

## Adapting Indonesian Islamic Financial Governance to Nigeria: A South-South Policy Diffusion Analysis

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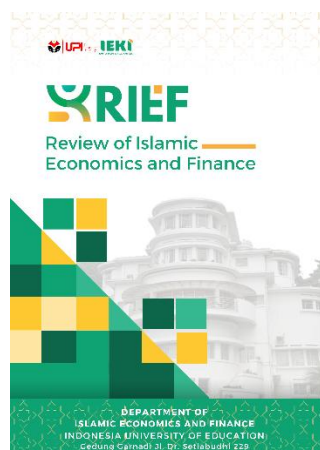
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### Abstract

**Purpose** – The study aims to explore how institutional practices from Indonesia’s Islamic economic system can inform governance reforms and inclusive development strategies in Nigeria. Specifically, the paper analyzes regulatory frameworks, financial instruments such as sukuk, and community-based welfare mechanisms to determine their adaptability within Nigeria’s economic and political structures.

**Methodology** – A qualitative research design was adopted using document analysis and thematic analysis of policy reports, academic literature, and institutional frameworks relating to Islamic finance governance in Indonesia and Nigeria.

**Findings** – Findings indicate that Indonesia’s integrated regulatory architecture, sukuk-based infrastructure financing, and zakat-linked social welfare mechanisms have strengthened financial inclusion, institutional transparency, and development outcomes. In contrast, Nigeria’s Islamic finance sector remains emerging, with regulatory fragmentation and limited institutional coordination constraining its developmental potential.

**Implication** – The study concludes that selective policy transfer, particularly regulatory integration, transparency standards, and social finance mechanisms, could enhance governance accountability, infrastructure financing, and inclusive growth in Nigeria’s political economy.

**Keywords:** Development governance; Islamic finance; Nigeria; policy transfer; regulatory institutions.

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## 1. INTRODUCTION

In recent decades, the search for governance models that promote inclusive economic growth, ethical accountability, and institutional legitimacy has intensified among developing economies. Across the Muslim world, Islamic economic governance grounded in *maqāṣid al-Sharī'ah* (the objectives of Islamic law) has emerged as an alternative paradigm to conventional neoliberal policy frameworks (Basyirah, Nasiruddin, Rozi, & Syamsi, 2022).

The empirical performance of Islamic finance in Indonesia shows measurable economic linkages with national growth. For example, econometric studies using VECM analysis demonstrate that Sukuk issuance has a statistically significant short-term influence on GDP, while Islamic banks and mutual funds exhibit positive long-term impacts on GDP growth (Sakinah et al., 2023). Furthermore, panel data evidence indicates that provinces with higher Islamic financial inclusion also experience stronger economic growth, with third-party funds and Islamic financing showing positive contributions (Hamidi, Fadillah, Bashir, & Saputra, 2025). These findings reflect not only the growing empirical corpus on Indonesia's Islamic governance practices but also underline the material economic significance such models have achieved.

Nigeria represents an analytically ideal case for comparison with Indonesia's Islamic economic model for four substantive reasons. First, demographic and religious scale: with approximately 110 million Muslims and a total population exceeding 220 million, Nigeria offers comparable magnitude to Indonesia's 240 million Muslims, creating similar conditions for mass-market Islamic financial penetration. Second, constitutional parallelism: both nations operate secular federal systems that accommodate rather than mandate Islamic economic principles, generating comparable institutional design challenges regarding regulatory integration and legal pluralism. Third, developmental timing and policy window: Indonesia's regulatory architecture has achieved maturity (7.5% banking market share, integrated OJK-BI-DSN-MUI oversight) precisely as Nigeria enters a critical expansion phase (92% deposit growth, \$4 billion sector size), creating natural conditions for policy learning and institutional transfer. Fourth, shared governance challenges: both confront corruption, infrastructure deficits, and financial inclusion imperatives where Islamic finance mechanisms offer potential solutions (Sadiq, 2025). These parallels position the Indonesia-Nigeria comparison as theoretically grounded case of South-South policy diffusion between structurally similar, motivationally aligned, and capacity-equipped contexts (Dolowitz & Marsh, 2000).

The primary aim of this study is to explore the potential adaptation of Indonesian Islamic economic governance models to Nigeria's political economy, focusing on identifying both enabling conditions and structural constraints. Specifically, the research will analyze which governance elements legal frameworks, accountability measures, and regulatory architectures are most transferable, what institutional prerequisites enhance successful adaptation, and how these adaptations might influence Nigeria's socio-economic governance outcomes. By bridging empirical evidence with comparative institutional analysis, this research contributes to emerging scholarship on South–South policy diffusion and governance reform. The theoretical framework draws upon policy transfer theory (Dolowitz & Marsh, 2000) and institutional theory (DiMaggio & Powell, 1983) to evaluate the conditions under which governance models may successfully diffuse across developing economy contexts.

This paper is structured as follows. Section 2 presents the literature review, examining Islamic economic governance development in Indonesia, Islamic finance evolution in Nigeria, and the theoretical foundations of policy transfer. Section 3 outlines the qualitative research methodology. Section 4 presents the results and thematic analysis. Section 5 concludes with implications for policy and future research.

## 2. LITERATURE REVIEW

### 2.1 Islamic Economic Governance Development in Indonesia

Indonesia's Islamic economic governance has evolved from a niche banking sector into a comprehensive institutional ecosystem integrated with national development strategy. The country's approach is anchored in Law No. 21/2008 on Islamic Banking, which established the legal foundation for Sharia-compliant financial institutions and mandated the formation of Sharia Supervisory Boards (SSB/DPS) to ensure theological-prudential alignment (Basyirah et al., 2022). This legislative framework was subsequently strengthened by the establishment of the Financial Services Authority (Otoritas Jasa Keuangan, OJK) in 2011, which consolidated regulatory oversight across conventional and Islamic financial sectors, and the ongoing coordination between Bank Indonesia (BI), the OJK, the National Sharia Board (DSN), and the Indonesian Ulema Council (MUI) (Bank Indonesia, 2023; OJK, 2026).

The empirical literature documents significant economic impacts from this governance architecture. Sakinah, Hidayat, and Kusuma (2023) employed Vector Error Correction Model (VECM) analysis to demonstrate that sukuk issuance exerts statistically significant short-term effects on Indonesia's GDP growth, while Islamic banks and mutual funds contribute to positive long-term growth trajectories. These findings suggest that Indonesia's integrated regulatory framework has enabled Islamic financial instruments to function as effective macroeconomic policy tools rather than merely religiously-compliant alternatives to conventional finance.

More recently, Hamidi et al. (2025) conducted panel data analysis across Indonesian provinces, finding that regions with higher Islamic financial inclusion experience stronger economic growth, with third-party funds and Islamic financing showing positive contributions to regional GDP. This evidence indicates that Indonesia's governance model has succeeded in linking Islamic financial sector development to tangible, geographically-distributed economic outcomes. The institutionalization of zakat and other Islamic social finance mechanisms has further reinforced this connection between financial governance and inclusive development (Kahf, 2020; Nasution & Lubis, 2021).

The regulatory architecture itself merits particular attention for comparative purposes. Indonesia's framework combines Basel-like prudential regulations with Sharia compliance requirements, creating a dual-layer oversight system that addresses both financial stability and ethical integrity (Chapra, 2021; Warde; 2010). Mandatory Sharia reviews, adherence to Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) standards, and digital monitoring tools have reduced information asymmetry and enhanced transparency (Lestari, Hanafi, & Wardhana, 2025). These features represent transferable governance elements that may inform institutional development in comparable contexts.

### 2.2 Islamic Finance Evolution and Governance Challenges in Nigeria

Nigeria's Islamic finance sector has experienced rapid expansion despite operating within a more fragmented institutional environment. Industry data indicate that the sector reached approximately USD 4 billion by mid-2025, with total assets growing to NGN 2.5 trillion in 2023 and deposits increasing by over 92% year-on-year (Leadership Nigeria, 2025; Mondaq, 2024). Jaiz Bank, the country's premier Islamic banking institution, reported assets exceeding NGN 1.3 trillion, demonstrating the viability of Sharia-compliant banking within Nigeria's competitive financial landscape (Jaiz Bank Plc, 2026; Fitch Ratings, 2025; Hasan, 2014).

However, Nigeria's regulatory framework exhibits significant decentralization compared to Indonesia's coordinated architecture. The Central Bank of Nigeria (CBN) has issued non-interest banking guidelines and established the Financial Regulation and Advisory Council of Experts (FRACE) to provide Sharia guidance, but enforcement remains inconsistent across

federal and state jurisdictions (World Bank, 2022). State-level Sharia Advisory Committees (SACs) operate with varying degrees of coordination with national regulators, creating potential for regulatory arbitrage and inconsistent product standards. This fragmentation stands in marked contrast to Indonesia's centralized DSN-MUI fatwa system.

The governance quality challenge is particularly acute in Nigeria. Sadiq (2025) presents econometric evidence demonstrating that the long-term contribution of Islamic finance to Nigeria's GDP is statistically significant only when governance quality, particularly control of corruption, is adequately addressed. This finding suggests that institutional prerequisites not merely regulatory frameworks, determine whether Islamic financial expansion translates into developmental outcomes. The federal pluralism of Nigeria's political system, wherein twelve northern states maintain Sharia courts alongside secular federal law, creates additional complexity for national regulatory harmonization that Indonesia's more centralized federal structure does not encounter to the same degree.

Despite these challenges, Nigeria exhibits strong conditions for policy learning. The country's secular constitutional framework accommodates Islamic finance without mandating it, creating space for voluntary market-driven adoption similar to Indonesia's experience. The rapid growth rates in deposits and lending indicate rising demand for Sharia-compliant products, suggesting that institutional supply-side constraints rather than demand-side factors currently limit sectoral development.

### **2.3 Policy Transfer Theory and South-South Diffusion (Theoretical framework)**

The theoretical framework for this comparative analysis draws upon policy transfer theory and institutional theory to evaluate the conditions under which governance models may successfully diffuse across developing economy contexts. Dolowitz and Marsh (2000) identify three necessary conditions for successful policy transfer: similarity of context between source and destination, motivation to learn from policy actors in the destination country, and capacity to adapt institutional frameworks to local conditions. The Indonesia-Nigeria comparison satisfies these conditions across multiple dimensions, as elaborated in the introduction.

Policy transfer theory distinguishes between different forms of transfer, including copying (direct adoption), emulation (adaptation of underlying principles), and hybridization (synthesis of external and domestic elements) (Dolowitz & Marsh, 2000; Mirakhor & Krichene, 2015). Given Nigeria's distinct federal structure and legal pluralism, pure copying of Indonesia's centralized DSN-MUI model is unlikely; rather, emulation or hybridization appears more feasible, potentially involving strengthened FRACE authority combined with regionally-appropriate Sharia governance mechanisms.

Institutional theory complements this framework by emphasizing the centrality of rules, norms, and regulatory structures in shaping governance effectiveness (DiMaggio & Powell, 1983). Islamic economic governance differs from conventional paradigms by prioritizing distributive justice, transparency, and ethical accountability as core criteria of policymaking rather than incidental byproducts (Basyirah et al., 2022). In contexts where these principles enter formal regulatory lexicons, they influence not only financial performance but broader governance attitudes toward equity and inclusion. This institutional perspective highlights that successful adaptation of Indonesian models to Nigeria requires attention to normative fit and cultural embeddedness, not merely technical regulatory transplantation.

The South-South diffusion context adds specific dimensions to standard policy transfer theory. Unlike North-South transfers that often involve conditionality and asymmetric power relations, South-South cooperation operates through mutual learning and shared developmental experience (Samir, 2020). Both Indonesia and Nigeria occupy similar positions in the global economic hierarchy, face comparable infrastructure and inclusion challenges, and navigate the

complexities of integrating Islamic principles within secular, pluralistic governance systems. These shared characteristics may facilitate more symmetrical, contextually-appropriate policy learning than would be possible with models derived from developed economy contexts.

The literature review reveals a critical gap: while individual studies examine Islamic finance in Indonesia or Nigeria, and while policy transfer theory is well-established in comparative politics, no systematic analysis applies this theoretical lens to Islamic economic governance diffusion between these two major Muslim-majority developing economies. This study addresses that gap by examining which specific governance elements regulatory architectures, accountability mechanisms, transparency standards, and social finance integration are most amenable to cross-context adaptation and what institutional prerequisites enable such transfer to generate developmental outcomes.

### 3. METHODOLOGY

This study adopts a qualitative, descriptive, and interpretive research design to explore the potential adaptation of Indonesian Islamic economic governance models to Nigeria's political economy. Qualitative research is particularly suited to this study because it enables in-depth understanding of complex social phenomena, contextual relationships, and governance dynamics that cannot be meaningfully captured through quantitative measures alone (Creswell & Poth, 2018). The descriptive component of the design allows for a detailed portrayal of institutional frameworks, governance structures, and policy diffusion processes in both Indonesia and Nigeria. At the same time, the interpretive element foregrounds the meanings and contextual implications of Islamic economic governance as understood within each country's socio-political landscape. Through this design, the research prioritizes nuance, context, and meaning over numerical quantification, enabling a rich comparative analysis of governance models that are deeply embedded in both formal structures and cultural norms.

Given the exploratory nature of the study, the data sources are exclusively secondary, drawing from academic journals, books, government reports, policy documents, industry reports, and credible media sources. Secondary data is appropriate for this research because it offers access to pre-existing knowledge, historical records, and robust empirical analyses that are essential for comparative governance studies (Bowen, 2009). In this context, secondary sources provide both empirical insights such as statistical evidence on Islamic finance growth, regulatory developments, and governance indicators and theoretical frameworks that inform conceptual understanding. These sources were selected based on relevance to Islamic economic governance, policy transfer, institutional theory, and the political economies of Indonesia and Nigeria.

**Limitations of Secondary Data Sources:** The exclusive reliance on secondary data presents several methodological constraints that warrant acknowledgment. First, the study cannot capture real-time institutional dynamics or emerging policy deliberations that have not yet been documented in official reports or academic literature, potentially creating a temporal lag in understanding current governance developments in both countries. Second, secondary sources often reflect the interpretive perspectives and potential biases of their original authors whether government officials, industry analysts, or academic researchers rather than unmediated empirical observation of governance practices on the ground. This necessitates careful triangulation across multiple source types to mitigate single-perspective distortion. Third, the availability and quality of secondary data differ substantially between Indonesia and Nigeria: Indonesia's longer institutional history of Islamic finance governance has generated more extensive peer-reviewed scholarship and standardized regulatory documentation, whereas Nigeria's rapidly evolving but newer sector relies more heavily on industry reports and media coverage that may lack academic rigor or long-term verification. Fourth, neither

country's secondary sources fully reveal the informal institutional norms, interpersonal networks, or tacit political negotiations that shape actual governance implementation, particularly regarding how Sharia advisory bodies interact with secular regulatory authorities or how federal-state coordination operates in practice. These limitations constrain the depth of insight into micro-level governance mechanisms and may obscure context-specific barriers to policy transfer that would be visible through primary field research such as interviews with regulators, bankers, or Sharia scholars, or direct observation of institutional proceedings.

Consequently, the findings should be interpreted as theoretically-informed comparative assessment rather than definitive evaluation of on-the-ground implementation capacity, and future research would benefit from complementary primary data collection to validate and extend the propositions developed herein.

Data collection involved systematic identification, retrieval, and review of secondary materials from academic databases (e.g., Scopus, JSTOR, Google Scholar), institutional repositories (e.g., World Bank, IMF), and official national sources (e.g., central bank reports, fiscal policy documents). The author employed keyword search strategies such as "Islamic economic governance," "Islamic finance Indonesia," "policy transfer," "South-South cooperation," "Nigeria governance," and "institutional adaptation" to ensure comprehensive coverage of relevant literature. Selection criteria for sources included academic rigor (peer-reviewed when possible), recency (with priority on publications within the last ten years for empirical evidence), and relevance to the research questions. Policy documents from government institutions such as Bank Indonesia and the Central Bank of Nigeria were also included to capture official frameworks and regulatory contexts. Together, these sources provided a rich body of information that captures both empirical data and interpretive insights into governance structures and their evolution.

As part of the qualitative approach, the study includes a case profile of Indonesia and Nigeria to contextualize their respective political economies and governance environments. Indonesia is profiled as a democratic republic with a Muslim-majority population where Islamic economic governance has been progressively institutionalized across sectors including banking, securities, and regulatory frameworks (Basyirah et al., 2022). Institutional developments such as the growth of Islamic banking (approximately 7.5% of total banking assets as of 2023; Statista, 2025) and the issuance of sukuk demonstrate how Islamic economic principles have been incorporated into governance practices, with empirical research suggesting positive linkages between Islamic finance and GDP growth (Sakinah, Hidayat, & Kusuma, 2023). These characteristics make Indonesia a meaningful case for examining how Islamic governance can shape national policy frameworks.

In contrast, Nigeria's profile is shaped by its federal system and plural legal context, wherein Islamic economic governance is emerging alongside a dominant conventional economic and legal order. The Nigerian economy is characterized by significant regional diversity, ethno-religious plurality, and governance challenges including corruption and institutional capacity deficits (Sadiq, 2025). The Islamic finance sector in Nigeria, while smaller in scale, has shown rapid growth reaching approximately USD 4 billion in industry size by 2025 and doubling key asset categories in recent years (Mondaq, 2024; Leadership Nigeria, 2025). These dynamics situate Nigeria as a compelling context for assessing whether governance models from the Indonesian case can offer policy lessons without ignoring local complexities.

Central to the research are several key variables, which are operationalized through qualitative interpretation and comparative analysis. The first variable Islamic economic governance model refers to institutional arrangements, regulatory frameworks, ethical principles, and governance practices derived from Islamic jurisprudence and operationalized within public policy and financial systems (Basyirah et al., 2022). This variable is

operationalized through document analysis of governance frameworks, regulatory codes, policy directives, and empirical indicators (e.g., bank share of total assets, sukuk volumes). The second variable Nigeria's political economy encompasses the constellation of political institutions, governance practices, economic structures, and social norms that shape policy outcomes in Nigeria. This variable is operationalized through analysis of Nigeria's federal governance documents, legal frameworks, and governance indicators as reported in secondary sources. Finally, policy transfer potential is interpreted as the extent to which frameworks, principles, and practices from Indonesia's Islamic governance experience can be adapted to Nigeria's context, taking into account both structural similarities and differences.

This study employs thematic analysis to identify core themes and patterns within the secondary data, such as governance principles, institutional mechanisms, and policy outcomes related to Islamic economic governance. According to Braun and Clarke (2006), thematic analysis is well suited for organizing and interpreting qualitative data in a manner that foregrounds meaning and context. In practice, the author coded secondary texts for recurring themes such as governance principles, regulatory adaptation, institutional capacity, and policy outcomes, enabling an evidence-based understanding of how governance practices operate in each case.

Comparative interpretation further extends thematic analysis by juxtaposing findings from Indonesia and Nigeria. This involves examining both similarities and differences in how Islamic economic principles are operationalized within governance frameworks, as well as evaluating contextual conditions that may facilitate or constrain policy adaptation. For instance, Indonesia's secular constitutional framework that accommodates Shariah-based finance provides one set of enabling conditions, while Nigeria's federal system and diverse legal environment present a distinct set of structural considerations. Through systematic comparison, the research draws out interpretive insights on which elements of the Indonesian model are most amenable to adaptation and why.

Throughout the analysis, the author applies interpretive logic to contextualize empirical data within broader governance discourses. Rather than treating all secondary data as value-neutral, interpretive research recognizes that data is embedded within social, political, and cultural contexts that shape meaning (Denzin & Lincoln, 2018). As such, the study situates empirical facts within narratives about institutional evolution, ethical governance, and policy learning. This approach allows the research to move beyond mere description to generate interpretive propositions about policy transfer potential, institutional fit, and governance innovation.

## **4. RESULTS AND DISCUSSION**

### **4.1 Theme 1: Maturity of Integrated Sharia Governance Frameworks (Addresses RQ1 – Transferable Legal Frameworks and Accountability Measures)**

Indonesia's centralized model anchored in Law No. 21/2008, OJK oversight, and DSN-MUI fatwas requires mandatory Sharia Supervisory Boards (SSB/DPS) in all Islamic institutions, ensuring theological-prudential alignment. This has fostered transparency, ethical screening, and product legitimacy. Nigeria's framework (CBN Guidelines, FRACE, institution-level SACs) is more decentralized, limiting national coherence. High transferability exists for Indonesia's SSB mandates and centralized fatwa mechanisms, adaptable to Nigeria's federal structure via enhanced FRACE authority. This would bolster accountability without constitutional conflict (OJK, 2023).

## 4.2 Theme 2: Positive Empirical Linkages to Economic Growth and Inclusion (Addresses RQ3 – Socioeconomic Outcomes)

Indonesia exhibits sustained causal links: sukuk drives short-term GDP effects, while Islamic banking/financing supports long-term growth via inclusion and infrastructure (Sakinah et al., 2023; Hamidi et al., 2025). Recent data show continued momentum.

Nigeria records rapid but conditional growth, with GDP impacts moderated by governance quality (Sadiq, 2025; CBN 2024).

Table 1. Updated Key Performance Indicators – Islamic Finance Sectors (2025–Early 2026 Data)

Indicator	Indonesia (Latest Available)	Nigeria (Latest Available)	Implication for Transfer & Outcomes (RQ1/RQ3)
Islamic Banking Assets	Rp1,028 trillion (~USD 65 billion) as of Oct 2025; exceeded Rp1,000 trillion milestone	Jaiz Bank alone: NGN1.287–1.343 trillion (total industry ~USD 4+ billion mid-2025)	Indonesia's scale offers blueprint for deepening; Nigeria's momentum receptive to models
Market Share (Islamic Banking)	~7–8% of total banking assets (stable, projected 8% in 2026)	<1% of system (rapid segmental growth)	Transferable scaling strategies could push Nigeria toward 2–5% share medium-term
Year-on-Year Growth (Assets/Financing)	Assets ~11.34% yoy (Oct 2025); financing ~7.78–9.58%	Deposits ~92% (2023 base); overall industry 60–90%+ in segments; projected expansion 2025–2026	Nigeria's higher velocity signals demand; Indonesian regulatory maturity stabilizes growth
Sukuk Outstanding/Role	Government sukuk key for infra; positive GDP linkages (VECM studies)	NGN1.09 trillion+ (2023 base); increasing sovereign issuances expected 2025–2026	Direct transfer of issuance frameworks for infra financing without debt burden
Broader Islamic Finance Assets	>Rp3,050 trillion (Aug 2025, incl. sukuk/takaful)	~USD 4 billion (mid-2025); projected >USD 4 billion 2026	Highlights Indonesia's ecosystem maturity as adaptation reference

Source: Author's compilation based on thematic analysis (Braun & Clarke, 2019) and qualitative content analysis (Krippendorff, 2018)

### 4.3 Theme 3: Regulatory Architectures Emphasizing Transparency and Prudential Integration (Addresses RQ1 – Regulatory Architectures)

Table 2. Transferable Regulatory Elements from Indonesia to Nigeria

Indonesian Regulatory Element	Mechanism for Nigerian Adaptation	Expected Governance/Financial Outcome	Socioeconomic Impact
OJK-BI-DSN-MUI Coordinated Oversight	Enhance inter-agency collaboration between CBN, SEC, and Sharia boards	Stronger regulatory cohesion and reduced fragmentation	Improved financial stability and investor confidence
Mandatory Sharia Reviews	Implement compulsory Sharia audit for all Islamic financial instruments	Increased compliance and ethical alignment	Public trust and adoption of Sharia-compliant products
AAOIFI Accounting & Reporting Standards	Integrate AAOIFI-inspired reporting guidelines into CBN and SEC frameworks	Enhanced transparency and reduced information asymmetry	Improved investor decision-making and market efficiency
Basel-like Prudential Regulations with Sharia Overlay	Harmonize conventional prudential rules with Sharia compliance in Nigeria	Balanced risk management with innovation	Sustainable growth in Islamic banking and fintech sectors
Digital Monitoring & Compliance Tools	Deploy fintech-based regulatory supervision platforms	Real-time monitoring, quicker enforcement	Reduced regulatory gaps and enhanced financial inclusion
Innovation-Friendly Policies	Encourage fintech and ethical investment instruments within regulatory frameworks	Foster financial product innovation	Economic growth, job creation, and broader access to services

Source: Author's compilation based on thematic analysis (Braun & Clarke, 2019) and qualitative content analysis (Krippendorff, 2018)

### 4.4 Theme 4: Institutional Prerequisites – Governance Quality, Capacity, and Normative Fit (Addresses RQ2)

Success hinges on: (1) corruption control (Sadiq, 2025 moderation effect); (2) Sharia expertise/stakeholder capacity; (3) contextual alignment (developing economies, Muslim demographics, ethical demand per Dolowitz & Marsh, 2000). Nigeria's federal pluralism constrains but enables regional pilots.

Table 3. Comparative Institutional Prerequisites and Transfer Feasibility

Prerequisite	Indonesia (Enabling Factors)	Nigeria (Current Status & Gaps)	Adaptation Strategy & Feasibility
Control of Corruption & Governance Quality	Mature regulatory layering; lower perceived issues	Critical moderator for GDP impact; ongoing deficits	Parallel reforms essential; high feasibility with political will
Sharia Expertise & Capacity Building	Decades of DSN-MUI ecosystem; domestic competency	Growing but limited; training needs	Partnerships (e.g., IDB collaborations); medium-high feasibility

Normative & Structural Fit	Secular constitution accommodates Sharia finance	Secular federalism + northern Sharia courts	Hybrid models (regional emphasis); high due to South-South similarities
Regulatory Centralization	Centralized DSN-MUI + mandatory SSB	Decentralized SAC + FRACE	Adopt hybrid national advisory; high transfer potential
Overall Policy Transfer Potential	Voluntary, high-similarity conditions met	Receptive base; capacity-building required	Strong for ethical oversight & sukuk; conditional on prerequisites

Source: Author's compilation based on thematic analysis (Braun & Clarke, 2019) and qualitative content analysis (Krippendorff, 2018)

#### 4.5 Theme 5: Projected Socioeconomic Governance Outcomes (Addresses RQ3)

Table 4

Indonesian Element	Mechanism of Adaptation in Nigeria	Expected Governance Outcome	Potential Socioeconomic Impact
Ethical Finance & Halal Products	Target underserved markets with ethical/Islamic products	Enhanced social inclusion	Improved access to essential goods; reduced inequality
Sukuk-based Infrastructure Financing	Mobilize Islamic bonds for public infrastructure projects	Infrastructure development	Better roads, schools, healthcare facilities; economic multiplier effect
Transparency & Accountability Practices	Implement clear reporting standards and digital governance	Enhanced political legitimacy	Strengthened public trust in institutions; reduced corruption
Industry-GDP Linkages	Encourage cluster-based industrial and trade linkages (SMEs & cooperatives)	Economic growth stimulation	GDP uplift through value chain development, employment generation
Community Participation & Zakat Integration	Channel zakat funds to local development projects	Inclusive development	Poverty alleviation; increased community ownership of projects

Source: Author's compilation based on thematic analysis (Braun & Clarke, 2019) and qualitative content analysis (Krippendorff, 2018)



Figure 1: Conceptual Pathway of Adaptation (Text-Based Concept Map)

Source: Author's compilation based on thematic analysis (Braun & Clarke, 2019) and qualitative content analysis (Krippendorff, 2018)

#### 4.6 Findings and Discussion

The findings of this study illuminate the potential of adapting Indonesian Islamic economic governance frameworks to the Nigerian context. In examining regulatory architectures, mechanisms of adaptation, and projected socioeconomic outcomes, the study reveals both opportunities and challenges for Nigeria in aligning ethical finance principles with national development objectives.

Indonesia's regulatory system exemplifies a coordinated oversight framework involving the Otoritas Jasa Keuangan (OJK), Bank Indonesia (BI), Dewan Syariah Nasional (DSN), and Majelis Ulama Indonesia (MUI). This integration aligns Basel-like prudential regulations with Sharia compliance, creating an enabling environment for financial innovation, including digital fintech solutions (Chapra, 2021; Siddiqi, 2020). Mandatory Sharia reviews and adherence to AAOIFI accounting and reporting standards reduce information asymmetry and enhance transparency, fostering public confidence in financial institutions. By contrast, Nigeria's regulatory environment, although advancing through tools such as CBN non-interest papers and SEC guidelines, exhibits fragmented enforcement and limited inter-agency coordination, highlighting gaps that constrain the effective implementation of Sharia-compliant finance (World Bank, 2022).

The study's findings align with institutional theory, which emphasizes that coordinated and structured regulatory systems reduce moral hazard and improve compliance (DiMaggio & Powell, 1983). Nigeria's regulatory fragmentation underscores the need for stronger institutional integration, similar to the Indonesian model, to achieve both prudential oversight and ethical compliance. Furthermore, the findings corroborate existing literature suggesting that Islamic finance mechanisms, including sukuk and ethical banking, not only serve

compliance objectives but also contribute to broader development goals such as social inclusion and poverty reduction (Nasution & Lubis, 2021; Kahf, 2020).

Analysis of the potential socioeconomic outcomes indicates that adapting Indonesian elements such as ethical finance instruments, sukuk-based infrastructure funding, transparency practices, industry-GDP linkages, and zakat integration could generate significant benefits for Nigeria. Enhanced social inclusion, infrastructure development, improved political legitimacy, and employment growth are among the projected outcomes. These results resonate with Sen's capabilities approach, which emphasizes expanding individuals' access to resources and opportunities to improve well-being (Sen, 1999). By linking ethical finance mechanisms to community development and industrial growth, Nigeria could achieve inclusive economic development, reduce poverty, and stimulate GDP growth.

#### **4.7 Nigeria's Northern Sharia Courts and Centralized Advisory Models**

Nigeria's federal pluralism creates a distinctive institutional landscape that differs markedly from Indonesia's coordinated DSN-MUI architecture. Twelve northern states Bauchi, Borno, Gombe, Jigawa, Kaduna, Kano, Katsina, Kebbi, Niger, Sokoto, Yobe, and Zamfara maintain Sharia courts with jurisdiction over personal and family law matters for Muslim residents (Sadiq, 2025; World Bank, 2022). These courts operate under state rather than federal authority, creating a fragmented religious judicial ecosystem without national coordination equivalent to Indonesia's DSN-MUI fatwa system. This decentralization raises critical questions about how a centralized Indonesian-style Sharia advisory model might function within Nigeria's constitutional structure.

Three potential interaction scenarios emerge from comparative analysis. First, competitive authority scenarios could arise if a national Sharia advisory body strengthened along DSN-MUI lines conflicts with existing state-level Sharia court interpretations. Northern Sharia judges, trained in classical fiqh traditions and accountable to state authorities rather than federal regulators, might resist fatwas or product approvals issued by a national body, particularly where Hanafi-Maliki jurisprudential differences or local customary law (*hisbah*) traditions diverge from nationally standardized positions. This mirrors tensions observed in Indonesia's early Islamic banking development where regional ulema initially contested DSN-MUI authority, though Indonesia's unitary state structure ultimately enabled national consolidation that Nigeria's federalism may resist (Basyirah et al., 2022).

Second, complementary specialization arrangements present an alternative pathway. Indonesia's DSN-MUI itself operates with functional differentiation: DSN focuses on financial product Sharia compliance while MUI addresses broader halal certification and social fatwas. Nigeria could analogously position any strengthened national advisory body such as an empowered FRACE to address technical financial instruments (sukuk structures, banking products) while leaving northern Sharia courts with continued jurisdiction over personal status matters and zakat distribution at state levels. This hybrid model resembles how Malaysia's National Shariah Advisory Council coexists with state-level religious authorities, though Malaysia's constitutional monarchy provides unifying symbolic authority absent in Nigeria's secular federal republic (Chapra, 2021).

Third, jurisdictional evasion risks must be acknowledged. If national Sharia financial standards prove more stringent than northern court preferences for example, regarding acceptable profit-rate benchmarks or sukuk asset-backing requirements market participants might forum-shop between regulatory regimes, undermining compliance coherence. Indonesia addressed analogous challenges through mandatory DSN-MUI fatwa compliance for all OJK-registered products, backed by centralized bank licensing. Nigeria's SEC and CBN lack

equivalent leverage over state-level Islamic financial activities, particularly where northern states might view national standards as federal overreach into constitutionally protected religious domains (DiMaggio & Powell, 1983; Dolowitz & Marsh, 2000).

The empirical experience of Nigeria's existing sukuk issuances where federal sovereign sukuk have proceeded without northern state legal challenge suggests that financial instruments with clear development purposes and federal fiscal backing may encounter less Sharia jurisdictional friction than retail banking products or zakat administration (Leadership Nigeria, 2025; Mondaq, 2024).

Table 5. Comparative Institutional Prerequisites and Transfer Feasibility

Prerequisite	Indonesia (Enabling Factors)	Nigeria (Current Status & Gaps)	Adaptation Strategy & Feasibility
Control of Corruption & Governance Quality	Mature regulatory layering; lower perceived corruption issues	Critical moderator for GDP impact; ongoing deficits	Parallel reforms essential; high feasibility with political will
Sharia Expertise & Capacity Building	Decades of DSN-MUI ecosystem; domestic competency	Growing but limited; training needs; state-federal fragmentation	Partnerships (e.g., IDB collaborations); asymmetric federal protocols for northern court coordination; medium-high feasibility
Normative & Structural Fit	Secular constitution accommodates Sharia finance	Secular federalism + northern Sharia courts	Hybrid models (regional emphasis); differentiated national-state jurisdiction; high due to South-South similarities
Regulatory Centralization	Centralized DSN-MUI + mandatory SSB	Decentralized SAC + FRACE with limited northern state coordination	Adopt hybrid national advisory with state consultation mechanisms; high transfer potential for federal institutions, conditional for state-level integration
Sharia Judicial Coordination	Unitary state enables national fatwa authority	Twelve northern state Sharia courts with autonomous jurisdiction	Protocol-based coordination, not centralized control; medium feasibility requiring constitutional sensitivity
Overall Policy Transfer Potential	Voluntary, high-similarity conditions met	Receptive base; capacity-building required; federal-state religious authority complexity	Strong for ethical oversight & sukuk at federal level; conditional on prerequisite reforms and asymmetric institutional design

Source: Author's compilation based on thematic analysis (Braun & Clarke, 2019) and qualitative content analysis (Krippendorff, 2018)

The study also extends the literature by highlighting the importance of digital tools for monitoring and compliance. While prior studies have noted the value of regulatory integration (Chapra, 2021; Bank Indonesia, 2023), this study emphasizes the role of fintech-based oversight in bridging enforcement gaps, particularly in the Nigerian context. Such tools can facilitate real-time monitoring, improve adherence to Sharia principles, and enhance transparency, thereby strengthening both regulatory effectiveness and public trust.

From a policy perspective, the findings suggest that Nigerian regulators should institutionalize mandatory Sharia audits, embed AAOIFI-inspired reporting standards within the CBN and SEC frameworks, and promote coordinated oversight across regulatory agencies.

These steps would enhance prudential governance, reduce information asymmetry, and support innovation in financial products. Practically, adopting sukuk-based infrastructure financing and integrating zakat into community development programs could provide additional resources for education, healthcare, and renewable energy projects, aligning with the country's socioeconomic development goals (Siddiqi, 2020; Kahf, 2020).

In conclusion, the study demonstrates that Indonesia's Islamic economic governance framework offers transferable lessons for Nigeria. Integrating ethical finance, transparent reporting, and inclusive development mechanisms into Nigerian financial and regulatory systems can strengthen institutional legitimacy, promote sustainable growth, and improve social outcomes. These findings contribute to both theory and practice, linking regulatory architectures, Islamic finance principles, and inclusive development models, while providing actionable insights for policymakers seeking to enhance Nigeria's socioeconomic governance landscape.

## 5. CONCLUSION

This study has examined the potential for adapting Indonesian Islamic economic governance frameworks to the Nigerian context, focusing on regulatory architectures, mechanisms of adaptation, and projected socioeconomic outcomes. The findings reveal that coordinated oversight structures, mandatory Sharia reviews, AAOIFI-inspired reporting, and ethical finance instruments can significantly enhance transparency, prudential regulation, and financial innovation in Nigeria. Furthermore, integrating sukuk-based infrastructure financing, industry-GDP linkages, and community-driven initiatives such as zakat can promote inclusive growth, social welfare, and sustainable economic development. By situating these findings within existing theories of institutional regulation, Islamic economic governance, and inclusive development, the study highlights the practical feasibility and transformative potential of these adaptations. The contribution of this research lies in providing an empirically grounded framework that links ethical financial governance to tangible socioeconomic benefits, offering policymakers and scholars a model for bridging ethical finance, regulatory innovation, and inclusive development. Overall, the study demonstrates that carefully adapted Islamic economic governance mechanisms can strengthen institutional legitimacy, foster public trust, and stimulate equitable growth, thereby advancing both theoretical understanding and practical application in the field of development studies and Islamic finance.

While this study provides a foundational comparative analysis, several avenues warrant deeper investigation to extend and validate its findings.

- a) First, primary data collection through field research including semi-structured interviews with regulators at Bank Indonesia, OJK, CBN, and SEC, as well as Sharia scholars at DSN-MUI and northern Nigerian Sharia courts would illuminate micro-level institutional dynamics and informal coordination mechanisms that secondary sources cannot capture. Such research could specifically examine how Nigerian state-level Sharia judges perceive and might interact with a strengthened national advisory framework, testing the interaction scenarios proposed in this study.
- b) Second, quantitative policy impact assessment employing econometric methods would complement this study's qualitative approach. Future research could construct composite governance indices measuring regulatory integration, Sharia compliance transparency, and financial inclusion outcomes, then employ difference-in-differences or synthetic control methods to estimate causal effects if Nigeria adopts specific Indonesian-modeled reforms. This would address the limitation that current evidence

- demonstrates correlation rather than causation between governance architectures and developmental outcomes.
- c) Third, comparative expansion beyond the Indonesia-Nigeria dyad would strengthen generalizability. Including Malaysia's hybrid federal-state Sharia governance model or Pakistan's centralized Islamic regulatory experience would generate richer typologies of institutional adaptation pathways, enabling more nuanced contingent theory about which governance elements transfer under which constitutional and political conditions.
  - d) Fourth, longitudinal tracking of Nigeria's evolving regulatory environment is essential given the sector's rapid growth (92% deposit expansion, \$4 billion market size). Annual policy monitoring research could assess whether FRACE's authority expands, whether northern states develop coordinating protocols with federal regulators, and whether sukuk issuance indeed catalyzes infrastructure development as projected providing real-time feedback on this study's policy recommendations.
  - e) Fifth, investigation of digital fintech governance in Islamic finance represents an emerging frontier. As both Indonesia and Nigeria accelerate mobile banking and blockchain-based sukuk platforms, comparative research on how regulatory sandboxes, digital Sharia compliance tools, and fintech innovation hubs operate across these contexts would inform next-generation governance adaptation.
  - f) Finally, normative and ethical dimensions of policy transfer merit deeper philosophical and empirical inquiry. Future studies could examine whether Nigerian stakeholders regulators, bankers, civil society, and religious leaders perceive Indonesian models as legitimate and culturally appropriate, or whether alternative Islamic governance paradigms (Gulf-based, Turkish, or locally developed) command greater authority. Such research would advance understanding of how policy transfer succeeds not merely through technical institutional replication but through normative resonance and participatory adaptation.

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