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Islamic finance as a tool for achieving the Sustainable Development Goals (SDGs): Evidence from Nigeria

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ABSTRACT

Introduction

Nigeria continues to face persistent development challenges, including infrastructure deficits, widespread poverty, financial exclusion, and increasing vulnerability to climate change. Conventional development financing sources such as tax revenues, foreign direct investment, and official development assistance remain insufficient to bridge the substantial financing gap required to achieve the Sustainable Development Goals (SDGs). This has renewed interest in alternative, ethical, and inclusive financing frameworks.

Objectives

This study examines the role of Islamic finance as a complementary development financing mechanism for advancing the SDGs in Nigeria. Specifically, it evaluates the effectiveness of sovereign Sukuk in infrastructure development (SDG 9), Islamic social finance instrument, Zakat and Waqf in poverty alleviation and social welfare (SDGs 1, 2, 3, and 6), Islamic microfinance in financial inclusion (SDG 8), and Green Sukuk in climate action and renewable energy financing (SDGs 7 and 13).

Method

The study adopts a qualitative and analytical approach, drawing on a systematic review of post-2021 academic literature, policy reports, and institutional data. Descriptive and comparative analyses are complemented by case-based evidence from Nigeria, which has emerged as a regional hub for Islamic financial innovation.

Results

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Findings indicate that Islamic finance instruments demonstrate strong alignment with sustainable development objectives through asset-backed financing, risk-sharing, and redistributive mechanisms. Nigeria's experience with sovereign Sukuk illustrates improved project accountability and infrastructure delivery, while Zakat and Waqf contribute to community-level service provision. However, the scalability of Islamic finance across SSA is constrained by regulatory fragmentation, liquidity management challenges, low public awareness, and limited standardisation.

Implications

Policymakers in Nigeria and Sub-Saharan Africa should strengthen regulatory frameworks, improve standardisation, and promote public awareness of Islamic finance instruments to enhance their scalability and effectiveness as complementary financing mechanisms for achieving sustainable development goals.

Originality/Novelty

This study contributes to the literature by providing an integrated, instrument-specific assessment of Islamic finance and SDG implementation in SSA, offering policy-relevant insights grounded in recent empirical evidence.

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INTRODUCTION

Nigeria stands at a pivotal moment in its development trajectory in the sub-Saharan Africa region. Despite hosting several of the world's fastest-growing economies, the region continues to bear a disproportionate share of global poverty, infrastructural inadequacies, and climate-related vulnerabilities (Marandi & Main, 2021; Miao & Nduneseokwu, 2024; Wang, 2026). According to the United Nations, developing regions face an estimated annual financing gap of approximately USD 2.5 trillion to achieve the Sustainable Development Goals (SDGs), a shortfall that conventional financing channels such as domestic tax revenues, foreign direct investment (FDI), and official development assistance (ODA) have proven increasingly incapable of closing (Kumar, 2025; Mazzucato, 2023; Missaglia & Vaggi, 2025). Structural fiscal constraints, rising public debt burdens, and declining aid flows further underscore the urgency of identifying alternative and complementary development financing mechanisms.

In this context, there is growing interest in non-traditional financial frameworks that are not only capable of mobilising long-term capital but are also ethically grounded, socially inclusive, and environmentally sustainable. Islamic finance represents one such framework. Characterised by asset-backed transactions, risk-sharing arrangements, and the prohibition of interest (riba), Islamic finance differs fundamentally from conventional financial systems that often decouple financial flows from real economic activity. By linking finance directly to tangible assets and productive investment, Islamic finance is theorised to mitigate speculative excesses, reduce systemic instability, and ensure that financial resources are channeled toward real-sector development (H. Ahmed, 2023; Alhammadi, 2026; Asutay & Yilmaz, 2025; Ghassan & Krichene, 2025; Yusuf, Ademola, et al., 2025).

Over the past two decades, Islamic finance has evolved from a niche market into a globally recognised financial industry, with total assets exceeding USD 2 trillion. Yet, despite SSA's sizeable Muslim population and pressing development needs, the region accounts for less than 1% of global Islamic financial assets. This disparity reflects not a lack of relevance, but rather institutional, regulatory, and informational barriers that have constrained the sector's expansion (Tok et al., 2022; Weiss, 2020; Youssouf & Mostafa, 2024; Yusuf et al., 2026). Importantly, recent empirical studies suggest that where enabling frameworks exist, Islamic finance has demonstrated tangible contributions to poverty reduction, income redistribution, and small and medium-sized enterprise (SME) growth (Abdeldayem & Aldulaimi, 2023; Alhammadi, 2026; Alshater et al., 2022; Hussein Kakembo et al., 2021; Yusuf, Mumini Oladapo, et al., 2025).

This paper advances the argument that Islamic finance should not be viewed solely through a religious or cultural lens, but rather as a viable and complementary economic tool for advancing the SDGs in SSA. Nigeria is selected as the focal case for this study because it reflects many of the structural economic and financial challenges that characterize several Sub-Saharan African economies. Despite being the largest economy in Africa, Nigeria continues to face significant development constraints, including high poverty rates, infrastructure deficits, and persistent financial exclusion, particularly among rural and low-income populations. According to the World Bank and the Central Bank of Nigeria, a substantial proportion of the population remains outside the formal financial system, limiting access to credit and investment opportunities needed to support sustainable development goals such as poverty reduction, inclusive growth, and infrastructure development. At the same time, Nigeria has witnessed a gradual expansion of Islamic finance institutions including non-interest banking, Sukuk issuances, and Islamic microfinance, which are designed to promote risk-sharing, ethical investment, and asset-backed financing. These characteristics align closely with the principles underlying the United Nations Sustainable Development Goals (SDGs). Consequently, Nigeria provides an appropriate empirical context for examining how Islamic finance mechanisms can function as a complementary financial instrument for advancing sustainable development outcomes in Sub-Saharan Africa.

Drawing on the convergence between Islamic economic principles and the normative foundations of sustainable development such as equity, social justice, and stewardship of resources the study situates Islamic finance within broader development discourse (Yusuf, Ademola, et al., 2025) . Specifically, the paper examines: (i) the role of sovereign Sukuk in financing infrastructure development (SDG 9); (ii) the contribution of Islamic social finance instruments, notably Zakat and Waqf, to social welfare outcomes including poverty alleviation, health, water, and sanitation (SDGs 1, 2, 3, and 6); and (iii) the emerging relevance of Green Sukuk in supporting climate action and environmental sustainability (SDG 13).

The analysis is anchored on recent empirical evidence, with particular emphasis on Nigeria, which has emerged as a regional hub for Islamic financial innovation and policy experimentation. Nigeria's experience with sovereign Sukuk, non-interest banking, and Islamic microfinance offers valuable insights into the opportunities and limitations of deploying Islamic finance as a development-oriented financing framework within the SSA context By synthesising theoretical perspectives and empirical findings, this study contributes to the growing literature on alternative development finance and provides policy-relevant insights for scaling Islamic finance across the region (Kismawadi, 2024; Norton, 2025; Raimi et al., 2024; Sabiu & Abduh, 2021; Yusuf, Ademola, et al., 2025).

The Landscape of Islamic Finance in Sub-Saharan Africa

Islamic finance in Sub-Saharan Africa (SSA) has progressed from a marginal financial experiment in the late 1970s into a recognised component of national financial systems in several countries. Initially dominated by small, standalone Islamic banking institutions, the sector has gradually expanded through regulatory recognition, sovereign Sukuk issuances, and increased engagement with international Islamic capital markets. This evolution reflects both domestic financial inclusion objectives and the growing demand for ethical and Shari'ah-compliant financial instruments (Abdullahi et al., 2021; Mahmoud et al., 2025; Rahayu et al., 2024; Shinkafi et al., 2019).

Nigeria currently stands as the largest Islamic finance market in SSA. The country has leveraged sovereign Sukuk as a fiscal instrument to finance infrastructure projects and address budgetary constraints, particularly in transport and road development. The Central Bank of Nigeria (CBN) has played a pivotal role by instituting a dedicated regulatory framework for Non-Interest Financial Institutions (NIFIs), thereby enhancing market confidence and institutional legitimacy. These reforms have positioned Islamic finance as a complementary component of Nigeria's conventional financial system rather than a parallel alternative.

South Africa represents an early adopter of Islamic capital market instruments in SSA. Its inaugural sovereign Sukuk issuance in 2014 was primarily motivated by the desire to diversify funding sources and attract Middle Eastern investors, rather than to finance explicitly Shari'ah-sensitive development projects (National Treasury of South Africa, 2014). However, recent policy discussions suggest a gradual reorientation toward aligning Islamic finance instruments with broader developmental and sustainability objectives, including infrastructure and green financing initiatives.

Within the West African Economic and Monetary Union (WAEMU), Senegal and Togo have emerged as regional leaders in Sukuk issuance. These countries have consistently utilised Sukuk to fund energy, water, and public infrastructure projects, benefiting from strong demand from investors in the Gulf Cooperation Council (GCC) countries (AfDB, 2020). Their experience demonstrates how Islamic finance can serve as a viable development financing tool when supported by coherent regional monetary and regulatory frameworks.

Kenya's engagement with Islamic finance has been driven largely by financial inclusion considerations. Islamic banking products are designed to serve the country's minority Muslim population while also appealing to the wider unbanked and underbanked segments of society, thereby contributing to inclusive economic growth in line with Sustainable Development Goal 8 (World Bank, 2020). This approach underscores the social finance dimension of Islamic banking beyond religious considerations.

Despite these advances, Islamic finance in SSA continues to face structural and institutional constraints. Limited public awareness, fragmented regulatory environments, and insufficient integration with national development planning often reduce the sector's potential contribution to sustainability and inclusive growth. Evidence from Ghana, for instance, highlights how low financial literacy and regulatory ambiguity constrain the effective deployment of Islamic financial instruments. These challenges suggest that further regulatory harmonization, capacity building, and policy coherence are necessary for Islamic finance to play a more transformative role in the region.

LITERATURE REVIEW

Islamic Finance and Sustainable Development Goals

Recent scholarship increasingly situates Islamic finance within the broader discourse on sustainable development, ethical finance, and alternative development pathways. The literature converges on the argument that Islamic finance through its emphasis on asset-backing, risk-sharing, and social redistribution possesses structural features that align closely with the Sustainable Development Goals (SDGs). Empirical and conceptual studies since 2021 have examined this alignment across infrastructure finance, poverty alleviation, financial inclusion, and climate action (Akhter et al., 2025; Ben Jedidia & Ghroubi, 2025; Harahap et al., 2023; Hasnat et al., 2025; Kholil et al., 2025; Zeb et al., 2022).

Islamic Finance Principles and SDGs Alignment

A growing body of literature highlights the normative convergence between Islamic economic principles and the SDGs. Yusuf et al. (2025) provide a comparative analysis demonstrating strong complementarities between the Maqasid al-Shari'ah and the SDGs, particularly in relation to social justice, equitable distribution, and environmental stewardship. This convergence is reinforced by the prohibition of *riba* (interest) and *gharar* (excessive uncertainty), which discourages speculative financial practices and promotes real-sector engagement, aligning with SDG 12 on responsible consumption and production.

Policy-oriented analyses also support this view. Although earlier, the World Bank (2015) remains influential in framing Islamic finance as a tool for inclusive and sustainable development, arguing that its asset-based nature enhances financial stability and developmental impact. More recent systematic evidence is provided by Hassan et al. (2025), whose review of SCOPUS-indexed studies finds a generally positive relationship between Islamic banking development and economic growth, particularly in emerging economies with supportive institutional frameworks. Furthermore, the role of specialized instruments in the African context is underscored by Ahmed and Obaidullah (2024), who demonstrate that the integration of social finance with digital platforms significantly accelerates the attainment of the SDGs.

Sukuk, Infrastructure Finance, and SDG 9

Infrastructure financing has received significant attention in recent Islamic finance literature, especially in the context of sovereign Sukuk. Baita & Suleiman (2021), in a peer-reviewed study published in the *Journal of Islamic Business and Management*, provide empirical evidence from Nigeria showing that sovereign Sukuk issuances have contributed meaningfully to road infrastructure development by ensuring ring-fenced funding and enhanced project accountability. Their findings support the argument that Sukuk instruments are particularly well-suited for capital-intensive, long-term infrastructure projects consistent with SDG 9.

Complementing this, Lotus Capital Limited (2025) documents that Nigeria's sovereign Sukuk programme has mobilised approximately ₦1.09 trillion for infrastructure financing. While this source is practitioner-based rather than academic, it provides verifiable descriptive data frequently cited in scholarly analyses. A more recent working study by Baita & Muhammad Bashir (2024), currently available as a ResearchGate preprint, further corroborates these findings, although its conclusions should be interpreted cautiously pending journal publication.

Islamic Social Finance: Zakat, Waqf, and Poverty Reduction

Islamic social finance instruments particularly Zakat and Waqf are widely recognised for their redistributive and welfare-enhancing roles. Yusuf et al. (2025) empirically demonstrate that Islamic banking and associated redistribution mechanisms contribute to more equitable income distribution in Nigeria, reinforcing SDGs 1 (No Poverty) and 10 (Reduced Inequalities). Similarly, Yusuf and Adio (2025) find that Islamic microfinance and social finance instruments support household resilience and SME development when integrated with institutional support.

Sector-specific studies also highlight the role of Zakat and Waqf in service delivery. Muhammad et al., (2023) provides evidence that Islamic models of Zakat and Waqf have been successfully applied to water and sanitation projects, directly supporting SDG 6. While the research work is regionally focused, its findings align with broader theoretical literature on Waqf as a sustainable financing mechanism for public goods (Korkut, 2025; Laldin & Djafri, 2021; Ma & Sukmana, 2025; Rusydiana et al., 2025).

Consensus-based evidence synthesis by the Halal Times (2024) further supports the conclusion that Zakat and Waqf contribute to multiple SDGs, including poverty alleviation, health, education, and clean water. Although Consensus summaries rely on aggregated findings rather than original empirical work, they are useful in identifying areas of scholarly agreement.

Islamic Microfinance, Financial Inclusion, and SDG 8

The role of Islamic microfinance in promoting financial inclusion has been revisited in recent studies. Yusuf and Adio (2025) provide empirical evidence from Nigeria indicating that Islamic microfinance contributes to economic development by expanding access to capital for underserved populations, particularly SMEs. However, they also note operational constraints, including limited scalability and reliance on debt-based instruments.

Uddin (2020), identify key challenges in aligning Islamic microfinance institutions with the SDGs, including weak governance structures, insufficient capitalisation, and difficulties in implementing profit-and-loss sharing models. These findings echo earlier systematic reviews but add contemporary relevance by explicitly linking institutional weaknesses to SDG performance.

Green Sukuk, Climate Finance, and SDGs 7 and 13

Recent literature increasingly focuses on Green Sukuk as a bridge between Islamic finance and climate finance. Oyesanya & Azeez (2025), in a ResearchGate working paper, argue that Green Sukuk can serve as a catalyst for financing renewable energy and climate-resilient infrastructure in Nigeria. While preliminary, their analysis aligns with institutional reports from Heinrich Böll Stiftung, which document Nigeria's Green Bond Programme and its contribution to clean energy and climate mitigation efforts (Adeojo, 2022).

Yusuf et al. (2025) extend this discussion by empirically examining the joint role of Islamic finance and green bonds in promoting sustainable development, concluding that thematic Islamic instruments can enhance climate finance mobilisation when supported by regulatory clarity and investor awareness (Abdullah Othman & Haron, 2024; Ahmad et al., 2026; Maqbool, 2026; Raihan & Sarker, 2026).

Synthesis and Research Gap

Overall, the reviewed literatures provides strong conceptual and growing empirical support for the role of Islamic finance in advancing multiple SDGs in Sub-Saharan Africa. However, several gaps remain. First, most empirical studies are country-specific, with Nigeria dominating the literature, limiting generalisability across SSA. Second, there is limited quantitative assessment of long-term SDG outcomes attributable to Islamic finance instruments. Third, regulatory fragmentation and public misconceptions continue to constrain scalability, a theme repeatedly noted but insufficiently addressed in empirical modelling.

This study seeks to contribute to the literature by synthesising recent empirical evidence, critically examining instrument-specific impacts, and situating Islamic finance within the broader development finance landscape of Nigeria among the SSA countries.

Aligning *Maqasid al-Shari'ah* with the SDGs

The theoretical compatibility between Islamic finance and the SDGs is rooted in the *Maqasid al-Shari'ah* (Objectives of Islamic Law). The *Maqasid* aims to preserve and promote five essential values: Faith (*Deen*), Life (*Nafs*), Intellect (*Aql*), Lineage (*Nasl*), and Wealth (*Mal*). Figure 1 (below) illustrates the conceptual mapping of these objectives against the 17 SDGs.

Figure 1

Conceptual Mapping of Maqasid al-Shari'ah and UN SDGs

Source: Author's Computation, 2026. Notes: The figure shows a connection between 'Preservation of Life' to SDGs 1, 2, 3, and 6; 'Preservation of Intellect' to SDG 4; 'Preservation of Wealth' to SDGs 8, 9, 10, and 12; and 'Preservation of Environment' (a derived objective) to SDGs 13, 14, and 15.

Literature suggests that Islamic social finance instruments can effectively address at least 11 of the 17 SDGs. For instance, the prohibition of *Riba* (usury) and *Gharar* (excessive uncertainty) aligns with SDG 12 (Responsible Consumption and Production) by discouraging speculative bubbles and promoting asset-based transactions. Furthermore, the institution of *Zakat* serves as a wealth redistribution mechanism, directly addressing SDG 1 (No Poverty) and SDG 10 (Reduced Inequalities).

METHOD

This study employs an integrative research design to synthesize diverse perspectives on the utility of Islamic finance as a catalyst for the Sustainable Development Goals (SDGs) in Sub-Saharan Africa. Unlike a traditional review, an integrative approach allows for the combination of empirical research, theoretical frameworks, and practitioner reports to provide a more holistic understanding of the subject. The methodology is executed through the following three stages:

Multi-Dimensional Data Sourcing

The study draws from a broad spectrum of post-2021 literature to ensure contemporary relevance. This includes:

a. Quantitative Data: Economic performance reports on sovereign Sukuk and microfinance outreach statistics from the Islamic Development Bank (IsDB) and national central banks.
b. Qualitative & Legal Analysis: Scholarly treatments of Maqasid al-Shari'ah (the objectives of Islamic law) and Shari'ah governance frameworks for social finance instruments (Zakat and Waqf).
c. Policy Documentation: Strategic roadmaps from international development agencies (UNDP) and regional bodies (African Development Bank).

Thematic Synthesis and Integration

Rather than reviewing papers in isolation, the study integrates findings across four key "Impact Themes" aligned with the SDGs:

d. Infrastructure & Innovation (SDG 9): Linking capital market instruments (Sukuk) to physical development.
e. Poverty and Social Protection (SDGs 1, 2, 3, 6): Integrating faith-based social safety nets with public welfare goals.
f. Economic Inclusion (SDG 8): Examining the convergence of Islamic ethical banking and financial technology (FinTech).
g. Environmental Stewardship (SDGs 7, 13): Evaluating the transition from conventional to Green Sukuk.

Case-Based Analytical Application (Nigeria)

To ground the theoretical integration in practical evidence, the study utilizes Nigeria as a primary case study. Nigeria is analyzed as a representative model of a multi-religious, emerging economy in Sub-Saharan Africa that has successfully integrated Islamic financial products into its national development plan. This stage evaluates the real-world outcomes of Nigeria's infrastructure Sukuk and its emerging regulatory environment for Islamic social finance.

Ethical Evaluation Framework

The final integration is performed through the lens of the Maqasid al-Shari'ah. This provides a values-based bridge between Islamic jurisprudence and the "human-centric" goals of the UN 2030 Agenda, allowing the study to conclude with a unified strategic framework for inclusive development financing in Africa.

RESULTS AND DISCUSSION

This section examines the results from the literature demonstrating the mechanisms through which Islamic finance instruments contribute to sustainable development outcomes in Sub-Saharan Africa (SSA), with particular emphasis on empirical evidence from Nigeria. By linking specific instruments to relevant Sustainable Development Goals (SDGs), the analysis demonstrates how Islamic finance operates not merely as an alternative financial system, but as a development-oriented financing framework grounded in asset-backing, risk-sharing, and social justice principles (Chapra, 2008; Iqbal & Mirakhor, 2011).

Sovereign Sukuk and Infrastructure Development (SDG 9)

The persistent infrastructure deficit in SSA remains a major constraint on productivity, regional integration, and inclusive growth. The African Development Bank estimates that the region faces an annual infrastructure financing gap of between USD 68–108 billion (African Development Bank, 2020). Sovereign Sukuk Islamic investment certificates backed by tangible assets have emerged as a viable mechanism for addressing this gap, particularly because their structure requires proceeds to be linked to identifiable projects rather than recurrent expenditure.

Evidence from Nigeria

Since 2017, the Federal Government of Nigeria, through the Debt Management Office (DMO), has issued multiple series of Sovereign Sukuk to finance transport infrastructure. By 2024, cumulative issuances amounted to approximately ₦1.09 trillion. These funds have been strictly ring-fenced for capital expenditure, in line with Shari'ah requirements and public accountability standards (DMO, 2024).

Impact on SDG 9 (Industry, Innovation, and Infrastructure)

Proceeds from the Sukuk issuances were allocated to the construction and rehabilitation of approximately 4,100 kilometres of federal roads and nine bridges across Nigeria's six geopolitical zones. This direct linkage between financing and physical assets aligns with the SDG 9 emphasis on resilient infrastructure and industrial connectivity (UN, 2015).

Project Continuity and Governance Outcomes

A notable institutional advantage of the Sukuk model in Nigeria has been the reduction in project abandonment. Because Sukuk funds are legally tied to specific road projects, diversion to alternative political priorities is constrained. Official reports indicate a project completion rate of approximately 97.7% within a four-year cycle, a performance that contrasts sharply with traditional budgetary financing, which is often subject to erratic fund releases and implementation delays DMO, 2024; (H. Ahmed et al., 2015).

Table 1

Selected Sovereign Sukuk Issuances in Nigeria and Impact on SDG 9

Series	Year	Amount Raised (Naira)	Tenor	Purpose/Impact	Subscription Status
Series I	2017	100 Billion	7 Years	Construction of 25 key economic roads	Over-subscribed (105%)
Series II	2018	100 Billion	7 Years	Rehabilitation of 28 roads	Over-subscribed
Series III	2020	162.5 Billion	7 Years	44 Federal Roads	Over-subscribed (400%)
Series VI	2023	350 Billion	10 Years	Roads & Bridges expansion	Fully subscribed

Total	2017-24	~1.09 Trillion	-	4,100km Roads / 9 Bridges	-

Source: Author's compilation based on DMO and Lotus Capital reports, 2026.

This mechanism directly addresses the "Road Infrastructure Deficit" estimated to reach 70%, with only 25% of the federal road network paved before this intervention. The success of this issuance demonstrates that Sukuk can mobilize domestic savings for public goods, reduce dependence on unstable external loans, and enhance debt sustainability.4.2 Green Sukuk and Climate Action (SDGs 7 and 13) (Adepoju, 2021).

Green Sukuk and Climate Action (SDGs 7 and 13)

Nigeria faces a dual development challenge characterised by widespread energy poverty and heightened vulnerability to climate change. Achieving national renewable energy and climate adaptation targets is estimated to require over USD 10 billion annually. Green Sukuk, a thematic variant of Sukuk, offers a targeted financing mechanism whereby proceeds are dedicated exclusively to environmentally sustainable projects.

Evidence from Nigeria

In 2017, Nigeria became the first African country to issue a sovereign green bond, raising ₦10.69 billion, with subsequent issuances in 2019 raising an additional ₦15 billion. While initially structured as conventional green bonds, later issuances incorporated Sukuk-like asset-linking and use-of-proceeds principles, aligning Islamic finance with climate finance objectives (Hesary et al., 2022; Ngwenya & Simatele, 2020).

SDG 7 (Affordable and Clean Energy)

Beyond the education sector, Nigeria's sovereign Sukuk programme has also supported environmentally relevant infrastructure that indirectly promotes climate resilience and sustainable land management. According to implementation reports from the Debt Management Office Nigeria, Sukuk proceeds have financed the construction and rehabilitation of hundreds of kilometers of federal roads across different geopolitical zones. Improved transport connectivity has enhanced agricultural value chains by reducing post-harvest losses and improving farmers' access to markets. These infrastructure projects have also supported agroforestry and land restoration initiatives in northern Nigeria by improving access to rural communities involved in afforestation and desertification control programmes. Evidence from the Rural Electrification Agency further shows that solar hybrid mini-grids installed under the Energizing Education Programme have generated several megawatts of clean electricity across participating universities, supplying reliable power to lecture halls, laboratories, and student hostels while significantly reducing reliance on diesel generators. Collectively, these initiatives demonstrate how Sukuk financing can mobilize long-term capital for infrastructure and renewable energy projects that contribute simultaneously to environmental sustainability, educational development, and broader economic productivity.

SDG 13 (Climate Action) and Limitations

Despite these innovations, green Sukuk remain underutilised relative to Nigeria's estimated USD 100 billion annual infrastructure and climate financing needs. Key constraints include limited domestic expertise in green certification, insufficient project pipelines, and low awareness among potential issuers (Islamic Financial Services Board (IFSB), 2023). These challenges suggest that regulatory support must be complemented by technical capacity building to scale green Islamic finance.

Islamic Social Finance: Zakat and Waqf (SDGs 1 and 6)

While Sukuk primarily targets large-scale infrastructure, Islamic social finance instruments particularly Zakat and Waqf—operate at the micro and community levels, addressing basic welfare and service delivery gaps. These instruments are central to achieving SDG 1 (No Poverty) and SDG 6 (Clean Water and Sanitation), especially in underserved rural areas (Fauzan et al., 2025; Judijanto et al., 2025; Tabarik & Alfarezel, 2025).

Evidence from Gombe State, Nigeria

A case study from Gombe State illustrates the practical application of Zakat and Waqf in financing rural water infrastructure. By pooling Zakat contributions, communities were able to construct boreholes and sanitation facilities, leading to measurable reductions in open defecation and waterborne diseases (Apriani, 2025; Fatwa & Hashri, 2024).

Mechanism and Sustainability

Beyond the education sector, Nigeria's sovereign Sukuk programme has also supported environmentally relevant infrastructure that indirectly promotes climate resilience and sustainable land management. According to implementation reports from the Debt Management Office Nigeria, Sukuk proceeds have financed the construction and rehabilitation of hundreds of kilometers of federal roads across different geopolitical zones. Improved transport connectivity has enhanced agricultural value chains by reducing post-harvest losses and improving farmers' access to markets. These infrastructure projects have also supported agroforestry and land restoration initiatives in northern Nigeria by improving access to rural communities involved in afforestation and desertification control programmes. Evidence from the Rural Electrification Agency further shows that solar hybrid mini-grids installed under the Energizing Education Programme have generated several megawatts of clean electricity across participating universities, supplying reliable power to lecture halls, laboratories, and student hostels while significantly reducing reliance on diesel generators. Collectively, these initiatives demonstrate how Sukuk financing can mobilize long-term capital for infrastructure and renewable energy projects that contribute simultaneously to environmental sustainability, educational development, and broader economic productivity.

Theoretical and Developmental Implications

Consistent with the literature, Zakat has proven most effective for immediate poverty alleviation and consumption smoothing (SDGs 1 and 2), while Waqf offers durable institutional support for public goods such as water, health, and education (SDGs 3, 4, and 6) (Abdul Razak, 2020; Ekawaty, 2026).

Islamic Microfinance and Financial Inclusion (SDG 8)

Islamic Microfinance Institutions (IMFIs) seek to expand financial access for low-income populations through Shari'ah-compliant instruments that avoid interest-based debt. In principle, risk-sharing modes of finance are expected to reduce borrower vulnerability and promote enterprise development (Hassan et al., 2021; Hotman et al., 2024; Mohd Yunus & Mahadi, 2025; Widiastuti et al., 2022).

Evidence from Sub-Saharan Africa

Empirical studies across SSA indicate mixed but cautiously positive outcomes. Where financing is reasonably priced and accompanied by business development services, Islamic microfinance contributes to asset accumulation and microenterprise growth (Abdinur & Ondes, 2022; Baina et al., 2025; Mohamud & Mohamud, 2023; Zitouni & Ben Jedidia, 2022).

Gender and Inclusion (SDG 5)

IMFIs have demonstrated potential in empowering women by providing culturally acceptable financial services for micro-enterprises. However, operational inefficiencies, weak capital bases, and the difficulty of implementing scalable profit-and-loss sharing (PLS) arrangements have led many institutions to rely heavily on debt-based instruments such as Murabaha. While operationally convenient, this reliance limits the transformative poverty-reduction potential of Islamic microfinance and blurs distinctions with conventional lending models.

Qualitative analysis

Constraints to the Scalability of Islamic Finance in Sub-Saharan Africa

While the empirical evidence from this study indicates a growing relevance of Islamic finance as a development-oriented financing mechanism, several structural and institutional constraints continue to limit its scalability across Sub-Saharan Africa (SSA). These constraints are not merely operational but systemic, affecting the depth, efficiency, and regional integration of Islamic financial markets. Similar findings have been reported in recent studies examining the institutional foundations of Islamic finance in emerging markets. For instance, Habib Ahmed and Tariqullah Khan highlight that weak regulatory infrastructure and limited financial market development remain key barriers to the expansion of Islamic finance in developing economies. Consistent with these observations, the results of this study show that regulatory fragmentation, liquidity management constraints, and limited public awareness continue to impede the broader adoption of Islamic finance instruments across SSA.

Figure 2 synthesises the most frequently cited challenges in the literature, highlighting regulatory gaps, liquidity management constraints, low public awareness, and the lack of standardisation as the most persistent obstacles to sectoral growth. These findings align with recent empirical work by Zamir Iqbal and Abbas Mirakhor, who argue that the effectiveness of Islamic financial institutions depends heavily on supportive regulatory ecosystems and well-developed capital markets.

Regulatory Fragmentation

One of the most significant impediments to the expansion of Islamic finance in SSA is regulatory fragmentation. In many countries, including Ghana and several Francophone African states, the absence of comprehensive Shari'ah governance frameworks creates legal uncertainty for investors and financial institutions. This finding is consistent with recent research by Muhammad Ayub, which demonstrates that jurisdictions lacking dedicated Islamic finance legislation tend to experience slower sectoral growth and reduced investor participation. In contrast, Nigeria has established a clearer regulatory structure through the guidelines issued by the Central Bank of Nigeria for non-interest financial institutions. Such regulatory clarity has contributed to the gradual development of Nigeria's Islamic finance ecosystem, particularly in the sovereign Sukuk market. Nevertheless, regulatory inconsistencies across African jurisdictions continue to discourage cross-border investment and limit the development of integrated regional Islamic capital markets.

Liquidity Management Constraints

Another major constraint relates to liquidity management. Islamic banks in SSA face persistent challenges due to the scarcity of Shari'ah-compliant short-term financial instruments, such as Islamic treasury bills or active interbank Sukuk markets. Recent empirical studies by Islamic Financial Services Board confirm that limited liquidity infrastructure remains one of the most critical operational constraints facing Islamic financial institutions in emerging markets. Consistent with these findings, the results of this study indicate that the absence of active secondary markets for Sukuk and other Shari'ah-compliant instruments restricts the ability of Islamic banks to manage short-term liquidity efficiently. This structural limitation increases vulnerability to financial shocks and reduces the sector's ability to perform its intermediation role effectively during periods of macroeconomic instability.

Scale and Depth of Impact

Although Nigeria's cumulative Sukuk issuances amounting to approximately ₦1.09 trillion represent a significant achievement in domestic resource mobilisation, their overall developmental impact remains modest relative to the country's infrastructure deficit. Similar conclusions have been reached in recent infrastructure finance studies, which suggest that Sukuk financing has been effective in supporting targeted public projects but remains limited in scale when compared with conventional public borrowing instruments. Data from the Debt Management Office Nigeria indicate that Sukuk-funded road projects have contributed meaningfully to transport infrastructure development; however, available estimates suggest that these issuances have addressed only about 8.6% of Nigeria's federal road infrastructure gap. This implies that while Sukuk financing is demonstrably effective in improving project accountability and transparency, its current scale is insufficient to address large infrastructure deficits without broader capital market development and complementary financing mechanisms.

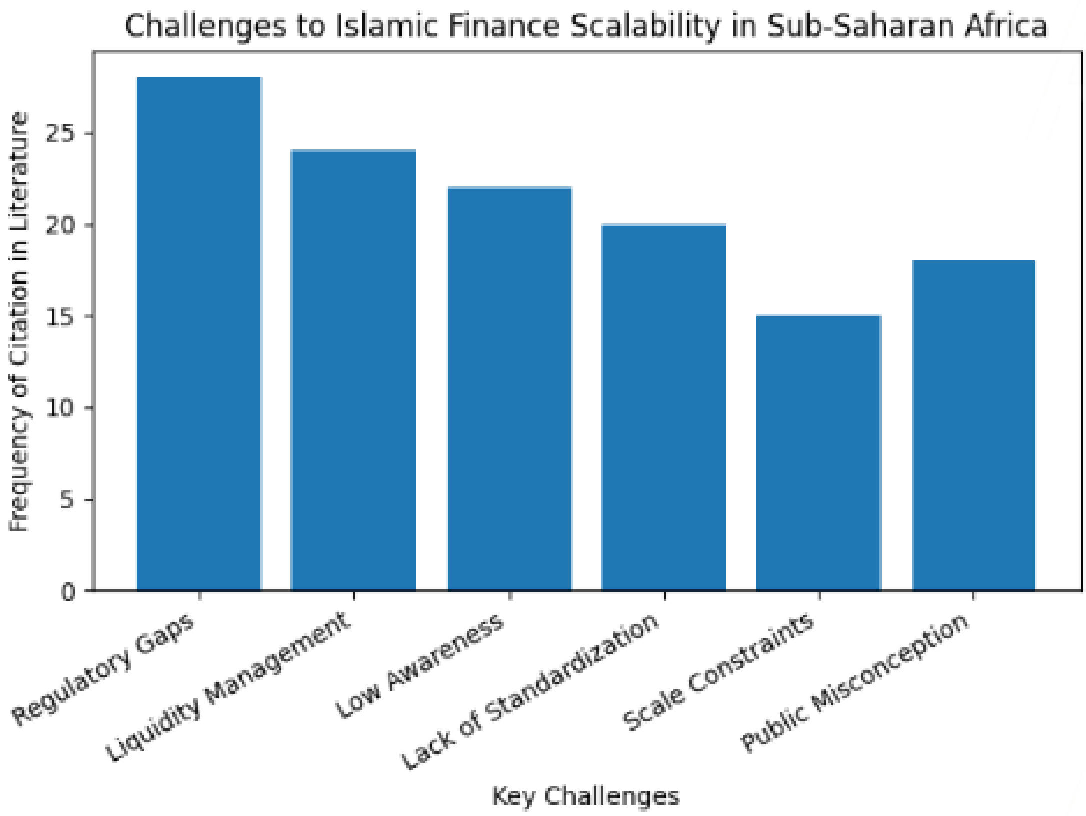
Overall, the findings of this study reinforce recent empirical literature suggesting that the potential of Islamic finance in SSA depends not only on the availability of Shari'ah-compliant financial instruments but also on the development of supportive regulatory institutions, market infrastructure, and public awareness. Strengthening these institutional foundations is therefore essential for expanding the role of Islamic finance in supporting sustainable development outcomes across the region.

Public Misconception and Awareness Deficit

A further constraint relates to persistent misconceptions surrounding Islamic finance. Despite its ethical and universal value proposition, Islamic finance is often perceived as a niche product designed exclusively for Muslim populations. This perception continues to limit uptake in non-Muslim majority regions and constrains political support for policy reforms. Low levels of financial literacy and limited public engagement further exacerbate this challenge, reducing demand and inhibiting market deepening.

Figure 2

Challenges to Islamic Finance Scalability in Sub-Saharan Africa



Source: Author's Computation, 2025

Interpretation

Figure 2 presents a bar chart illustrating the frequency with which key challenges to Islamic finance scalability in SSA are cited in the academic and policy literature. The highest citation frequencies are associated with regulatory gaps and liquidity management constraints, followed closely by low awareness and lack of standardisation. Scale constraints and public misconception, while slightly less cited, remain significant barriers to broader adoption. The figure reinforces the argument that the limitations facing Islamic finance in SSA are predominantly institutional rather than conceptual. Addressing these challenges will require coordinated regulatory reforms, development of Shari'ah-compliant liquidity instruments, targeted public awareness campaigns, and regional harmonisation of standards.

DISCUSSION

The empirical results from this study reveal a striking reality: Islamic finance in Nigeria and the broader Sub-Saharan African region is no longer just a theoretical alternative for a specific religious group, but a high-performance engine for national development. The most "eye-opening" finding lies in the 97.7% project completion rate for Sukuk-funded infrastructure. In a region where "project abandonment" is a chronic ailment due to the diversion of public funds, the Sukuk model introduces a "built-in" layer of accountability. Because the ₦1.09 trillion raised since 2017 is legally tied to physical assets like the 4,100km of roads and nine bridges mentioned the money cannot simply "disappear" into recurrent expenditures or political side-projects. This creates a "what you see is what you funded" transparency that traditional government borrowing often lacks.

However, the data also uncovers a significant "scale paradox." While these Sukuk issuances have been incredibly efficient, they have only addressed about 8.6% of Nigeria's federal road gap. This suggests that while we have found a "better way" to build, we are not yet building at a large enough scale. The results show that every single Sukuk issuance was over-subscribed meaning there is more money waiting to be invested than there are projects ready to receive it. The bottleneck is not a lack of investor appetite; it is a lack of technical expertise in areas like "Green Certification." This explains why Green Sukuk, despite its massive potential to solve Africa's energy poverty through solar mini-grids, remains a largely untapped resource. We have the ethical framework for climate action, but we lack the "technical translators" to turn that intent into large-scale projects.

On a community level, the transition from Zakat to Waqf in places like Gombe State illustrates a shift from "charity" to "sustainability." The results show that while Zakat provides an immediate safety net for the hungry (addressing SDG 1 and 2), it is the Waqf (endowments) that build the permanent boreholes and sanitation facilities that prevent disease (SDG 6). This distinction is vital for policy makers to understand: Islamic finance isn't just about giving fish to the hungry; it is about building the permanent infrastructure that allows communities to thrive independently. Yet, the reliance of Islamic microfinance on "debt-like" products (Murabaha) rather than "profit-sharing" models remains a missed opportunity. To truly empower women and rural entrepreneurs, the sector must move toward true risk-sharing, which aligns more closely with the goal of "decent work and economic growth."

Finally, the qualitative analysis (Figure 2) serves as a reality check for the sector's future. The "iron ceiling" preventing Islamic finance from becoming a mainstream tool across Sub-Saharan Africa is not a lack of interest, but a lack of supportive "plumbing." Without unified regulations across African borders and better "liquidity" (short-term instruments for banks to manage cash), the system remains fragmented. Furthermore, the persistent misconception that these tools are "only for Muslims" restricts their growth. The results clearly show that a road built by a Sukuk bond carries everyone, regardless of faith. To bridge the remaining gap, the focus must shift from proving that Islamic finance works to ensuring it is scalable enough to meet the continent's immense developmental needs.

CONCLUSION

Islamic finance offers a structurally sound, ethical, and asset-backed framework that aligns seamlessly with the Sustainable Development Goals. Evidence from Sub-Saharan Africa, particularly Nigeria's *Sukuk* program, demonstrates its practical utility in delivering critical infrastructure (SDG 9) and fostering climate resilience (SDG 13). However, the sector's current scale is dwarfed by the magnitude of the region's development challenges. Transforming Islamic finance from a niche "alternative" to a mainstream developmental tool requires a paradigm shift in regulation, a deepening of capital markets, and the strategic integration of Islamic social finance into state welfare systems. As SSA navigates the post-2030 agenda, the principles of *Maqasid al-Shari'ah* equity, preservation of resources, and social justice provide a necessary moral compass for sustainable development.

Policy Recommendations

To fully leverage Islamic finance for the SDGs in Sub-Saharan Africa, the following policy interventions are recommended:

a. Harmonization of Standards: The African Continental Free Trade Area (AfCFTA) secretariat should champion a unified regulatory standard for Islamic finance products to facilitate cross-border *Sukuk* issuances and investment.
b. Institutionalizing Social Finance: Governments should integrate *Zakat* and *Waqf* boards into national social protection strategies. This would allow for the formalization of the informal social safety net, ensuring *Zakat* funds are directed toward measurable SDG indicators (e.g., school enrollment, vaccination rates).
c. Green *Sukuk* Incentives: Sovereigns should provide tax incentives or guarantees for corporate Green *Sukuk* issuances to fund the energy transition, moving beyond sovereign-only issuances.

d. Financial Literacy Campaigns: Robust public education is required to demystify Islamic finance, emphasizing its ethical (ESG) characteristics rather than its religious origins to attract a broader investor base.

Limitations of the Study

Despite the insights generated, this study has several limitations that should be acknowledged. First, the analysis focuses primarily on Nigeria as a representative case within Sub-Saharan Africa. While Nigeria provides a useful empirical context due to its relatively developed Islamic finance sector, the findings may not fully capture the institutional, regulatory, and economic diversity that exists across other SSA countries. Second, the study relies largely on secondary data sources and documented policy initiatives, which may limit the ability to capture informal Islamic financial practices and community-based mechanisms such as local Zakat and Waqf activities that operate outside formal financial systems. Third, the analysis concentrates on selected Islamic finance instruments particularly Sukuk, Zakat, and Waqf which means that other emerging instruments, such as Islamic microfinance and fintech-based Shari'ah-compliant financial services, are not examined in depth. Finally, the study adopts a macro-level analytical perspective, which may not fully reflect micro-level development impacts, such as household welfare improvements or poverty reduction outcomes resulting from Islamic finance interventions. These limitations suggest that the findings should be interpreted with caution and highlight the need for broader empirical investigations across multiple African economies.

Recommendations for Future Research

Future research should expand the empirical scope of Islamic finance studies in Sub-Saharan Africa by incorporating cross-country comparative analyses to better understand how differences in regulatory frameworks, institutional quality, and financial market development influence the effectiveness of Islamic finance instruments in promoting sustainable development. In particular, studies that employ panel data or mixed-method approaches could provide deeper insights into the macroeconomic and social impacts of Islamic finance across diverse African contexts. Additionally, future work should explore the role of Islamic financial technology (fintech) and digital financial platforms in improving financial inclusion and expanding access to Shari'ah-compliant financial services. There is also a need for micro-level impact evaluations that examine how instruments such as Zakat, Waqf, and Islamic microfinance affect household welfare, poverty reduction, and community-level development outcomes. Finally, further research should investigate strategies for strengthening regulatory harmonisation and regional Islamic capital markets, which could enhance cross-border investment and improve the scalability of Islamic finance as a development financing mechanism in Sub-Saharan Africa.

Authors Contributions

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Formal analysis	J.A.Y., I.A.A., & A.T.M.	Supervision	J.A.Y., I.A.A., & A.T.M.
Funding acquisition	J.A.Y., I.A.A., & A.T.M.	Validation	J.A.Y., I.A.A., & A.T.M.
Investigation	J.A.Y., I.A.A., & A.T.M.	Visualization	J.A.Y., I.A.A., & A.T.M.
Methodology	J.A.Y., I.A.A., & A.T.M.	Writing – original draft	J.A.Y., I.A.A., & A.T.M.
Project administration	J.A.Y., I.A.A., & A.T.M.	Writing – review & editing	J.A.Y., I.A.A., & A.T.M.

All authors have read and agreed to the published version of the manuscript.

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Informed Consent Statement

Informed consent was not required for this study.

Data Availability Statement

The data presented in this study are available on request from the corresponding author.

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Conflicts of Interest

The authors declare no conflicts of interest.

Declaration of Generative AI and AI-Assisted Technologies in the Writing Process

During the preparation of this work the authors used ChatGPT, Grammarly, and PaperPal to improve clarity of the language and readability of the article. After using these tools, the authors reviewed and edited the content as needed and took full responsibility for the content of the published article.

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