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Appraisal of Economic Benefits of *Ṣukūk* in Financing Budget Deficits in Nigeria

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ABSTRACT. This study[1] appraises the economic significance and benefits of *ṣukūk* in financing budget deficits in the Nigerian economy. Using secondary sources of data, the study employs content and trends analyses to achieve its objective. Essentially, the study posits that the issuance of *ṣukūk* as an alternative to other interest-bearing financial instruments can effectively finance budgetary and infrastructural deficits and complement in achieving developmental objectives in Nigeria. Also, *ṣukūk* has the potential of promoting fiscal sustainability of the Nigerian economy. It is therefore recommended that the federal government should integrate *ṣukūk* as part of its fiscal strategic policies for financing budgetary and infrastructure deficits.

***Keywords*:** Budget deficit, *Ṣukūk*, Bonds, Deficit financing, Infrastructure, Nigerian economy.

***JEL Classification*:** H62, H63, H54, E02

***KAUJIE Classification*:** R48, R73, R82

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1. Introduction

Budget deficit is one of the major macroeconomic and developmental challenges confronting developing nations, especially in Africa. Low economic growth, high level of unemployment, price instability, high incidence of poverty, glaring income inequalities, among others, are still prevalent in many African economies. Since independence (1960s to date), Nigeria's fiscal sustainability has continued to be constrained by large budget deficits, low economic growth, high public expenditure, accelerating rate of inflation, and fall in government revenue (Adofu & Abula, 2010, p. 22). The government continued to borrow from both domestic and foreign sources to finance the deficits (Federal Ministry of Finance, 2014, p. 7). Between 2015 and 2017, the country has witnessed an economic recession which has crippled its economic activities due to dwindling oil revenue both at the federal and state government levels. Despite this trend, the country's struggle for macroeconomic stability and overall development remains elusive. Budget deficit is a fiscal deficit in which the government expenditures exceed government revenue derived from sources like taxes, fees, and charges imposed by the government. In Nigeria, the fiscal deficit can be represented by the difference between government payments for expenditures and the aggregate total receipts from revenue (CBN, 2016a, p. 13).

It should be noted that sub-Saharan Africa is in dire need of infrastructure for development. That is why Gutman, Sy and Chattopadhyay (2015) lament "Nowhere is lack of infrastructure more crucial and potentially transformational than in sub-Saharan Africa" (p. 1). Government budget remains the major source of financing infrastructure in the region accounting for nearly 65% of the total expenditure (Gutman, et al., 2015, p. 3). However, in Nigeria the infrastructure is not well developed and maintained. In fact, Amakom, and Ekeocha (2017, p. 1) observe a high level of infrastructural decay in Nigeria, and efforts to improve it have yielded sub-optimal outcomes due to inefficiency in public sector and high level of corruption. Statistics have shown that total demands for roads in the country stood at 193,200 kilometers, of which 29,800 kilometers (representing 15%) is being paved (Amakom & Ekeocha, 2017, p. 3). As a result, Nigerian governments have been resorting to issuing bonds to finance infrastructural deficits. However, conventional bonds are interest-based, and they lack a strong link with the asset. For example, in 2017, Nigeria's interest fee for servicing external debts was \$279.55 million accounting for 60.24%, while the interest fee for domestic debts amounted to \$4,742.55(2) million representing about 98.31% (Debt Management Office-DMO, 2018a, 2018b). In total, about \$5 billion is committed to debt servicing in terms of interests, excluding principal amounts of debt stock and other fees and charges. On the other hand, Nigeria's GDP report for Q3, 2017, shows that the total real GDP for 1st, 2nd, and 3rd quarters stood at \$163.182(3) billion (Nigerian Bureau of Statistics-NBS, 2017, p. 80). Based on these facts, interests/GDP ratio is 3.06%(4) which is three times higher than the contribution of road transport to GDP and more than the crude oil and gas contributions for the period. Due to these shortcomings of conventional bonds, the option of *ṣukūk* is presented as a potent and viable alternative for revenue generation and deficit financing for Nigeria.

Ṣukūk (known as Islamic bonds), are potential and promising green-field mode of financing for the budget deficit of the country, especially developing economies like Nigeria. In recognition of this, the federal government of Nigeria observes that investments in infrastructure are one of the major plans for actualizing Nigeria's Economic Growth and Recovery Plan (2017-2020) to make its economy competitive globally, and *ṣukūk*, as a source of financing, will be explored for this purpose (DMO, 2017a, 2017b, 2017c). In this connection, this paper attempts to appraise the economic benefits and significance of *ṣukūk* in addressing budgetary and infrastructural deficits in Nigeria. To achieve this objective, the study uses content and trends analyses with secondary sources of data.

2. Economic Conceptualization of Budget Deficit and Deficit Financing

Generally, budget deficit is a situation where government expenditures exceed government revenues. Basically, it can be financed through three major

(2) The actual figures being in local currency are converted to US dollar based on N306 official exchange rate.

(3) The total GDP in local currency stood at N49.93 trillion.

(4) Authors' computation based on the figures on GDP from Nigerian Bureau of Statistics for 2017 3rd quarter.

ways namely; issuance of bonds to the public, money creation through the central bank, and internal & external borrowing. It generates money by issuing bonds and selling them to the public in order to use the proceeds for financing the deficit (Inam, 2014, p. 26). Fischer and Easterly (1990, p. 130) identified four ways of financing deficits which include printing of money, drawing down foreign reserves, external borrowing, and domestic borrowing. Each source of financing results in some macroeconomic distortion; money printing results in inflation, using foreign reserves causes exchange rate crises, external borrowing correlates with foreign debt crisis and internal debt correlates with a rise in real interest rates.

In developed nations, deficit financing is used to improve the quality of infrastructure, create developmental projects, strengthen the private sector, raise effective demand in the real sector, and create more employment opportunities, among other benefits. Expectedly, in economies of less developed countries, budget deficit is often generated by activities such as servicing internal and external debts and government consumption expenditure. Providing funds for accelerating development; harnessing the resource potentials of the economy; provision of social and economic infrastructure; and increasing the engagement level of productive resources, are some of the benefits to be derived from deficit financing (Shahzada, 2012, p. 1).

3. Understanding *Ṣukūk* as a Finance Instrument

The Accounting and Auditing Organization of Islamic Financial Institutions (AAOIFI) Sharīʿah Standard No. 17(2) defines *ṣukūk* as: "Certificates of equal value representing undivided shares in ownership of tangible assets, usufructs and services or (in the ownership of) the assets of particular projects or special investment activity" (AAOIFI, 2017, p. 468). Also, *ṣukūk* mean a "document or certificate which represents the value of an asset" (Securities Commission Malaysia, 2004). *Ṣukūk* refer to a security or asset representing trust certificates providing investors with ownership in the underlying asset. The International Islamic Financial Market (IIFM, 2013, p. 9) further categorizes *ṣukūk* according to issuer status into three namely; sovereign, corporate and quasi-sovereign. Sovereign *ṣukūk* are government-issued *ṣukūk*, which are denominated in local or foreign currencies. Whereas, corporate *ṣukūk* are issued by private bodies/companies other than government or its agencies. Quasi-sovereign *ṣukūk* are usually issued by government corporations which are directly or indirectly guaranteed by government (IIFM, 2016, p. 161).

As a matter of fact, *ṣukūk* represent ownership of assets in which the *ṣukūk* holders "share in the returns or payments arising from specific assets such as buildings and highways" (Ismail, 2010, p. 164). It is noted that three parties are involved in the contract of *ṣukūk*. These are the originator, Special Purpose Vehicle (SPV) and the investors. The SPV is regarded as a trustee who is assigned by the originator to manage the entire process of securitization of an asset. In this connection, therefore, the interests of investors are protected against any future eventuality (Ayub, 2008, p. 393). *Ṣukūk*, as a mode of Islamic financing, can be in the form of *muḍārabah*, *ijārah*, *mushārakah*, *salam*, or *murābaḥah*.

A distinguishing feature of *ṣukūk* is that the contract has to be reviewed and approved by Sharīʿah advisors to ensure Sharīʿah compliance (Idris, 2013, p. 109). The Asian Development Bank posits "Contemporary *ṣukūk* are used to raise funds for investments in a manner compatible with Islamic principles. Given that some *ṣukūk* are similar to conventional bonds, they have often been called 'Islamic bonds'." (ADB, 2014, p. 26). The major difference between *ṣukūk* and conventional bonds is in terms of Sharīʿah compliance which includes a strong link to the real sector of the economy. In addition, *ṣukūk* are title of ownership of "an existing or well-defined asset" and the proceeds should not be invested in transactions involving *ribā*, gambling or speculation and excessive risk among others (ADB, 2014, p. 26). Basically, conventional bondholders are paid interest periodically and recoup the principal amount during maturity (ADB, 2014, p. 27). Whereas, *ṣukūk* can be asset-based securities (Ariff, Safari, & Mohamad, 2012, p. 13; ADB, 2014, p. 27), which are mostly issued in *ṣukūk* markets (Lahsasna & Lin, 2012, 507). Therefore, *ṣukūk* are in the form of Islamic financial instruments used for short-, medium-, and long-term financing. Tables (1a) and (1b) present the differences between *ṣukūk* and conventional bonds. In addition, *ṣukūk* add to the productive capacity of the economy and/or organization while bonds do not necessarily do so as they are disconnected with any specific asset. Also, the returns on *ṣukūk* represent a real value addition to the economy while returns to bonds represent mere transfer of wealth.

Table (1a) Differences between *Ṣukūk* and Conventional Bonds

Ṣukūk	**Conventional Bonds**
They represent ownership in existing or well-defined tangible assets	They represent pure debt obligations
They use permissible contracts such as lease or any other contract as defined by AAOIFI	They represent interest-based loan of money contract to earn money
Underlying assets must be Sharīʿah compliant in terms of nature and use	Bonds transactions need not be Islamically permissible in its jurisdiction
Ṣukūk holders may bear assets-related liability and expenses	Bond holders do not bear assets-related liability and expenses
Some *ṣukūk* prices depend on the market value of underlying asset and obligor's creditworthiness	Bond prices are solely dependent on interest rate and issuer's creditworthiness
Ṣukūk sale represents a sale of share of an asset	Sale of bonds basically represents transfer of debt

Source: Adapted from Idris (2013).

Table (1b) Differences between *Ṣukūk* and Conventional Bonds

Ṣukūk	**Conventional bonds**
Ṣukūk are not fixed income securities as they do not represent debt	Bonds are fixed income securities as they represent debt
The investors share in the profits as agreed in the prospectus and bear losses in proportion to the amount invested	The bondholders receive fixed interest on the principal amount as returns and do not incur any losses.
They are issued based on a specific Sharīʿah-compliant investment contract i.e. based on a specific asset/project	The issue has no link with any specific contract or asset.

Source: IIFM Sukuk Report (2013).

Interestingly, among the Islamic Financial Instruments (IFIs), *ṣukūk* has remained the highest mobilizer of funds for investment and real sector's development, especially in developing economies like Malaysia, Saudi Arabia, Qatar, Indonesia, Pakistan, South Africa, and Sudan among others. Interestingly, studies have shown that Malaysia remains the leading and biggest *ṣukūk* issuer with Saudi Arabia coming next. Saudi Arabia recorded an outstanding success in *ṣukūk* issuance of USD300 billion in 2012 as against USD132 billion in 2011 (Oladunjoye, 2014, p. 338). In 2016, the entry of new issuers further consolidates the *ṣukūk* market. The new entrants include, Etihad Airways, Government of Togo, Kingdom of Jordan, and other corporate entities (IIFM, 2017, p. 1). Realizing the success of *ṣukūk*, Germany issued euro-denominated *ijārah ṣukūk* in July 2004 while East Cameron Gas Company in the United States issued *ṣukūk* in June 2006 (Wilson, 2008, p. 3). Other non-Muslim countries that have later joined Germany include the UK, Japan, China, Singapore, Hong Kong, Australia, Russia and a host of others. In the African continent, countries like South Africa, Kenya, Tanzania, Tunisia, Egypt, Sudan, Senegal, Gambia, and Nigeria (in view of Osun State *ṣukūk* of 2012) are now members of the Global *ṣukūk* club.

4. Budget Deficits and the Nigerian Economy

Budget deficit is among the most disturbing and persistent economic phenomena of the Nigerian nation, with historical records showing that it dates back to the 1960s. The history of budget deficits in Nigeria can be traced to the financial reforms introduced by the colonial administration in 1958, leading to the creation of the Central Bank of Nigeria (CBN) and government securities to finance budget deficit. In fact, development stocks were the first government securities to be floated in the country in 1956/60 to finance development projects (Adofu & Abula, 2010,

p. 24). A study on the assessment of Nigeria's fiscal deficit sustainability for the period 1970-2011 found that the fiscal policy is unsustainable in Nigeria (Taofeek, 2014, p. 292). More so, the Nigerian economy, especially at the Federal level has suffered 39 years of budget deficits particularly from 1970 to 2013 (Federal Ministry of Finance, 2014, p. 7). Table 2 presents historical budget deficits and its ratio to the GDP.

Table (2) Nigeria's Budget Deficits (2000-2017)

Year	Budget deficit (N'billion)	Budget deficit as % of Real GDP
2000	103.78	1.55
2001	221.05	3.21
2002	301.4	3.87
2003	202.72	2.04
2004	172.6	1.51
2005	161.41	1.10
2006	101.4	0.55
2007	117.24	0.57
2008	47.38	0.20
2009	810.01	3.27
2010	1105.4	2.04
2011	1158.52	1.83
2012	975.68	1.37
2013	1153.49	1.42
2014	835.68	0.93
2015	1557.79	1.64
2016	2,208.22	2.18
2017	3,679.50	3.24

Source: CBN (2016b) and CBN (2017).

The statistics of table 2 indicate that the Nigerian economy from 2000 to 2017 recorded very high deficits especially in the years 2010, 2011, 2013, 2015, 2016 and 2017. It is however important to state that the deficits of 2011 and 2015 could largely be attributed to the elections' expenditure and the attendant fiscal recklessness that characterized the electioneering period. It is noted that "political cycles" is among the causative factors for the current economic recession in Nigeria (Ekpo, 2017, p. 13) i.e. increased expenditures during elections, which consequently worsens the fiscal position of the economy. In addition, the country experienced economic recession between 2015 and 2017. As a result, the federal government increased its budget deficits especially in 2016 and 2017 to finance development projects and fulfill the promises it made during the 2015 election. In fact, the 2017 budget deficit is the largest deficit ever in the history of Nigeria followed by 2016 deficit. To this end, figure 1 shows the trends of the data presented above on budget deficits within the period under review. It can be seen that year 2008 recorded the lowest amount of deficit within the years under review. Meanwhile, the deficit is highest in 2017 followed by year 2016. The trend shows increasing deficits from 2009 to 2017; though, it slightly subsided in 2014.

Espousing the likely consequences of budget deficits on other macroeconomic variables like inflation in Nigeria, Oladipo and Akinbobola (2011, p. 6) examined the relationship between budget deficit and inflation in Nigeria. They found a significant impact of budget deficit on inflation. Also, the findings revealed a strong unidirectional causality between deficits and inflation, which run/flow from deficit to inflation. Furthermore, for better appreciation of the relationship between budget deficits and the GDP of Nigeria, figure 2 presents the trend of budget deficits as a percentage of GDP (deficit to GDP ratio). Flowing from figure 2, it can be seen that the years 2003 and 2009 recorded very high deficits to GDP ratio in the country while the year 2008 recorded the lowest ratio.

Figure (1) Trend Analysis of Budget Deficits in Nigeria (2000-2017)

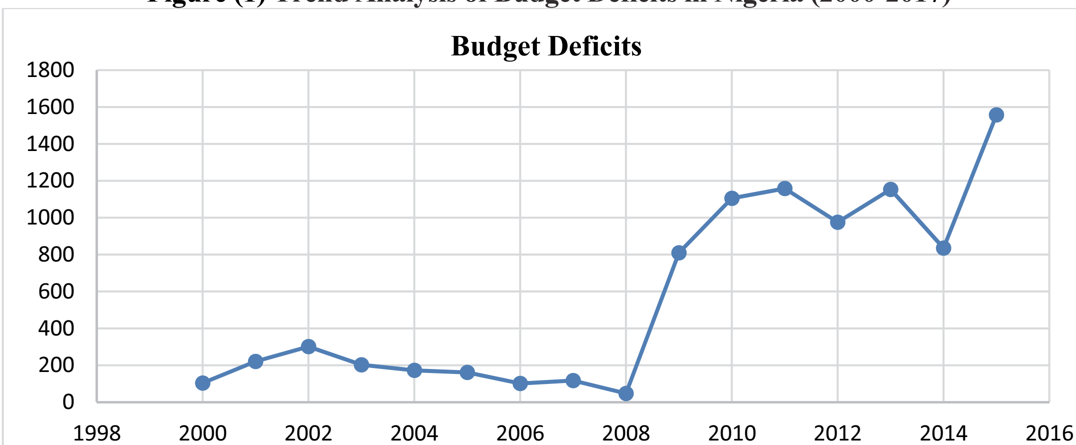
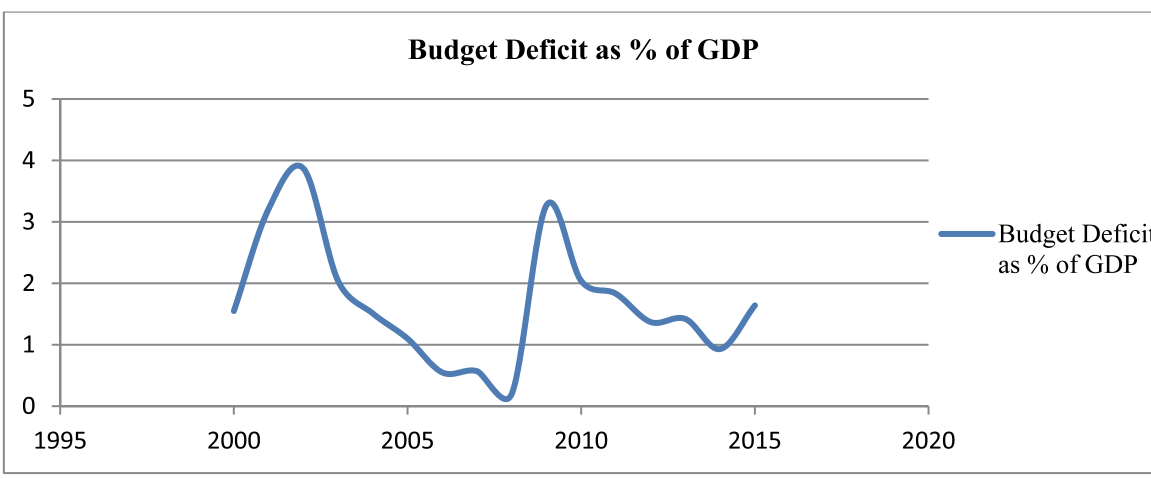


Figure (2) Trend Analysis of Deficit as percentage of GDP in Nigeria (2000-2017)



Source: Prepared by author.

5. Literature Review

Many studies, conceptual and empirical, have documented the significant benefits of *ṣukūk* in budget deficit financing and provision of infrastructure especially in developing economies. *Ṣukūk* are worthwhile instrument for infrastructural financing in emerging economies (Malikov, 2017, p. 12) and they can finance infrastructural deficits (ADB, 2014, p. 3; Chazi, Rao, & Syed, 2014) and accelerate development in African economies (Chazi, et al., 2014). Kahf (1412H), further believed that budget deficits have been created by government's "genuine need" for provision of social and economic infrastructure. He suggested "instruments for meeting the deficit compatible with Sharīʿah" (p. 1). In the same vein, Chapra (1992) argued that Muslim countries could finance their development projects in Sharīʿah acceptable ways. According to him, Muslim countries "may resort increasingly to leasing of infrastructure projects financed and implemented by the private sector on a competitive basis, in accordance with government specifications" (Chapra, 1992, p. 301). This will instill financial discipline in financing public projects which interest-based borrowing avoids.

Ben Jedidia Khoutem (2014, p. 53) documents the developmental role of *ṣukūk* in the Tunisian economy where they served as viable means of financing infrastructural facilities and other developmental projects such as agriculture. The study further illustrated the case of *ṣukūk* issues by IDB in Morocco, Egypt, Senegal and Malaysia etc., to finance medium- and long-term capital projects. Araar (2014) uses case study method to examine the economic implications of *ṣukūk* on Tunisia's development agenda. The findings confirm that "infrastructure needs" remained the top priority in the country requiring *ṣukūk* issuance as an alternative means of funding "liquidity gap, urgent financing needs, crises in international markets and scarcity of resources" (Araar, 2014, p. 204). The study posits that *ṣukūk* would accelerate national development and increase economic autonomy. Al-abedallat (2016, p. 184) studies the role of *ṣukūk* in supporting budget deficit in Jordan using qualitative method. The findings revealed that issuance of *ṣukūk* by the central bank of Jordan support budget deficit financing and serves as a substitute to conventional (interest-bearing) bonds among others.

Malikov (2017) employed panel data between 2002 and 2011 to compare the causal link between *ṣukūk* in infrastructure sector and economic development in the major issuing countries; Malaysia and Saudi Arabia. The findings revealed significant positive differences before and after *ṣukūk* issuance in the two countries. Five years after issuance, positive improvements in provision of hard infrastructure, growth of per capita GDP, and economic development were observed in both countries. Malaysia, in particular, has been very active in utilizing *ṣukūk* proceeds to finance its budget over years. However, in the Saudi Arabian economy, their direct impact was less clear due to impacts of other important factors such as proceeds from oil revenues. The study concluded that issuance of *ṣukūk* has significant positive link to economic growth and development of these countries though at different degrees.

Ahmad and Radzi (2011) examine the sustainability of *ṣukūk* to financial crisis compared to bonds in Malaysian capital markets. The result indicates that *ṣukūk* significantly respond to both real sector (GDP) and monetary sector (foreign exchange and international liquidity) while bonds are significantly determined by foreign exchange. The findings suggest that although *ṣukūk* are more sensitive to changes in economic conditions, they are still more sustainable and stable during financial crisis as they are strongly linked to economic fundamentals (both real and monetary).

Saad, Haniff and Ali (2016) use multivariate analysis to analyze the sustainability of firms' growth vis-a-vis *ṣukūk* and conventional bonds in Malaysia. The findings reveal that *ṣukūk* have lower default risk compared to conventional bonds. This suggests that *ṣukūk* are less risky and have low volatility. Further, *ṣukūk* are more sustainable to firms' growth compared to bonds (Saad, et al., 2016, p. 345).

6. Experiences of *Ṣukūk* Issuance for Financing Budget Deficit

It will be pertinent to discuss experiences of some countries that finance deficits by issuing *ṣukūk*. Boumediene (2015, p. 333) viewed that many Muslim countries have attempted to develop Sharīʿah compliant modes of financing budget deficit and liquidity control. Instances of these initiatives include government *ijārah* certificates in Sudan, Malaysia, Bahrain, and Brunei; government Islamic bond in Bangladesh; and *ṣukūk al-salam* in Bahrain. Others include government investment issues (GII) in Malaysia and government participation papers (GPP) in Iran among others. According to IIFM (2012, p. 49), the Indonesian government has been issuing *ṣukūk* since 2009 as an alternative source of financing budget deficit. The major objectives of the issuance include diversifying state budget financing, accelerating infrastructure development, enhancing Islamic financial market, enhancing public services, empowering of local industries and government investment, and improving transparency of government services (IIFM, 2012, 53).

Also, Curiel and Mardam-Bay (2013, p. 2) reported that a number of African nations considered *ṣukūk* issuance as a means of financing large infrastructural deficit and filling fiscal gap. These countries include

South Africa, Senegal and Mauritania. Other African countries like Egypt and Tunisia were planning to finance fiscal deficit through issuing *ṣukūk* (Curiel & Mardam-Bay, 2013, p. 2). Furthermore, Standard and Poor's rating Services (2015, p. 4) claimed that Africa's large deficits could be financed through sovereign *ṣukūk* issuance. It projected that within 2015 to 2017 most African states' fiscal deficits would exceed 1% of gross domestic product (GDP) and on average total government debt will exceed 6% of GDP. This is based on the facts that governments would spend more to finance infrastructure and developmental projects, coupled with slow rate of growth of revenue due to fall in commodity prices. As noted by IIFM (2016, p. 19), a number of African countries joined the league of *ṣukūk* issuers for developmental and infrastructural financing.

Sovereign *ṣukūk* (government *ṣukūk*) remain the leading growth driver in the *ṣukūk* market after the global financial crisis where it accounted for 54% of the global *ṣukūk* issuance in 2013 (IIFM, 2013, p. 14). In fact, the share of the sovereign *ṣukūk* in the global *ṣukūk* market has risen to 54% in 2013 compared to 34% in 2010. It is also projected that sovereign *ṣukūk* will dominate the domestic market across the globe due to factors such as the governments' drives to meet their funding needs, growth in the activities of Islamic finance, among others (IIFM, 2013, p. 18). In a related analysis, the share of sovereign *ṣukūk* issues in the domestic market from 2001 to 2008 represents 30% (amounting to US$30.838 billion). It further grows to 70% (US$198.007 billion) and 75% (US$145.145 billion) respectively, in 2009 to 2012 and 2013 to 2014. In 2015, it declines to a share of 58% (US$23.174 billion) in the domestic *ṣukūk* market (IIFM, 2016, p. 16). The breakdown of domestic sovereign *ṣukūk* issuance is presented in table 3. It shows the issuance of sovereign *ṣukūk* in the global market for Indonesia, Malaysia, and the United Arab Emirates.

Table (3) Major Global Sovereign *Ṣukūk* Issuances by Some Selected Countries between 2014 and 2016

Year Issue	Issuer	Amount in millions USD or USD Equivalent (Total)
2014	Government of Indonesia	1500
2015	Central Bank of Indonesia	2000
2016	Government of Indonesia	11,385
2014	Malaysian Government	424
2015	Malaysian Government	3561
2016	Malaysian Government	11,051
2014	United Arab Emirates	750
2015	United Arab Emirates	1000
2016	United Arab Emirates	500

Source: IIFM Sukuk Reports (2016) and (2017).

From table 3, it can be seen that the Malaysian government issued about US$15 billion between 2014 and 2016 to finance the infrastructure projects in the country. Likewise, the Indonesian government issued about US$15 billion global *ṣukūk* within three years to finance the budget deficit and other developmental projects. The global sovereign issue by the United Arab Emirates between 2014 and 2016 amounts to US$2.25 billion. Most of these sovereign issues aim to finance budget deficits and reduce infrastructural gaps.

In 2016, some achievements have been recorded in the domestic *ṣukūk* market. For example, the Kingdom of Jordan issued its debut *ṣukūk* worth US$47.9 million; the Indonesian government issued the largest retail *ṣukūk* worth $2.37 billion; and the Malaysian Housing Board issued the first MYR4 billion to provide housing finance for the civil servants (IIFM, 2017, p. 6). Further development shows that issuance of global *ṣukūk* has jumped from $60.7 billion in 2015 to $88.3 billion, constituting an increase of about 44% (IIFM, 2017, p. 2). One of the reasons for this positive development is that issuers realize the role *ṣukūk* plays as a worthwhile alternative instrument for financing infrastructure, "aircraft financing… corporate general purpose needs… and budgetary requirements" among others (IIFM, 2017, p. 1). As a tradition, Malaysia continues to dominate the global *ṣukūk* market. As regards domestic issuances, Indonesia is next to Malaysia during the period.

7. Expected Economic Benefits of *Ṣukūk* to the Nigerian Economy

Ṣukūk have many economic benefits and potentialities to an economy in terms of economic growth, diversification and infrastructural financing among others. In this connection, the following economic benefits are expected to be reaped by the Nigerian economy when *ṣukūk* issuance is vigorously pursued.

7.1 Catalyst for Infrastructural Development

One of the most outstanding economic benefits of *ṣukūk* has been the great developments it has brought to the infrastructural landscape of issuing countries. Some examples, as noted by Kamali (2007, p. 14), include the Qatar *ṣukūk* issued by the government of Qatar in 2003 for the construction of Hamad Medical Centre (HMC) in Doha which is worth USD700 million; the extension of Bahrain Airport by issuing *ijārah ṣukūk* worth USD250 million in 2004, among others. In this regard, *ṣukūk* provide the necessary support in terms of infrastructural development for roads and power, which are very germane for any meaningful transformation of the economy. According to Mustafa and Adebayo (2015, p. 88), the Osun state *ṣukūk* has remained a celebrated case of *ṣukūk* in Africa. The Osun State Government under N60 billion Debt Issuance program in October, 2013, issued *ṣukūk* worth N11.4 billion (i.e. USD70.6 million) for the construction of public schools. The *ṣukūk* type is *al-ijārah* used in funding 23 schools in the State. The maturity date is October, 2020. However, the International Centre for Investigative Reporting alleges some cases of financial corruption in Osun state government which include non-execution of some capital projects, lack of accountability of the state's revenues, high debt profile (including IDB loan and *ṣukūk*), dissatisfaction with collection of bail-out loan from CBN for payment of salary arrears, among others. But the government of Osun state responds that these allegations are baseless and many people misconceive *ṣukūk* as interest-bearing debt instrument which is not so (Amzat, 2015). But these allegations do not report non-execution of *ṣukūk* funded high schools. This study is of the view that this hinges on the strong interconnection between *ṣukūk* and the real assets rather than pure debts nature of other debt instruments.

Likewise, the federal government in 2017 announced its intention to issue a 7-year debut *ṣukūk* of N100 billion ($326.80 million) which were oversubscribed by N5.878 billion (DMO, 2017c). According to DMO (2017c), the issued *ṣukūk* are meant to finance infrastructural deficits and embark on constructing and rehabilitating 25 federal roads across the six geo-political zones. In fact, the funds have been disbursed for the projects in the present year 2018 and the work is on-going. Therefore, a great opportunity for filling the infrastructure deficit gap is inherent in the adoption of *ṣukūk* by the Nigerian government.

7.2 Economic Diversification and the Real Sector's Development

Experiences from other climes have shown that *ṣukūk* are of practical importance for the development of real sectors like agriculture and industries. The federal government of Nigeria is earnestly popularizing economic diversification policy to develop the real sector (especially the non-oil sector). In fact, the clarion call of President Muhammadu Buhari that everyone should "go back to the farm" is instructive for the development of the agricultural sector and diversifying away from total reliance on oil revenue. The present policy of Economic Growth and Recovery (ERG) is indeed very timely and relevant to the development of the Nigerian economy. Therefore, adopting *ṣukūk* as an economic diversification measure shall open many opportunities for the real sector's development like agriculture, mining, industries and a host of others. In this connection, DMO (2017a) believes that *ṣukūk* will help in diversifying the revenue base of the federal government from ethical investors which will further accelerate development of the country. This adoption shall lead to multiple benefits for the economy in terms of job creation, infrastructural development, and poverty alleviation among others. However, achieving these objectives requires prudent fiscal planning and discipline. Today, Malaysia has become a shining example of a country that has adopted *ṣukūk* as a tool for developing the real sector and financing the infrastructural sector. In fact, Malaysia has continued to dominate global *ṣukūk* issuances – domestic and international (IIFM, 2017, p. 2) which are utilized for financing government projects and operations of the private sector. At this juncture, Zin, Hashim, Khalid, Opir, and Sulaiman (2011), as cited in Ben Jedidia Khoutem (2014, p. 53) observed that *ṣukūk* have resulted in enhanced economic diversification and promotion of the private sector in the Malaysian economy.

7.3 Promote Sustainability of Nigerian Fiscal Strategies

A perturbing macroeconomic challenge, which requires pragmatic and sustainable panacea, is the persistent fiscal imbalance of the country i.e. fiscal deficit. This challenge requires a pragmatic fiscal sustainable measure like *ṣukūk*. According to Oshikoya (2015, p. 35), Nigeria's fiscal deficit has increased due to decline in government revenues from oil and non-oil sources, high fuel subsidy, and large debt service ratio. Furthermore, as rightly noted by Standard and Poor's Rating Services (2015), Africa's large fiscal deficits could be financed through the adoption of sovereign *ṣukūk*.

Nigeria can benefit from the experiences of other similar developing economies such as Indonesia. Indonesia has been issuing *ṣukūk* as an alternative source of financing budget deficits in order to diversify state budget financing, enhancing public sector services, empowerment of local industries, and government investments among others. In this direction, *ṣukūk* can serve as a veritable fiscal sustainability instrument for the Nigerian economy if adequately incorporated into the fiscal policy framework of the country and sub-national levels. This is in line with Ahmad and Radzi (2011) who confirm that *ṣukūk* are sustainable to shocks even in the face of financial crisis. At the corporate level, *ṣukūk* enhance sustainable growth of firms as observed by Saad, et al. (2016).

8. Conclusion and Recommendations

From the foregoing discussions, it is evidently clear that the Nigerian economy has been suffering from decades of budget deficits since independence, especially from the 1970s. As a matter of fact, the federal government has witnessed persistent and consistent 39 years of budget deficits between 1970-2013 and surplus budget was only experienced between 1996 and 1999 (Federal Ministry of Finance, 2014). In view of the current economic situation in the country, especially dwindling oil revenue, which has partly led to economic recession, it can therefore be suggested that *ṣukūk* can serve as an alternative source of bridging the resource gap. More particularly, *ṣukūk* is indeed an alternative to other interest-bearing financial instruments which can finance fiscal deficits in Nigeria through linkage to real assets. Also, real trickle-down effects of macroeconomic and developmental policies would be significantly actualized when appropriate institutional factors are taken into consideration. Thus, this study recommends that the Federal government should integrate *ṣukūk* as part of its fiscal strategic policies.

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تقييم الفوائد الاقتصادية للصكوك في تمويل عجز الميزانية في نيجيريا

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المستخلص. تقيم هذه الدراسة من الناحية الاقتصادية أهمية وفوائد الصكوك في تمويل عجز الميزانية في الاقتصاد النيجيري. باستخدام مصادر البيانات الثانوية، تستعمل هذه الدراسة تحليلات المحتوى والاتجاهات لتحقيق هدفها. بشكل أساسي، تفترض الدراسة أنه بإصدار الصكوك كبديل للأدوات المالية الأخرى الربوية يمكن بفعالية تمويل العجز في الميزانية والبنية التحتية. ويمكن للصكوك كذلك أن يساهم في تحقيق الأهداف التنموية لنيجيريا. أيضا، لدى الصكوك القدرة على تعزيز الاستدامة المالية للاقتصاد النيجيري. ولذلك توصي الدراسة بأن تقوم الحكومة الفيدرالية بدمج الصكوك كجزء من سياساتها الإستراتيجية المالية لتمويل عجز الميزانية والبنية التحتية.

الكلمات الدَّالة: عجز الميزانية، صكوك، السندات، تمويل العجز، البنية التحتية، الاقتصاد النيجيري.

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