



**SUKUK BOND AND INFRASTRUCTURE DEVELOPMENT IN NIGERIA
LESSONS FROM THE SOUTH-WEST GEO-POLITICAL ZONE**

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A B S T R A C T

The infrastructural deficit in developing countries necessitates alternative financing mechanisms beyond government funding, with Sukuk bonds emerging as a viable solution. This study examines the role of Sukuk bonds in promoting infrastructural development in Nigeria's South-West geopolitical zone. Using historical data from the Debt Management Office and case studies of Sukuk-funded projects, the study highlights the issuance, types, and Shariah-compliant principles of Sukuk, including Ijara, Musharaka, Murabaha, Mudaraba, Istisna, and Salam structures. The analysis demonstrates that Sukuk financing has facilitated the development and rehabilitation of critical road networks, such as the Benin-Ofosu-Ore-Ajebandele-Shagamu dual carriageway and the Ibadan-Ilorin road, thereby addressing funding gaps, reducing project completion times, and boosting investor participation. Lessons from the South-West experience emphasize the importance of government intervention, public-private partnerships, long-term planning, diversified funding sources, regional cooperation, and inclusive infrastructure for sustainable economic growth. The study concludes that Sukuk bonds represent an effective and replicable financing tool for infrastructure development in Nigeria, enhancing financial inclusion, capital market depth, and economic growth prospects.

Background to the Study

The infrastructural gap in the majority of the world's developing countries necessitates the need for alternate sources of financing, such as government action or private sector contribution. This is because the government alone cannot bridge the infrastructural deficit in these countries. Sukuk financing in some financial markets, as employed by some countries such as Malaysia, Sudan, and Bahrain, is one alternative that has recently become available. According to Kusum and Silva (2014), some international organizations such as the International Finance Corporation World Bank (IBRD), Islamic Development Bank, Gulf Investment Corporation, and International Islamic Liquidity Management Corporation have issued Sukuk in various countries including Dubai, Malaysia, the United States, London, the United Arab Emirates, and Luxemburg. In terms of Sukuk and infrastructure development in Nigeria, Yunusa (2019) believes that as a developing economy, Nigeria has the potential to be one of the world's top 20 economies. However, the lack of infrastructural facilities may prevent the chance if sufficient measures for such

infrastructural facilities have not been put in place utilizing Sukuk and other forms of financing infrastructure.

Furthermore, according to Abdulkarim and Mahmoud (2019), investment in Sukuk worldwide increased from USD25.5 billion to USD48.2 billion between 2005 and 2007. This indicates that the instrument is widely accepted and utilized around the world. In another development, Abdullah et al. (2014) claim that worldwide Sukuk issuance has expanded from USD 1 billion in 2001 to USD 136 billion as of June 30, 2009. Almost all African emerging countries, including Nigeria, have a glaring infrastructure shortfall. For this reason, Yunusa (2019) claimed that Nigeria's growing population is one of the causes of the nation's infrastructure deficit and that steps must be taken to close the existing gap. Another alternate source of finance for government development initiatives is the issuance of Sukuk. For instance, the Osun State Government in Nigeria issued the first Sukuk, valued at N10 billion, to finance the building and renovation of the state's high and middle schools. Nigeria's Federal Government issued N150 billion Sukuk in 2020 to fund a number of development initiatives across the nation's six geopolitical zones.

In light of the aforementioned, this study aims to proffer answers to the following research questions;

- i. How can Sukuk bonds serve as an alternative source of public finance?
- ii. What is the impact of Sukuk bonds on infrastructural development in the South-West geopolitical zone of Nigeria?

Historical background of Sukuk Bond

Over the course of its nearly two decades of existence, the Debt Management Office (DMO), the government body tasked with managing public debt, has assisted the Federal Government of Nigeria (FGN) by raising money to finance a variety of capital projects as permitted by the Appropriation Acts. While performing this role, the DMO has been pivotal in the development of the domestic financial markets and is credited with the introduction of new products. In addition, long-term FGN bonds are being issued to facilitate project funding for enterprises and state governments in addition to the FGN. Sukuk Bonds come in a variety of forms, which are explained here.

Ijara (Lease) Sukuk

Ijara is a contract in which a party purchases and leases a specified item (such as equipment, land parcels, or buildings) for a rental price to a client. The period of the rental and the charge are agreed in advance in the contract entered into between the Lessor (Asset Owner) and Lessee (Beneficiary), and the lessor retains ownership of the asset.

Musharaka (Profit & Loss Sharing Partnership) Sukuk

Musharaka is a partnership structure between two or more parties to fund a commercial enterprise in which all parties contribute capital, either in cash or in kind. Any profit earned from the business will be distributed based on a pre-agreed profit sharing ratio, while a loss will be split based on capital investment.

Murabaha (Cost-plus-profit margin sale) Sukuk

In essence, murabaha is a sales agreement wherein goods are sold at a price that include both the purchase price and a predetermined profit margin. Either cash or installments are accepted for payment.

Mudaraba (Profit sharing & Loss bearing Partnership) Sukuk

Mudaraba is a partnership agreement between an entrepreneur (Muḍārib) and a capital supplier (Rabb al-Māl). The capital provider gives money to a business or activity that the entrepreneur is in charge of. Losses are to be paid exclusively by the capital provider unless they are the result of misbehavior, negligence, or a breach of contractual obligations. Profits made by that business or activity are divided according to the percentage specified in the contract.

Istisna (Construction/Manufacturing Financing) Sukuk

Istisna is the sale of a specific asset with the seller's duty to build or construct it using his own materials and deliver it on a defined date in exchange for a predetermined fee that can be paid in installments or all at once.

Salam (Sale with spot payment but deferred delivery) Sukuk

Salam is the selling of a specified commodity of defined quality and quantity that will be supplied to the purchaser on a future date in exchange for an immediate full payment of the price.

Salam Sukuk are certificates of equal value issued for the aim of mobilizing salam capital so that the certificate holders can acquire ownership of the items to be provided under salam terms. It is mostly utilized in the agriculture industry. Financing and investing in Sukuk must comply with Islamic law and ethical norms known as Shariah principles, which include the following:

- i. Sukuk projects must benefit society and not be harmful, such as alcohol-related activities.
- ii. All asset/property transfers require a valid contract.
- iii. The transaction must be Shariah-compliant and based on mutual consent.
- iv. Transactions must not involve deception, fraud, or uncertainty that could result in loss or destruction.
- v. Speculation and gambling are prohibited.
- vi. Interest is prohibited.
- vii. Sukuk must be supported by underlying assets.
- viii. Sukuk assets must be well-defined, physically existing, and commercially valuable property (e.g. land, building, machinery) owned by the seller.
- ix. Sukuk holders receive returns primarily from the underlying assets' revenue or cash flows, such as rent, profit, or disposal.
- x. Assets can be both tangible and intangible, such as marketing rights and concession agreements.
- xi. To be tradable, Sukuks must have at least 1/3 of their assets in tangible form.

One of the landmark initiatives was the introduction of Sovereign Sukuk into the domestic financial markets in 2013 with the introduction of the 10 billion Naira Osun State Sukuk Bond, which had Lotus Capital as its leading issuing house and it was used to finance schools and roads across the state to achieve rapid development. The Debt Management Office also set aside N100 billion in September 2017 to finance twenty-five (25) road projects in the six (6) geopolitical zones of the nation. A second Sukuk worth N100 billion was issued in December 2018 for the same purpose, this time for twenty-eight (28) road projects spread across the six (6) geopolitical zones, based on the success of the first Sovereign Sukuk. By releasing a Sovereign Sukuk for N150.0 billion in June 2020, the DMO broadened its scope. The Third Sovereign Sukuk received a massive Subscription of N669.124 billion, demonstrating the high level of investor awareness about Sukuk when compared to 2017, when the debut Sovereign Sukuk was issued, as well as verified evidence of the Road projects financed by the first two (2) Sovereign Sukuks. The significance of obtaining cash for the government through Sukuk rests in the fact that the Sukuk Bond is project-related.

Furthermore, by allocating the earnings of the Sukuk to road projects, the DMO is helping to close the infrastructural gap in Nigeria. This is consistent with President Muhammadu Buhari's commitment to infrastructure development and economic growth.

Synopsis of South-West Geopolitical Zone in Nigeria

Six (6) states—Ondo, Osun, Oyo, Ekiti, Lagos, and Ogun—as well as 137 Local Government Areas make up Nigeria's South-West geographical zone. There are 18 LGAs in Ondo state, 30 in Osun state, 33 in Oyo state, 16 in Ekiti state, 20 in Lagos state, and 20 in Ogun state. There are roughly thirty-eight (38) million people living in the region overall, according to the 2006 population census.

In addition to agriculture, which provides the majority of rural communities with their main source of income, the zone is well-known for its trade and commerce, with a concentration of micro, small, and medium-sized indigenous businesses involved in manufacturing, fabrication, and agro-related goods. Agriculture thrives in the area due to the abundance of rich land. The zone's principal food crops include yam, cassava, cocoyam, and maize, while cash crops include rubber, cocoa, banana, and different sorts of fruits. The zone is rich in solid minerals and natural resources such as granite, crude oil, sandstone, lignite, kaoline, clay, coal, tin, and so on. The zone has a strong potential to attract investments in the following areas:

- i. Agro-allied industries (cocoa, cassava starch and flour, yam, fruits and vegetable canning);
- ii. Textiles (cotton socks, fishing nets, mosquito nets);
- iii. Industrial Minerals/Quarrying (glass industry, tableware, aggregate plant, including stone crushing plants);
- iv. Chemical Industry (manufacturing of bottles, flasks, cans, tubes, bags, and tiles);
- v. Chemical Industry (polyethylene, explosives, self-adhesive tape, pulp, and paper).

Infrastructural developments in South West Geo-Political zone

According to a 2015 United Nations report, the urban population will expand to 6.4 billion by 2050, with Africa's urban population accounting for 54% of the total by 2025, while the total African population is expected to reach nearly two billion by 2040 (United Nations, 2013). According to the World Health Organization/United Nations Children's Fund (2021), urban population growth in Nigeria has increased from 35% to 48%, with a 2014 projection of 170 million people. Urban regions, whether they be cities, towns, or conurbations, are rapidly increasing.

As a result, urban infrastructure facilities must meet the needs of continually rising customers. The problems of inadequate urban infrastructure development, lack of employment opportunities, inadequate and deteriorating buildings, squatter settlements, increased urban poverty, growing insecurity, and rapidly rising crime rates are more visible in the traditional core of the areas/settlements that accommodate the urban poor. Infrastructure development is critical to any economy's success (Jamal 2017). Financing infrastructure in many developing nations, particularly in Sub-Saharan Africa (SSA) countries like Cameroon, Ethiopia, Rwanda, South Africa, Uganda, and Nigeria, is a crucial instrument for governments to get on the path of sustainable economic development.

In order to realize the aforementioned, the Federal Government of Nigeria released the profits of its first Sukuk bonds to the Ministry of Works and Housing, which will be used to carry out 25 critical economic projects throughout the country. Table 1.0 shows how the ₦100 billion sukuk bond was distributed among Nigeria's main geopolitical zones.

Table 3. 1: Sukuk Fund Distribution to Various Geo-political Zones in Nigeria

S/NO	GEO POLICAL ZONES	NO OF ROAD PROJECTS	ALLOCATION OF SUKUK BOND PROCEEDS (N'Billion)	RANKING
1	North East	8	30.5	1st
2	South West	6	27.05	2nd
3	North Central	8	26.5	3rd
4	North West	7	26.5	4th
5	South South	10	'26.0	5th
6	South East	5	'26.0	6th

Source: Debt Management Office (2023)

According to the table above, the North East geopolitical zone received the most support to hasten its economic recovery following the damage caused by the Boko Haram war, which has ravaged the area since 2007. The impact of this Sukuk bond has resulted in enormous road infrastructure development in the North East, as well as increased economic activity, poverty reduction, and job creation. Arable farmers now have good highways to transfer their produce from the farm to markets and other areas in Nigeria. As a result, there has been a major surge of sukuk-funded infrastructure projects in the south-west states, including;

- i. The reconstruction and asphalt overlay of Benin-Ofosu-Ore-Ajebandele-Shagamu dual carriageway phase three and four

- ii. Dualization of Ibadan-Illorin road section two
- iii. Reconstruction of outstanding section of sections of Benin-Ofusu-Ore-Ajebandele-Shagamu dual carriageway phase III
- iv. Reconstruction and asphalt overlay of Benin-Ofosu-Ajebandele-Shagamu dual highway phase IV.
- v. Dualization of Ibadan-Illorin roads. Section II: Oyo-Ogbomosho road in Oyo

The introduction of sukuk bonds has addressed the issues related to road building in the country. Some of these challenges include but are not limited to, funding limits, poor contractor performance, weather conditions, security, and bad road usage.

Table 3.2: Amount raised via Sukuk Ijarah Bond in Nigeria from inception to date

YEAR	STATE/FGN	INTEREST RATE	DETAILS	SUBSCRIPTION
'2013	OSUN STATE GOVERNMENT	14.74%	Osun State Government issued N10 Billion and raised N11.4 Billion from Sukuk Ijarah for the Educational development of the state	114% SUBSCRIPTION
"2017	FGN	16.47%	The Federal Government issued N100 Billion sukuk bond which was over subscribed to the tune of N105.88 Billion	106% SUBSCRIPTION
2018	FGN	15.43%	The Federal Government issued N100 Billion sukuk bond which was over subscribed to the tune of N132 Billion	132% SUBSCRIPTION
2020	FGN	11.20%	The Federal Government issued N150 Billion sukuk bond which was over subscribed to the tune of N669.12 Billion	446% SUBSCRIPTION
' 2021	FGN	12.80%	The Federal Government issued N250 Billion sukuk bond which was over subscribed to the tune of N365 Billion	146% SUBSCRIPTION
2023	FGN	15.75%	The Federal Government issued N150 Billion sukuk bond which was over subscribed to the tune of N652 Billion	435% SUBSCRIPTION

Source: Debt Management Office/Osun State Government (2023)

Table 3.3: Trend Analysis of South-West Gross Domestic Product

YEAR	LAGOS (\$BILLION)	OGUN (\$BILLION)	ONDO (\$BILLION)	OYO (\$BILLION)	OSUN (\$BILLION)	EKITI (\$BILLION)
2020	20.45	12.05	8.52	8.35	5.32	2.92
2021	28.92	12.46	12.63	9.11	5.69	5.82
2022	33.68	13.21	16.85	16.12	7.89	8.21

Source: Debt Management Office/Osun State Government (2023)

Lessons from South-West infrastructural development

The south-west geo-political zones infrastructural development offers several lessons, including;

- i. Importance of government intervention: The zone’s development highlights the crucial role of government in infrastructure development, particularly in providing an enabling environment for private sector participation.
- ii. Public-Private Partnerships (PPPs): The success of PPPs in the zone demonstrates the effectiveness of collaborative efforts between the public and private sectors in delivering infrastructure projects.
- iii. Long-term planning: The zone’s development emphasizes the need for long-term planning and strategic thinking in infrastructure development, considering future growth and needs.
- iv. Diversification of Funding Sources: The use of Sukuk bonds and other innovative financing mechanisms in the zone shows the importance of exploring diverse funding sources for infrastructure development.
- v. Regional Cooperation: The zone’s development highlights the benefits of regional cooperation and collaboration among states to achieve common goals and shared prosperity.
- vi. Infrastructure as a Catalyst for Economic Growth: The zones development demonstrates how investments in infrastructure can drive economic growth, create jobs, and improve living standards.
- vii. Regular maintenance and updating of infrastructure is crucial for ensuring sustainability and optimal usage, as emphasized in the zone development.
- viii. Inclusivity and Accessibility: The zone’s development highlights the need for inclusive and accessible infrastructure that benefits all members of society, regardless of location or socio-economic status.

These lessons can serve as valuable insights for other regions and countries seeking to enhance their infrastructure development and promote economic growth.

Conclusion

Sukuk bonds are a relatively new concept in Nigeria, established to serve as an alternate funding source for the federal government's capital projects, mainly roads and bridges. Aside from these funding benefits, sukuk bonds are designed to increase

financial inclusion by attracting investors who desire to adhere to the principles of their religious beliefs. In addition, issuing these bonds increases liquidity and depth in Nigeria's capital market. Sukuk bonds have greatly decreased the cost and time previously required to complete road projects, as well as increased retail participation in the financing market, boosting confidence in the ability to replicate sukuk's success with other capital projects.

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