things, Sukuk has evolved as a financial instrument (Sulaiman, 2020).

Development of Sukuk in Nigeria

Nigeria's first Sukuk was for the Osun State. The Osun Sukuk was released in 2013. Ten schools were built using the money from the sale of sukuk: three in Osogbo, the state capital, and one in each of the following communities: Ila-Oragun, Ikurun, Iwo, Ilesa, Ife, Ikire, and Ejigbo. As a result, the fundamental source of income was provided by the schools. According to the Sukuk Ijarah, the Osun State Sukuk Company was founded by the state government as a Special Purpose Vehicle (SPV). The SPV sold each sukuk holder a unique ownership interest in the schools that it owned (Salaudeen, 2021).

The SPV later leased the schools to the state government, collecting money from the deal that was then applied to paying the holders of sukuk. After the lease's seven-year term was up, the state government bought the schools outright, returning the principle as well as the money to the holders of the sukuk.

Sudan and Gambia started issuing sukuk in the late 2000s, mostly as a tool for managing central bank reserves, despite the fact that the Osun Sukuk was unique. Abdurerahman Jamal Yesuf (Islamic Economics and Finance in Sudan: IKRAM Report 4, December 2017). Nigeria's Securities and Exchange Commission (SEC) only developed laws to create a framework for selling and investing in sukuk after the Osun State incident. The implication is that the Osun Sukuk will not be traded on a secondary market. The selling of Osun State sukuk proved to be a game-changer in Nigeria. Following that, Nigeria's federal government issued four sovereign sukuks.

Nigeria is the region's third-largest sukuk issuer, trailing only South Africa and the Ivory Coast. Senegal started things off in 2014 with a 100 billion CFA franc four-year sukuk, and Côte d'Ivoire upped the ante in 2015 and 2016 with sales of 150 billion CFA franc five-year and seven-year sukuks. Meanwhile, in 2014, South Africa sold a six-year, $500 million sukuk, making it the first African government to do so. Twenty-five (25) important roads throughout the nation will be funded by a N100 billion seven-year sukuk that was auctioned off by the Federal Government of Nigeria (FGN) (Ogunbado, Islam, Sharif, & Ahmed, 2017).

With the first issue's success, the FGN promptly issued a second batch of ₦100 billion 7-year issues in 2018. By this time, the Nigerian Federal Government had established a legal and regulatory framework through the Debt Management Office (DMO). In 2020, the company issued its third sukuk bond, worth ₦150 billion over seven years, which was oversubscribed by ₦519.12 billion. The fourth road sukuk, worth ₦250 billion, was issued in 2021 and received almost ₦865 billion in subscriptions, representing a 346 percent oversubscription over a 10-year period.

Table 1: Overview of Nigeria's Government Sukuk Issuances

SPV Issuer	**Osun Sukuk Company Plc**	**FGN Roads Sukuk Company 1 Plc**
Obligor	State Government of Osun	Federal Government of Nigeria
Structure	Ijarah	Ijarah
Sukuk/Obligor ratings	Bbb+ (Agusto & Co) A (Agusto & Co)	B- (Fitch)
Use of proceeds	The net proceeds of ₦10.97 billion which was utilized for the construction of 23 high schools; construction of 2 middle schools; and construction of 2 elementary schools.	Over the course of four years, the federal government earned ₦1.77 trillion through sukuk bonds. Between 2017; 2018; 2020 and 2021, the bond was issued. Sukuk bonds were issued to fund 97 road projects across six geo-political zone of the country.
Facility tenure	**7 years**	**FGN SUKUK I- 7years**
Issuance date	10 October 2013	22 September 2017
Maturity date	10 October 2020	22 September 2024
Amount	₦11.4billion	₦100billion
Rent rate	14.75%	16.47%
Order book	Fully subscribed	Oversubscribed more than 5.8%
FGN SUKUK II- 7YEARS		₦100billion (over-subscribed by 132%)
Rental Rate		15.74%
Issue and Closing dates		Dec. 6 & Dec. 17, 2018
Maturity Date		Dec. 6, 2025
FGN SUKUK III-7YEARS		₦150bn (Oversubscribed by 446%)
Rental rate		11.20%
Issue date & Rental Commencement Date		June 16, 2020
Rental Payment Dates		June 16 & December 16 of each year
Maturity Date		June 16, 2027
FGN SUKUK IV-10YEARS		₦250billion(Oversubscribed by 345%)
Rental rate		12.80%
Issue and Closing dates		Dec. 16 & Dec. 22, 2021
Maturity Date		Dec. 16, 2031

Sources: Prospectus of Osun Sukuk Company Plc, Prospectus of FGN Roads Sukuk Company Plc

Table 1 provides more information on the Osun State Sukuk and the FGN Sukuk. Another sovereign sukuk is apparently in the works; the Nigerian Mortgage

Refinance Company (NMRC) intends to issue its first sukuk. The goal is to find lower-cost capital for mortgage refinancing and relieve the ultimate mortgage beneficiaries of their interest-rate burden (Debt Management Office, 2021).

Phases of Sukuk Development

According to AbdulKareem and Mahmud (2020), Sukuk were first issued as commodity/grain coupons in the 1st century AH during the Umayyad Caliphate under the ruler of Caliph Marwan Ibn Al-Hakam, and the holders were entitled to receive commodity/grains when the Sukuk matured. The Ottoman Empire began issuing financial certificates known as "esham" to cover public debt in 1775.

Early Attempts to Develop Sukuk (Pre-1990s): This is the time period when Muqoradah Sukuk was first issued in Jordan in 1978. In 1980, Pakistan began issuing participation period certificates. Malaysia's government first issued Government Investment Issues (GII) in 1983. In 1984, Turkey released revenue-sharing certificates. There was no active market in the pre-1990s era, which is referred to as a period of ad hoc development.

Issuances of Early Sukuks (1990-2000): Shell MDS Malaysia released the first corporate Sukuk in 1990. Small local issuances followed, primarily in Malaysia. It was a time of theory and model development rather than active market development.

Sukuk Market Development (2001-2016): In 2001, Bahrain's national Ijarah (lease) Sukuk was the first ever issued by a sovereign nation. The Malaysian government just released the top-rated international asset-based Ijarah Sukuk in the entire world. More innovative products are currently being created, including retail Sukuk, perpetual Sukuk, subordinated Sukuk, and Sustainable & Responsible Investment (SRI) Sukuk.

Sukuk Market Expansion (2017 to date): Strong investor demand for Sukuk; expansion of the halal business led to the growth of the Sukuk market; additional jurisdictions are jumping on board as issuers; more innovation is expected.

Types and Structures of Sukuk

As the global sukuk market grows, new forms of sukuk are emerging to suit the growing demand, based on the preferences and needs of clients. Mudarabah sukuk, musharakah sukuk, murabahah sukuk, istishna sukuk, ijarah sukuk, and hybrid sukuk have all been established based on Islamic means of financing. Based on the kind and characteristics of the issued sukuk, AAOIFI has published shariah standards for several types of sukuk, with certain sukuk classed as tradable and others classified as non-tradable. Ijarah sukuk have emerged as the most preferred alternative for financing infrastructure projects among the many types of sukuk:

Mudarabah Sukuk: This agreement enables an entrepreneur to carry out commercial initiatives on a profit-sharing basis, based on previously agreed-upon percentages, between a party who contributes capital and another party (the entrepreneur) (participation or trust financing). Losses are entirely the responsibility of the fund provider in the case of a loss.

Musharakah Sukuk: This contract, which is frequently used in equity financing, is somewhat similar to the Mudarabah contract. Due to the nature of musharakah, both parties are required to contribute money to projects, and in the event of a loss, both parties will suffer losses proportionate to the size of their investments.

Murabahah Sukuk: The Murabahah technique is one of the most widely used mechanisms for Islamic short-term funding (cost-plus financing). It is based on the conventional idea of purchase financing. It is based on a straightforward structure with a set markup that is added to the selling price with a postponed payment. The Islamic financial institution purchases the necessary tools or products from a third party, acquires ownership of them, and then sells them to its client at cost plus a reasonable profit.

Ijarah Sukuk: One of the most common sukuk issuance kinds, especially for project financing, is this one. A lease known as a "ijarah Sukuk" gives the lessee the option to purchase the asset at the conclusion of the term (finance lease). The assets for which the certificates are issued are not included in the balance sheet. The rental rates of return on such sukuk may be fixed or variable depending on the agreement. Investors receive coupon and principal payments from the lease's cash flow, which consists of rental payments and principle repayments. An economical medium- to long-term financing alternative is the ijarah sukuk.

Salam Sukuk: In a Salam Sukuk, the seller commits to provide the customer with a certain product at a later time in exchange for an up-front payment. The asset can be acquired by the buyer by paying for them in advance at a discount, who will then use the proceeds from their sale as financing. The salam sukuk differs from the istina'a sukuk in that the assets' purchase price must be fully paid for as well as the delivery date.

Istisna Sukuk: Istisna Sukuks are equal-value certificates that are issued with the goal of generating money. Heavy industrial projects, real estate development, and the purchase of large machinery like turbines, power plants, ships, and aircraft have all benefited from the usage of this type of sukuk (construction and manufacturing financing). The Islamic financial institution finances the manufacturer or contractor during the asset's construction, obtains title to the asset, and, after it is finished, either immediately transfers title to the developer on pre-arranged deferred payment terms or leases the asset to the developer under an Ijarah Sukuk.

Hybrid Sukuk: Hybrid Sukuks are a type of sukuk that combines two or more types of sukuk into a single contract. It has a more complicated structure and necessitates shariah compliance in every way. It provides a more diverse portfolio in a single contract. For example, the assets could include Istisna, Murabah, and Ijarah. The first hybrid sukuk was issued by the Islamic Development Bank (IDB) for $400 million. The assets were made up of 66% al-ijarah sukuk, 31% murabahah sukuk, and 3% al istisna sukuk.

Features of Sukuk al-Ijarah (Lease)

i. The contract must provide an agreed-upon rental rate for a specified period of time. By benchmarking it to a meaningful and well-known variable, rentals can be at a constant rate, increasing or decreasing.
ii. The contract must be backed by a real asset. The asset's value could be equal to only the principal or it could be equal to the principal plus rentals. This means that the Sukuk al-Ijarah contract can be based on assets or even cash flow.
iii. The leased asset must be of significant value. It is impossible to lease an asset without its usufruct. The creator will be responsible for any obligation arising from the asset's use.
iv. The originator will be barred from using the asset for anything other than the stated purpose. As a result, the asset must be used for the contract's stated purpose. Otherwise, the contract will be immediately breached.
v. If the asset is partially damaged or lost, the sukuk al-Ijarah contract will continue to exist for that item. If the complete loss is due to the originator's fault, the originator will be responsible for compensating the Trustee. More also, the ability to exchange Ijarah Sukuk on the secondary market is one of its most appealing aspects.
vi. Sukuk redemption will be determined by the type of sukuk. If the Sukuk is asset-backed, the redemption will be limited to the underlying asset's market

value. If the Sukuk is asset-backed, however, the redemption will take place at a specified price.

Steps involved in the structuring of Sukuk al-Ijarah

1. Special Purpose Vehicle (SPV) issues Sukuk on behalf of Originator.
2. Investors purchase Sukuk and pay the Issuer the principal amount. Issuer also serves as a trustee in this case.
3. The Originator agrees to sell the asset to the Trustee or Issuer SPV, and the Trustee agrees to buy it by signing a contract for a certain period of time. The trustee pays the originator the selling price, which is equal to the principal amount. The trustee leases the assets back to the originator for a predetermined amount of time under a leasing agreement.
4. The Trustee receives rental payments from the originator of the lease. Each rental payment is the same as the Sukuk contract's periodic distributable amount. The cost plus benefit approach is used to determine this recurring payment.
5. The Investors receive these periodic rental payments from the Issuer SPV.
6. The originator can exercise the call option for the underlying real asset under the buy- back agreement at a pre-determined exercise price at the maturity date. In this case, the trustee will sell the asset to the originator for the amount of the principal plus any interest that has accrued.
7. The trustee receives payment from the originator for the exercise price. The Issuer pays the Investors the dissolution amount. Through an agreement, the Trustee will appoint originator as a Servicing Agent, allowing originator to handle certain responsibilities such as asset maintenance, insurance, and taxes. The term "servicing costs" refers to all charges related with this agreement.
8. All extra rental (servicing charges) payable from the originator shall be put off against the Trustee's obligation at the end of the contract.

Players Involved in Sukuk-al-Ijarah

Originators: Due to the high cost of flotation, only extremely large corporations may be interested in issuing sukuk at first. Rating, documentation, investment banking, and distribution fees all contribute to the high cost of a sukuk issuance. As a result, it is more feasible for the government to issue Sukuk at first. Corporate originators may arrive later, once the Sukuk market has developed and the floatation cost of Sukuk has decreased. Except for the Islamic Development Bank, most Islamic banks operate as an SPV rather than an Originator (IDB). IDB plays the part of the Originator. The bulk of Islamic banks' asset class discourages them from acting as originators because most of their assets are short-term Murabahah.

As a result, issuing the Sukuk would expose the asset and debt to a huge maturity gap. Sukuk is appealing to individuals that have significant tangible assets on their balance sheets and want to grow their finance by securitizing those assets.

Special Purpose Vehicle (SPV): Although Islamic banks are most often used as SPVs, other investment banks and service providers can also be used for underwriting, lead management, and bookkeeping. Many conventional banks have an Islamic Investment banking arm or window to keep up with Islamic banks.

Subscriber and investors of Sukuk: Central banks, private sector Islamic banks, private commercial banks, and non-bank financial institutions are among the Sukuk subscribers. Investors in sukuk certificates are first restricted to institutional players until a substantial number of private investors enter the market. Individual investors may be able to invest in Sukuk after the Sukuk market matures. Depending on the nature and structure of the Sukuk, it can only be traded in the secondary market at its face value or at the market value of the underlying asset. In the Sukuk market, there is no room for hedging or speculating.

Benefit of Sukuk in Nigeria

The advantages of sukuks in Nigeria include the following, according to the Securities and Exchange Commission.

i. Domestic issuers (sovereigns and companies) can use the Sukuk instrument to get financing from the global market with a large investor base, luring direct foreign investment (DFI).
ii. Sukuk issuance has the potential to draw domestic investment capital that is invested in accordance with Islamic principles. Additionally, Sukuk are a popular investment option for both traditional and faith-based investors looking for reliable returns on investments that are liquid, diversified, and priced affordably.
iii. Sukuk fosters financial stability and genuine economic development by ensuring that every financial activity is supported by real economic activity. The transferable nature of Sukuk makes it simple for investors to liquidate their holdings whenever the need arises, which improves market liquidity. Investing in sukuk is generally risk-free from default.
iv. Sukuk investment income is tax-free in the futures markets, and Sukuk certificates are acceptable as collateral for interest-free loans. Because it carries no debt, sukuk has competitive pricing when compared to other financing options and is a low-cost financing option.

Sukuk Bond and Conventional Bonds

Sukuk are Islamic financial certificate that are frequently mentioned as Shariah complaints bonds. Both bonds and sukuk are sold to the investors who then get a stream of payments till a set date of maturity. Sukuk are compliant to the shariah which anybody cannot generate money from money which is tantamount to the riba. This is based on the principle that it is improper for any commodity, including money to increase in value simply by lending money to another person. However, Islamic law does not disallow investors from making a profit/return on the capital if the capital provider is willing to share the risk with entrepreneur. The conventional bonds are always interest (riba) based since the payment is fixed (Alam, Hassan, & Haque, 2013; Bhuiyan, Puspa, Saiti, & Ghani, 2020). While conventional bonds and Sukuk are very alike in nature but there are some important differences to be aware of:

i. Unlike traditional bonds, where investors' interest is not the owner of the underlying assets, sukuk are security-based and their holders have ultimate ownership against the assets.
ii. For a Sukuk to be valid, it must be supported by real property, which means that the purpose for which the road will be utilized must be stated. Unlike ordinary bonds, which allow investors to purchase straightforward receivables, this is not the case.
iii. The Sukuk's structure includes a self-regulating mechanism that serves as a safety valve so that, in the event that the issue of being oversubscribed arises, the issuer of the Sukuk is already aware of its limitation and has set aside a certain amount, preventing the total subscription from exceeding the value of the leased asset. In contrast, if a conventional bond receives excessive demand, the issuer's attempt to retain the maximum amount may not turn out to be a responsible move and may even endanger the interests of the investors. Due to their undivided ownership of the asset-backed sukuk, investors will still be able to recover a sizable portion of their investment should a problem arise.
iv. The investors bear losses in proportion to their investments and receive profits as stated in the prospectus. Bondholders receive returns in the form of fixed interest on their primary investment and suffer no losses.

Challenges facing in Issuance of Sukuk in Nigeria

According to DMO Director of Portfolio Management, the low volume of Sukuk bond issuance was due to certain severe limits on the bond (2021). When a Sukuk is offered, he says, the reason for which it will be used must be specified. Certain routes will be funded, and those roads must be mentioned (named). Because of the restrictions of non-interest financing, you can't just borrow for anything; you have to be specific about what you want to use it for. Other issues facing Sukuk bonds, according to Ogunbado, Islam, Sharif, and Ahmed (2017); Sulaiman, (2020), include:

i. There is little or no awareness of the economic benefits and infrastructure development of Sukuk; the majority of people do not understand how Sukuk works and, in fact, most people have never heard of it, particularly among non-Muslim religious groups.
ii. Social discontent is another aspect, as Nigeria is a multi-ethnic nation with varied religious views, and minority interests or fears are among the sources of discontent.
iii. Its implementation in Nigeria is likewise being misinterpreted as an attempt to Islamize the country. In addition to this, the time frame for the issuance is very short.

3. Methodology

This study employed exploratory research method which involves gathering information (data) and developing ideas about a relatively under researched context. Data were sourced from Prospectus of Osun Sukuk Company Plc, and Prospectus of FGN Roads Sukuk Company Plc National Bureau of Statistics as well as CBN statistical bulletin, it covers between 2013 to 2021.

Nigeria External Debt Profile, Budget Deficit, FGN Sukuk Issuance

Year	Nigeria External Debt	Budget Deficit	Year	FGN Sukuk Issuance
2017	$14.8billion	$20,395million	2017	₦100billion
2018	$21.04billion	$18,207million	2018	₦100billion
2019	$23.11billion	$21,019million	2020	₦150billion
2020	$28.57billion	$24,880million	2021	₦250billion

Source: CBN Bulletin, 2021

4. Conclusion and Recommendations

The study indicates that if correct policy alternatives are pursued, Sukuk can be a viable option for funding large-scale infrastructure investments in Nigeria. To this purpose, the government must accelerate infrastructure spending in order to close infrastructure gaps. Nigeria faces major hurdles in mobilizing the resources needed to enhance infrastructure services in order to boost economic growth as a resource-constrained developing country. Nigeria can use Sukuk as a feasible option for raising funds locally to fund infrastructure projects rather than relying on foreign loans to cover budget deficits. As a result, the study comes up with the following policy recommendations:

i. The government should take immediate steps to increase non-Muslim awareness of sukuk bonds by engaging in more interactions with influential religious organisations, as sukuk bonds might be utilized to fund Nigeria's deficit budget. This will improve capital market intermediation and stimulate the issuance of more sukuk as a reliable source of funding.
ii. The government, regulatory agencies, and market participants must work together to promote sukuk as an effective financing instrument for Nigeria's infrastructure gaps, rather than relying on foreign loans to cover deficit budgets. This is because Nigeria's total foreign debt is expected to exceed ₦32trillion by the end of 2023, and it is normally expressed in dollars. As the value of the naira declines over time, the country's foreign debt will continue to rise.
iii. As more Sukuk are issued, the investment class assets will grow, allowing Islamic-conscious individual and institutional investors to diversify their portfolios more effectively.

References

AbdulKareem, I. A., & Mahmud, M. S. (2020). Infrastructure Project Financing Through Sukuk as an Alternative to Infrastructure Project Financing Through Sukuk as an Alternative to Conventional Bond Financing. *Journal of Management and Operation Research*, *1*(19), 1–11.

AbdulKareem, I. A., Mahmud, S., & AbdulGaniyy, A. (2020). Thematic Review of Sukuk Ijarah Issued in Nigeria: An Opportunity for Economic Development, 2nd AICEIBs Proceeding

AbdulKareem, I.A, Mahmud, M.S, AbdulGaniyy, A.F, & Yazid, A.S. (2020). Shariah Issues in the Application of Repurchase Undertaking in Sukuk Mudarabah. *International Journal of Business and Technopreneurship*, *10*(2), 173-182.

Accounting and Auditing Organization of Islamic Financial Institutions (2017). *Shari'ah Standards*. Manama, Bahrain: Author.

Adegboyega, A. J. (2013). Excogitative Deconstruction of the Discourse Dynamics of the Controverted Non-Interest Banking and the Islamising Controversy Issues. *Journal of Islamic Economics , Banking and Finance*, *9*(1), 21–38. https://doi.org/10.12816/0001591

Ahmad, Z. (2019, October 27). Nigeria: Zainab Ahmed - U.S.$3 Billion World Bank Loan to Solve Nigeria's Two Critical Power Problems. *Allafrica*. Retrieved from https://allafrica.com/stories/201910270126.html

Alam, N., Hassan, M. K., & Haque, M. A. (2013). Are Islamic bonds different from conventional bonds? International evidence from capital market tests. *Borsa Istanbul Review*, *13*(3), 22–29. doi:10.1016/j. bir.2013.10.006

Ayu, U., Sary, F., & Nanggolan, Y. A. (2020). Underlying Assets and Sharia Governance Mechanism on Sukuk Yields.

Ayub, M. (2007). *Understanding Islamic finance*. (John Wiley & Sons Ltd 2007) 380.

Bahari, N. F., Ahmad, N. W., Shahar, W. S. S., & Othman, N. (2016). A Review on the Potential Growth of Sukuk, Issues and Its Challenges. *International Conference on Economics and Banking*, *2016*(2), 395–403. Retrieved from http://conference.kuis.edu.my/iceb2016/eproceedings/EB040.pdf

Bhuiyan, R. A., Puspa, M., Saiti, B., & Ghani, G. M. (2020). Comparative analysis between global sukuk and bond indices: value-at-risk approach. *Journal of Islamic Accounting and Business Research*, *11*(6), 1245–1256. https://doi.org/10.1108/JIABR-02-2018-0019

Debt Management Office [DMO] (2018). Actual External Debt Service Payments, January – December, 2017.Retrieved from: https://www.dmo.gov.ng/debtprofile/ external-debts/debt-service/2379-actualexternal-debt-service-payments-january-to-december-2017/file

FGN. (2017). *FGN ROADS SUKUK COMPANY 1 PLC/Pursuant to the Local Loans (Registered Stock and Securities) Act*, *CAP*. *L17*, *LFN*, *2004*. Abuja.

Godlewski, C. J., Turk-ariss, R., & Weill, L. (2010). Are Sukuk Really Special ? Evidence from the Malaysian Stock Exchange. *University of Strasbourg*, (APRIL 2010), 1–33.

Godlewski, C. J., Turk-Ariss, R., & Weill, L. (2013). Do the type of *Sukuk* and choice of shari'a scholar matter? *Journal of Economic Behavior & Organization*, *132*(2), 63–76.

International Islamic Financial Market (2012). *Sukuk Report: A Comprehensive Study of the Global Sukuk Market* (3rd ed.). Manama, Bahrain: Author.

Ogunbado, A. F., Islam, U., Sharif, S., & Ahmed, U. (2017). Islamic Banking and Finance in Nigeria : Exploration of its Opportunities and. *International Journal of Innovative Knowledge Concepts*, *5*(7), 12.

Oladunjoye, M. O. (2014). Sukuk as a Tool for Infrastructural Development in Nigeria. Journal of Islamic Banking and Finance, Vol. 2, (1), 335-344.

Osun Government (2017). *The Sukuk Bond and Garland for Aregbesola!,* Available at http://osun.gov.ng/2017/10/14/sukuk-bond-garland-aregbesola/

Rehman, A. A. (2020). Islamic finance takes on COVID-19. Retrieved from https://www.undp.org/content/undp/en/home/blog/2020/islamic-finance-takes-on-covid-19.html

Rufus, B. (2017). Critical Infrastructure Decay and Development Crises in Nigeria. *Global Journal of Human-Social Science Political Science*, *17*(2), 2–9.

Salaudeen, J. A. (2021). Sukuk: Potentials for infrastructural development in Nigeria. *International Journal of Banking, Accounting and Finance,* vol. 3 (7), 104-113.

Sulaiman K. O. (2020). Customer's expectations in Sukuk (Islamic bond) and the question of Islamization of Nigerian. *The Islamic College University Journal*, *55*, 23–45.

Thomson Reuters (2015). *New Rules No Fix for Indonesia's Dollar Fixation*. Available at https://www.reuters.com/article/indonesia-dollarisation/new-rules-no-fix-for-indonesias dollar-fixation-idUSL3N0Y924320150519.