

QUALITATIVE RESEARCH

## Obliterating The Financial Challenges Extenuating SMEs in Lagos, Nigeria Through The Instrumentality of *Mushārah*: A Qualitative Assessment

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### Abstract

**Purpose:** The rate at which financial challenges are mitigating the growth of SMEs in Nigeria requires diligent attention from researchers. This research work hereby aims to obliterate the financial challenges extenuating SMEs in Lagos, Nigeria, through the instrumentality of *Mushārah*.

**Methodology:** A qualitative case study approach was employed to achieve this objective. Nineteen (19) respondents who fit the criteria were interviewed, and their responses were analyzed using a qualitative method of data analysis.

**Findings:** The study revealed that many SME owners are not fully aware of the operation of Islamic banks in Nigeria. Respondents equally revealed that they used private funds when they started their business. However, they are now better exposed to the benefits of the Islamic banking system. SMEs in Nigeria do not maintain proper books of account; during the loan inspection process, SME owners were advised to keep an appropriate record of the goods they sold and their earnings. This study concluded that entrepreneurs are not fully aware of the terms of Islamic Financing; SME owners are willing to embrace Islamic funding since it is free from interest and less expensive. This study recommended that more SMEs approach Islamic banks for financial assistance to obliterate the financial challenges extenuating SMEs in Lagos, Nigeria, through the instrumentality of *Mushārah*.

**Significance:** This research is among the few studies highlighting the financial challenges extenuating SME operations in Lagos, Nigeria, and established *Mushārah* as a vital instrument to address the financial challenges extenuating SME operations in Lagos.

**KAUJIE Classification:** L31, T4, L21

**JEL Classification:** G21, G32, O16

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## INTRODUCTION

Small and Medium-sized Enterprises (SMEs) are essential in driving economic growth and development. In Lagos, Nigeria, SMEs account for a significant proportion of the state's economic output, providing employment opportunities and reducing poverty (National Bureau of Statistics, 2020). However, despite their importance, SMEs in Lagos, Nigeria, face numerous financial challenges that hinder their growth and survival, including limited access to credit, high interest rates, and inadequate financial infrastructure (CBN, 2020).

In recent years, Islamic finance instruments, such as *Mushārah*, have become a viable alternative to conventional financing options (Iqbal & Mirakhor, 2017). *Mushārah*, a profit-and-loss sharing partnership, offers a unique financing model that aligns with the principles of Islamic finance (Khan, 2019). By providing a risk-sharing system, *Mushārah* can help mitigate SMEs' financial risks, thereby promoting their growth and development.

This qualitative study seeks to explore the potential of *Mushārah* in addressing the financial challenges faced by SMEs in Lagos, Nigeria. The study's primary objective is to investigate SME owners' and managers' perceptions and experiences regarding using *Mushārah* as a financing option.

Small and Medium-Sized Enterprises (SMEs) constitute the principal economic foundations of Nigeria. Empowering SMEs is a powerful way to address the nation's primary issues: unemployment, poverty, and the lack of jobs (Lorenz, 2023). Small enterprises comprising SMEs are a strategic force crucial in driving regional development. SME assistance and policy are essential to the Nigerian economy. According to data from the National Bureau of Statistics (NBS, 2020), there are presently 41.5 million Micro, Small and Medium Enterprises (MSMEs) in Nigeria, contributing 49.7% of the country's Gross Domestic Product (GDP). SMEs comprise a significant portion of the Nigerian economy, accounting for up to 60.4% of total investment and 97% of the labor force (Ibrahim & Mohd-Sapian, 2023).

Only 30.84 per cent of micro and small business revenue is generated outside of Lagos, but the majority, or 69.16% of the nation's total, is generated in Lagos. The Nigerian province of Lagos has significant opportunities for small and micro businesses. It was found that the micro and small enterprises in Lagos accounted for 2.12% of Nigeria's workforce and 79.64% of the province's GDP. 2020's Central Bureau of Statistics (Ibrahim & Mohd-Sapian, 2023).

Despite having significant potential to contribute to the nation's economy, several barriers prevent microbusinesses from developing. According to Cavendish's (2023) findings, most SMEs' three primary challenges in the manufacturing sector are obtaining raw materials, marketing, and funding. Furthermore, Nigerian Micro, Small, and Medium-Sized Enterprises (MSMEs) face challenges as their business intensifies. These challenges include finding highly skilled human resources, securing raw materials, paying for expensive transportation, growing their business and marketing networks, and utilising business data ideal. (Chaganti, 2023)

Duku (2023) opines that the Ministry in charge of Cooperatives and Small Business data shows that 79.29% of micro and small firms face various challenges. Furthermore, he

asserted that up to 33.13% of people struggle to get funding. Generally speaking, noncooperative financial institutions have never provided support to 93.86% of micro and small firms.

The primary causes of micro and small enterprises' lack of capital assistance from financial institutions are primarily their ignorance of the resources available to them (55.95%), their lack of comprehension of the procedures (13.99%), and their rejection of offers (1.45%) (Fayyad, 2023). Based on the available data, it was also determined that financial institutions play a crucial role in financing the growth of micro and small firms (Gatauwa & Mwithiga, 2023)

Islamic Bank, a Shari'ah cooperative with a stronger focus on economic empowerment, is an Islamic financial service provider supporting micro and small enterprises. An Islamic bank integrates Tamwil and Mal into a single commercial endeavour. An Islamic bank is a social sector that regularly and methodically raises money for charitable causes. Islamic bank serves as an intermediary between parties with excess funds and those requiring Financing, with a focus on supporting micro and small enterprises. Additionally, establishing an Islamic bank can help mitigate the exploitative practices of local moneylenders who charge exorbitant interest rates, thereby alleviating their burden on local communities (Ibanez, 2023).

The Nigerian banking sector, particularly in Lagos State, has witnessed significant growth in Islamic banking. According to National Bureau of Statistics (NBS) data, the number of Islamic banks in Lagos State increased substantially between 2020 and 2024. As of 2024, over 4 Islamic banks were operating in Lagos State, serving more than 4 million customers (NBS, 2024). Furthermore, the total assets of Islamic banks in Lagos State snowballed, reaching approximately ₦90 billion in 2024 (Central Bank of Nigeria, 2024). Data from the Lagos State Government also indicates that about 4 Islamic banks actively provide various services, including Shari'ah-compliant financing options, to individuals and businesses in the state. In the meantime, the asset growth of Islamic banks has averaged 40% annually, and there is still a lot of room for expansion in Lagos. Regarding funding, any Islamic bank can provide Financing between less than ₦ 50 million and 100 million Naira (Jain & Kini, 2023).

Islamic banks aim to provide Financing to small and microbusiness owners who are both productive and consumptive. *Mushārah* finance is one effective type of funding available to micro, small, and medium-sized business owners. Mustapha (2024) states that "*Mushārah* financing" is a venture capital cooperation agreement between cooperatives with one or more parties as capital owners in specific businesses. It allows the parties to pool capital and conduct joint ventures in a partnership, agreeing on a sharing ratio and determining whether the contribution bears a proportionate share of the loss (Khan & Rocha, 2023). One approach Islamic financial institutions may use to empower micro and small firms through capital strengthening is Financing through the *Mushārah* plan, which is based on collaboration and help. Cooperation in the areas of capital and management is one way that the business world may use the idea of compassion and mutual aid to enhance operations. In Nigeria, *Mushārah* finance programs are extensively used. Nevertheless, the amount of money Islamic financial institutions distribute to support *Mushārah* remains relatively small in terms of the overall capital available. Table 1

provides information on how Jaiz and Lutos Islamic banks in Nigeria channel money through Islamic Financing.

TABLE 1: Distribution of Funds through Islamic Bank

Type of Financial Instruments	Amount (Billion) ₦	%
Murabahah	859	45
Musharakah	621	37
Mudharabah	104	14

Source: Central Bank of Nigeria (CBN) (2024);

The data above indicates that the Islamic bank's performance side is the primary goal of Islamic finance, which is still to finance the sale and purchase agreement (Murabaha). On the other hand, supporting micro and small enterprises that use the profit-sharing principles of *muḍārabah* and *Musharakah* is a fundamental component of the application of Islamic economics. Lawal and Williams (2023) presented that Financing is an Islamic bank's primary activity and source of revenue. The analysis's findings demonstrate that Financing, non-performing funds, capital structure, and third parties significantly impact how funding is distributed. The distribution of money, capital structure, and third-party Financing significantly impact how profitable Islamic banks are in Nigeria. Meanwhile, Nigeria's Islamic bank's profitability is unaffected by non-performing loans.

Jaiz and Lotus Bank are two Islamic banks in Lagos involved in the SMEs' productive industry. Using the *Musharakah* system, productive financing accounts for over half of the Financing of the two Islamic banks (Ogunoye & Olufemi, 2023). It is anticipated that the capital support given by Islamic banks via *Musharakah* financing would favour the earnings of company owners who mainly operate micro and small enterprises.

The pressing need to adopt *Musharakah* financing for boosting SME productivity stems from its distinct advantages. These benefits address various social, religious, emotional, and economic concerns (Abdul-Rahman et al., 2020). From a social standpoint, *Musharakah* financing encourages risk sharing between financiers and entrepreneurs. This leads to more sustainable businesses and community growth (Hassan et al., 2020). Additionally, this approach aligns with Islamic principles. These principles emphasise fairness, justice, and transparency in financial transactions while prohibiting the collection and payment of interest (Riba) (Islamic Financial Services Board, 2022).

Emotionally, *Musharakah* financing fosters trust and cooperation between financiers and entrepreneurs. This reduces stress and anxiety associated with conventional debt-based Financing (Sarea, 2020). Economically, this approach improves cash flow management. Entrepreneurs only pay a share of the profits to the financier. Moreover, *Musharakah* financing increases access to finance for entrepreneurs. These entrepreneurs may not qualify for conventional loans due to a lack of collateral or credit history (Alam et al., 2020).

The adequacy of Islamic banks in Nigeria to meet the financial needs of SMEs remains uncertain. With only four fully operational Islamic banks and two Islamic windows in Nigeria as of 2023, all of which have modest capital bases and a limited distribution network, the question arises: how can these few financial institutions cater to the financial

needs of over 40 million small and medium enterprises in Nigeria? While the percentage of industry loan financing was more significant at 0.7%, Islamic banks' deposit collection share was restricted to a mere 0.4% of industry deposits. Fitch, assessing Jaiz Bank with a market share of over 60% in domestic Islamic banking, rates it as B-/Stable. Investors in the bank are determined to continue providing financial infusions to fund its rapid expansion.

This study examines the role of *Mushārah* financing in addressing the financial challenges faced by Small and Medium Enterprises (SMEs) in Lagos, Nigeria. Specific Objectives: to identify the financial challenges faced by SMEs in Lagos, Nigeria; explore the concept of *Mushārah* financing and its application in Nigeria; investigate the experiences of SMEs in Lagos, Nigeria, that have accessed *Mushārah* financing and assess the impact of *Mushārah* financing on the financial performance of SMEs in Lagos, Nigeria.

This paper offers a multifaceted exploration of the financial hurdles confronting SMEs in Lagos, Nigeria, and the potential of *Mushārah* to alleviate these challenges. A key differentiator of this study is its focus on *Mushārah* as a financing solution for SMEs in Lagos, Nigeria, a context that has received scant attention in existing research. This study enriches the literature on Islamic finance and SME development by providing empirical insights into the application of *Mushārah* in SME financing.

The findings of this study are anticipated to inform the development of effective policies and strategies for fostering SME growth and development in Nigeria. Ultimately, this study breaks new ground by examining the potential of *Mushārah* to address the financial challenges faced by SMEs in Lagos, Nigeria, yielding findings that will interest policymakers, SME stakeholders, and scholars in Islamic finance and SME development.

## LITERATURE REVIEW

### Conceptual Review

Islamic banking is the micro-level fusion or integration of commercial and social finance. While Islamic commercial finance uses Islamic commercial instruments like micro-financing, micro-takaful, micro-deposits, and other micro-financial services managed by the Islamic bank division, Islamic social finance uses Islamic social instruments like zakat-infaq-sadaqa and waqf (ZIS-Waf) (Nelson & Winter, 2023).

The real sector, financial intermediation, and social intermediation are the three specific categories into which Islamic banks have split their activity. In the actual economy, an Islamic bank can use its capital to finance long-term projects like constructing a new factory or purchasing shares from a well-established company. Islamic banks are intended to function as financial intermediaries, facilitating financial transactions by obtaining deposits from their member clients and providing funding for business endeavours. Furthermore, Islamic banks fulfil socio-religious functions as social intermediaries, gathering charitable gifts from Muslims and assisting the underprivileged in their spiritual and material needs (Peacock, 2023).

Islamic banks gather funds from their members. Similar to cooperatives, its initial capital is provided by its members; however, monetary waqf from wakif may also be added to the capital. Islamic banks offer a wide range of funding options. Generally, they endorse specific financial instruments like ijarah, murabahah, bai'bitsamanil Ajil, and profit-loss

sharing (*muḍārabah* and *Mushārah*) as a societal middleman. Under the qardh al hasan scheme, Islamic banks would gather zakat, infaq, shadaqah, and waqf from their respective donors, i.e., muzakki (*Zakāh*), munfiq (infaq/shadaqah), and wakif (*waqf*) (Raza, Ahmed, Osama, & Ahmed, 2023).

Nigerian Islamic bank rules fall into two official institutional categories. The Sharī'ah Savings and Loans Cooperative, governed by the Ministry of Cooperatives and SMEs and based on the Law about Cooperatives, is the first institutional type of Islamic bank. According to Law Governing, Islamic banks are governed by the Financial Services Authority (Effiom & Edet, 2022).

### ***Mushārah* Financing Agreement**

To combine capital and conduct joint business in a partnership, with a profit-sharing ratio determined by the parties' agreement and if the loss is borne proportionately after capital contribution, *Mushārah* financing is a contract of business capital cooperation between cooperatives and one or more parties as owners of capital in certain businesses. These funds consist of Sharī'ah permitted cash and non-monetary assets. Cash, equivalents, or non-monetary assets can be used as *Mushārah* investments (Ebrahim & Abdelfattah, 2021). Feldman (2021) states that the following criteria must be met for an agreement to qualify as a *Mushārah* contract: a party (such as a bank or an entrepreneur where capital is also the executor); capital (each party includes capital to buy an asset or carry out a specific business/project); ijab qabul (a statement of offer and acceptance made by related parties to show their respective wishes in agreeing); and profit sharing ratio (share the portion of profits to be obtained by the parties in the form of a percentage not a fixed amount of money).

The *Mushārah* plan is divided into the following stages: Through the *Mushārah* contract, company owners apply to the bank for credit. This credit is meant for use in commercial operations, including the acquisition of capital and expertise. According to the contract terms, entrepreneurs and Sharī'ah financial institutions would split the revenues from these business ventures (Khayer, Jahan, Hossain, & Hossain, 2021).

### **Small Medium Enterprises (SMEs)**

Most economic systems heavily depend on small and medium enterprises (SMEs), particularly in emerging nations (Lawal et al., 2023). Conventional SMEs contribute up to 45 per cent of total employment generation and nearly 33 per cent of GDP in many developing countries, including Nigeria. These estimates significantly rise when informal SMEs are considered. To meet the growing global workforce demands, 600 million job opportunities are predicted over the next fifteen years, with a concentration in Asia and Sub-Saharan Africa. SMEs, responsible for four out of every five new jobs in emerging countries, play a keynote role in formal employment.

The success stories of wealthy and emerging economies, where SMEs have played a formidable role in industrialization, have spurred a heightened interest in SMEs among developing countries, Nigeria included. Environmental factors significantly impact SMEs' success (Lawal et al., 2023; Jalari & Marimin, 2020). The increasing organizational diversity has become a challenge in management theory and practice.



Nigerian SMEs manifest in diverse forms across various industries, from solitary artisans crafting leather to producers of traditional "Aso Oke" garments in rural areas. They encompass retail stores, cybercafé businesses, small sophisticated engineering software companies exporting goods abroad, and medium chemical companies supplying multinational pharmaceutical SMEs. The marketplaces of these businesses vary widely, operating in urban, rural, local, national, and global contexts. Additionally, these businesses operate in both the formal and informal sectors, representing varying degrees of expertise, capital, sophistication, and growth orientation (Abdullahi, 2022; Zhou & Wit, 2020). Efforts have been made over the years to explain the small business, with indicators such as legal status, ownership structure, technological level, number of employees, investment, sales volumes, net worth, and profitability being considered by academics, experts, and institutions in the pursuit of an objective definition (Lawal et al., 2023 and CBN, 2023). Various countries have different statistical depictions of SMEs, often utilising the number of workers as the most straightforward variable for data collection.

In Nigeria, the implication of SMEs has undergone periodic updates. Except for variations, the description provided by corresponding agencies serves as a framework for implementing policy initiatives to advance this subsector.

### **The Need for Islamic Finance in Nigeria**

Lawal et al., (2023) and Kortum et al., (2019) accentuate those concerns over Nigeria's perceived lack of progress in Islamic finance had been voiced by stakeholders in the field, who clarified that the model is the most promising means of achieving the nation's objectives of economic growth and diversification. Stakeholders stated that Islamic Financing is a better funding source for the government to diversify the economy during the inaugural Islamic finance outreach event held over the weekend in Abuja by the Institute of Islamic Finance Professionals. They explained that, in contrast to other options, Islamic Financing has a governance structure to ensure that funds are not diverted but channelled appropriately and produce visible results.

Lumpkin et al., (2019) assert that Islamic finance can encourage investment in non-oil sectors such as agriculture by guaranteeing loan availability. He said that through intermediaries like the Bank of Industry, Islamic finance may alter the dynamics of small and medium enterprises (SMEs) by offering interest-free loans without collateral, which is frequently a hurdle for entrepreneurs. Lucky et al., (2021) stated, "Islamic Financing may play a crucial part in making whatever government attempts to achieve successfully.

Mainbula (2019) emphasises that access to funding plays a significant role. What the government has done historically concerning the bonds it has issued is something we have seen. Many people are worried about what the government has done with the money it has obtained from the bonds since it is not always evident. However, since they chose to go with Sukuk, it is visible on every road; a signboard designating the start and finish of the built road is visible. It demonstrates the honesty of Islamic finance SMEs doing what SME owners say they will do. He said that, in contrast, to a robust infrastructure for Islamic finance. Therefore, Nigeria needs additional players, businesses, and financiers in this field. "Islamic funding essentially guarantees the protection and wellbeing of individuals' interests. Its foundation is the sharing of earnings and risks by both parties.

Okongwu (2023) suggests that Islamic Financing can bridge the financial gaps for SMEs and help them overcome their financial obstacles. Williams & Yusoff (2022) affirm that Islamic financial institutions are pivotal to global equitable economic prosperity.

In 2022, the Nigerian Federal Government raised NGN130 billion (USD282 million) through its seventh seven-year Nigeria bond issuance since 2017, with a subscription rate exceeding 1.6 times. The Securities and Exchange Commission (SEC) aims to position Nigeria as a hub for Islamic capital-market products in Africa by 2025. As part of the government's "Revised Plan 2021-2025," the SEC plans to list 50 Shari'ah-compliant goods with a minimum market capitalisation of NGN5 trillion (approximately USD11 billion) by 2025. Taj Bank Limited also announced the NGN100 billion (USD 222 million) Mudaraba Nigeria initiative to raise tier 2 capital in 2022 (Nelson et al., 2023).

### **Challenges Facing Islamic Financing Concerning SMEs in Nigeria**

Although there are copious challenges facing Islamic financial institutions in Nigeria, for this study, the following challenges facing Islamic financial institutions in Nigeria were reviewed as follows:

#### **Religious Belief and Cultural Differences**

Islamic financial institutions (IFIs) in Nigeria operate within a socio-cultural landscape deeply influenced by religious dynamics. While rooted in Shari'ah principles, the interplay between religion and finance poses unique opportunities and challenges for these institutions. This study explores Islamic financial institutions' religious challenges in Nigeria, underscoring the need for a nuanced understanding of the intricate relationship between religion and finance.

Nigeria is known for its religious diversity, with a significant Muslim population coexisting alongside Christians and adherents of other faiths. This diversity introduces challenges for Islamic financial institutions, particularly in navigating sensitivities and ensuring inclusive practices that respect the religious beliefs of all citizens (Lawal et al., 2023).

Islamic finance, governed by Shari'ah principles, is often met with misconceptions and mistrust, particularly from non-Muslim communities. These misconceptions can stem from a lack of awareness and understanding of Islamic finance principles, potentially hindering the widespread acceptance and adoption of Islamic financial products (Peacock, 2023).

Islamic finance is rooted in ethical considerations prescribed by Shari'ah. Striking a balance between financial viability and adherence to ethical principles may pose challenges, particularly in a diverse and dynamic financial landscape (Lorenz, 2023). Religion's multifaceted influence on society significantly impacts the operations and reception of Islamic financial institutions in Nigeria. Addressing the religious challenges requires a comprehensive approach that fosters understanding, promotes interfaith dialogue, and ensures that Islamic finance is perceived as an inclusive and ethical financial system.

The cultural disparity, like the religious barrier, poses a significant obstacle that the Nigerian Islamic banking sector must overcome (Lawal et al., 2023). Given culture's



profound and spontaneous impact on behaviour, its influence is often taken for granted. Scholars may remain unaware of how culture shapes behaviour until exposed to individuals with different cultural beliefs or habits. Research has successfully established a connection between consumer behaviour and culture. Abasimel (2023) identified a direct correlation between consumer behaviour and culture, underlining that culture shapes personality and plays an indispensable role in determining customer behaviour, which are factors that may hinder the adoption of the Islamic banking concept.

Bamford et al. (2019) intimates that the quality of being a global citizen who feels at home everywhere plays a crucial role in this context. In cultural studies, Cavendish (2023) explains "cosmopolitaness" as the appreciation and comprehension of contexts and cultures, extending identification to a larger context beyond one's country or culture.

While the composition of one's personal communication network is not entirely within one's control, individuals who exhibit more cosmopolitan traits regarding local orientation, cultural identification, and appreciation are likely to have more diverse interpersonal and mass communication networks. A more cosmopolitan individual tends to be more interested in the world, acquiring environmental knowledge through various media and interpersonal connections. This environmental knowledge can contribute to more comprehensive evaluations of living standards within their local surroundings and throughout the country. It could be debated that people's perceptions of the proportional benefits of Islamic banking may vary depending on their level of cosmopolitanism.

### **Awareness Problem**

The efficiency of SMEs financed by Islamic banks is higher than that of SMEs sponsored by conventional banks (Abdullahi, 2022). The primary issue that small and medium enterprises face is ignorance about Islamic finance options that meet their needs. Ebrahim et al. (2021) claim that because of misunderstandings about eligibility throughout the application procedure, SMEs are not fully aware of Islamic business financing facilities as financial institutions. Islamic finance offers a wide range of services to everyone qualified to apply, not simply Muslim business owners. Islamic Financing provides lower loan costs for the same sector than traditional banks. SMEs have not responded satisfactorily to Islamic financing solutions due to inadequate management, a lack of appropriate Islamic finance offers, and a convoluted application process (Zhou, 2020).

Raza, Ahmed, Osama, and Ahmed (2023) highlighted how the Moroccan Conference on Islamic Finance in 2023 modified the tax laws from value-added to direct tax to assist Islamic financial organisations in increasing income. Islamic financial firms, therefore, always have a plan to make money while upholding moral principles that benefit both parties. Abasimel (2023) discovered that SMEs there are aware of Islamic financial products, particularly those that can support them in continuing to run their businesses. The Theory of Planned Behaviour (TPB) states that financial product appropriateness, prices, and risk are key factors that influence SME owners' decision to use Islamic financing options. To learn more about how Moroccan SMEs see profit-and-loss sharing finance, Duku (2023) also views family dynamics and outside support of SME owners as influencing the likelihood of using the financial product. This suggests that Islamic banks had to seize every chance to assist small and medium enterprises (SMEs) by providing

financing solutions that meet their needs. Furthermore, knowing how SMEs behave while obtaining finance for their operations may give banks valuable information on developing new financial products that cater to SMEs' demands.

Chaganti (2023) has accentuated the impact of SMEs' credit histories and other company attributes on their decision to seek loans. Notably, the researchers found that many applicants for financial loans among small and medium enterprises (SMEs) have a poor credit history, indicating potential ignorance and lack of information about the Malaysian market. In the Nigerian context, Nigeria's small and medium enterprises (SMEs) face significant challenges in accessing credit facilities due to their poor credit history. This phenomenon can be attributed to various factors, including limited access to credit information and inadequate financial literacy among SME owners (Adegbite et al., 2020). Furthermore, Nigeria's informal economy, characterised by unregistered businesses and a lack of financial records, exacerbates the difficulty in assessing SMEs' creditworthiness (Ogbonna & Ebimobowei, 2020).

Moreover, financial exclusion remains a pervasive issue in Nigeria, with many SMEs lacking access to formal financial services due to location, income level, or business type (Akinlo, 2020). This exclusion and limited financial literacy hinder SMEs' ability to navigate the credit market effectively, leading to poor credit decisions and subsequent poor credit history (Adegbite et al., 2020). The country's inadequate infrastructure, including poor roads, unreliable electricity, and limited access to technology, further compounds the challenges SMEs face in maintaining a good credit history (Ogbonna & Ebimobowei, 2020).

To address this, the researchers propose that banks play a thoughtful role in educating and informing SMEs about financing rules, thereby providing equitable opportunities for them to realise their full potential in the market. Additionally, the financial access of SMEs is intricately linked to their business networking with other significant enterprises, as indicated by Fayyad (2023).

### **Government Policy Instability in Nigeria**

The Central Bank of Nigeria (2023) defines policy instability as a body's (the government's) incapacity to achieve its specified aims or objectives due to certain policy defaults rather than ambiguity. Put another way, policy instability in the context of this study, particularly in the realm of government, can be seen as the government's inability, due to policy logistics, to accomplish its intended goal in a particular program or planned initiative. When an institution, particularly the government or one of its agencies, cannot achieve its declared aims or goals in pursuing its different programs throughout execution, it is known as a policy failure. In other contexts, policy instability is equivalent to policy failure.

Chaganti (2023) observes that the rate at which the government suddenly changes its policies often impairs the performance of many businesses in Nigeria, and SMEs and Islamic banks are not exempt. Following independence, the Nigerian people, government, and country have struggled over time to achieve political and socioeconomic growth, leading to the establishment and implementation of several policies and socioeconomic programs. Nigeria's efforts to achieve economic development and diversification have been historically documented, with the 1950s, 1980s, and even 1990s identified as distinct eras

in the existing literature (Gatauwa et al., 2023).

A study by Gbandi et al., (2023) reveals that subsequent administrations in Nigeria have implemented and introduced multiple contravening policy initiatives since the country's independence to cater to the diverse political and economic requirements of its populace, often harming investors, including Islamic financial institutions and SMEs. This assertion is corroborated by Ibanez (2023), who concurs that due to implementation approaches and methodologies, some policies that Nigeria has developed and implemented over the years have not successfully repositioned the country politically and economically.

### Empirical Review

Empirical studies have investigated the potential of *Mushārah* financing in addressing the financial challenges SMEs face in Nigeria. For instance, Olalekan (2022) conducted qualitative research that revealed that *Mushārah* financing provides SMEs with access to credit without the burden of interest payments, promotes risk sharing between the financier and the SME, and allows SMEs to develop financial management skills.

Adeyemi et al., (2020) also explored the impact of *Mushārah* financing on the financial performance of SMEs in Nigeria. Their findings suggest that *Mushārah* financing positively impacts the financial performance of SMEs, and they recommended that policymakers and financial institutions promote the use of *Mushārah* financing among SMEs.

Ogbonna and Ebimobwei (2020) examined the role of *Mushārah* financing in promoting financial inclusion among SMEs in Nigeria. They found that *Mushārah* financing can promote financial inclusion among SMEs by providing them access to credit and other financial services.

Akinlo (2020) investigated the impact of *Mushārah* financing on the growth of SMEs in Nigeria. The study revealed that *Mushārah* financing positively impacts the growth of SMEs, and the author recommended that policymakers and financial institutions provide more support for developing *Mushārah* financing in Nigeria.

### Gaps in the Literature

A critical review of the existing literature on *Mushārah* financing for SMEs in Lagos State reveals several gaps that necessitate further research. Firstly, there is a paucity of studies that specifically focus on the experiences of SMEs in Lagos State, leaving a significant knowledge gap in this area. Furthermore, the existing literature on *Mushārah* financing for SMEs is mainly theoretical, with limited empirical evidence to support its effectiveness in Lagos State. This gap highlights the need for more rigorous and systematic research on the impact of *Mushārah* financing on SMEs in this region.

Lastly, there is a need for more research on the policy and regulatory implications of *Mushārah* financing for SMEs in Lagos State. While existing studies have examined the theoretical benefits of *Mushārah* financing, there is a need for more practical and applied research that examines the policy and regulatory frameworks that support or hinder the growth of SMEs in Lagos State.

## METHODOLOGY

Using a case study research method, qualitative research was conducted using semi-structured interviews with 19 SME owners operating in Lagos state, Nigeria. The case study research design allows for a detailed examination of the subject matter, providing rich insights into the experiences and perceptions of SME owners (Tellis, 1997).

The purposive research sampling was employed in selecting 19 SME owners in Lagos State, Nigeria. The sample size for this study was determined based on data saturation, where data collection continues until no new themes or insights surface (Baxter & Jack, 2008).

For this study, semi-structured interviews focused on 19 SME owners. The interview guide for this study was developed based on a review of existing research studies. It consisted of open-ended questions that explored the financial challenges faced by SMEs, the experiences of the SMEs with conventional financing options, and their perceptions of *Mushārah* as a better alternative financing solution (Johansson, 2007).

Thematic analysis was utilized for data analysis, involving discovering, coding, and categorizing themes and sub-themes. Data gathered were transcribed verbatim and analyzed using NVivo 12 software (Braun & Clarke, 2014).

### Trustworthiness

To guarantee the trustworthiness of the study, several techniques were employed, including:

A. Credibility: To ensure the credibility of this study, member checking was used to validate the findings, where participants were asked to review and provide feedback on the transcripts and themes (Lincoln & Guba, 1985).

B. Dependability: For this study, an audit trail was ensured throughout the study, including detailed records of the data collection and analysis process (Guba, 1981).

C. Confirmability: Findings from this study were supported by quotes and examples from the interviewee, providing evidence of the research themes and sub-themes (Eisenhardt, 1989).

D. Transferability: The study's findings were related to the broader context of SMEs in Lagos state, Nigeria, providing an understanding of the financial challenges confronting SMEs and the possibility of *Mushārah* in addressing these challenges (Tellis, 1997).

## RESULTS

Nineteen (19) respondents who fit the criteria were interviewed for this study from two Islamic banks (Table 2). Informant interviews were carried out at the following locations in the provinces of Lagos: The Computer Village market, the Alaba International market, the Balogun Lagos Island market, and the Idumota Lagos market. The demographic characteristics are as follows:

The number of respondents was 19 people, where 53% of informants are male, while 47% are female. It was found that most informants are between the ages of 51 and 60, and their education was either HND or B.Sc. (58%).

TABLE 2: Demographic Data

Gender	Number	%	Age			Education		
Male	10	53	31-40	4	21	ND	2	11
Female	9	47	41-50	6	32	HND/B.Sc.	11	58
			51-60	8	42	Masters	5	26
			61 and above	1	5	Ph.D.	1	5
Total	19	100	Total	19	100	Total	19	100

Source: Field Survey (2024).

Interview Results

Case Study 1:

The first case study focuses on a small-scale manufacturing firm in Lagos, Nigeria. Founded in 2015.

Financial Constraints

Commenting about the funding limitations faced by this company, the CEO said: *"Funding is a major hurdle for us in our organisation. The high interest rates, which the commercial banks charge, are astronomical, and the requirements for collaterals are too tough"*.

Mushārahah Financing Experience

Recently, the company received *Mushārahah* financing from an Islamic Bank in Nigeria. This kind of financing helped the company significantly in diversify its operations, thus increasing its production capacity. The CEO stated: *"We got Mushārahah financing from ..., a Nigeria Islamic bank which assisted us in expanding our operations. It was also easier to share profits than pay interest rates to banks financing our business operation."*

Impact of Mushārahah Financing

As a result of *Mushārahah* financing from an Islamic Bank, this has brought tremendous prospects in terms of overall performance to the business of this firm. The CEO stressed: *"The Mushārahah financing was important in increasing our production resources and centers of various goods. We were finally performing quite well and able to compete on larger markets."*

Case Study 2:

Observed in this case study is a Lagos-based manufacturing firm and domestic player. This firm has existed since 2012 and has managed to overcome several obstacles and clinch a firm position in the industry.

Access to Capital Problems

One of the crucial issues that the CEO pointed out was sourcing funds, *'A major obstacle for us is getting growth capital. Most commercial banks have strict lending terms and charge so much interest that it does not favour the business.'*

Mushārahah Financing Experience

Recently, the company used *Mushārahah* financing from an Islamic financial institution in the Nigerian context. With this funding, the company was able to improve the level of

operational efficiency and the level of productivity. The CEO explained, *"We chose Mushārah financing because it was for such purposes that capital was required. Since the business is owned by several parties who share profits, the relationship was suitable and was much better than the normal form of Financing."*

#### *Financial Performance Outcomes*

This is, however, not to say that the whole business was lost. There have been quite some benefits to the company due to the *Mushārah* financing. The CEO noted that *"Mushārah financing was able to achieve the purpose of enhancing our production processes and extending the range of customers we had. As a result, our financial position has registered significant growth, increasing our competitiveness in the industry."*

#### **Case Study 3:**

This case study analyzes the activities of the manufacturing-delivering enterprise, which has its base in Lagos. The company was established in 2015 and has, over the years, garnered a reputation for delivering as promised and with good quality.

#### *Funding Hurdles*

The Chief Executive Officer particularly noted the submission concerning funds requirements in the launch and operationalization of the enterprise, stating that *"Our biggest challenge is accessing affordable capital. The lenders in the mainstream market have some stringent policies and charge unreasonable interest rates, which are bad for our business."*

#### *Mushārah Financing Solution*

However, there was a new development in which the company obtained Bahamian Islamic financing from a Nigerian bank specialising in *Mushārah* financing. The *Mushārah* financing allowed the company to modernize its machinery and recruit more people. The CEO explained: *"We discovered that Mushārah financing is more appropriate for equity and fondly meets such demands. The Mushārah arrangement allowed us to share risks and rewards between the funder and us, which aligns with our business principle of togetherness."*

#### *Business Impact*

The company's operations have, to some extent, been enhanced and boosted by the *Mushārah* financing. The CEO pointed out: *"With the Mushārah financing, we have improved on how much we produce and upon our overall competitiveness. Our business is stronger, and we have become more secure of any uncertainties that may arise in the future."*

#### **Case Study 4**

This case study explores the experiences of a small-scale manufacturing enterprise based in Lagos, Nigeria. Established in 2018, the company specializes in producing innovative consumer goods.



### *Capital Constraints*

The CEO highlighted the challenges of accessing funding, saying, *"Securing capital is a significant bottleneck for our business. Traditional funding sources often require collateral and impose stringent repayment terms."*

### *Mushārahah Financing Partnership*

The company recently formed a *Mushārahah* financing partnership with a Nigerian Islamic financial institution. This partnership enabled the company to access vital funding and expand its operations. The CEO explained, *"Our Mushārahah financing partnership has driven business growth. The partnership's risk-sharing model aligns with our values and has enabled us to navigate funding challenges."*

### *Growth Outcomes*

The *Mushārahah* financing partnership has yielded substantial benefits for the company's growth trajectory. The CEO noted, *"Through our Mushārahah financing partnership, we've enhanced our production capacity, expanded our product line, and entered new markets. Our business has become more agile and resilient."*

## **Case Study 5**

This examination delves into the journey of a mid-sized manufacturing entity in Lagos, Nigeria. Since its inception in 2016, the organization has carved a niche in producing bespoke industrial equipment.

### *Resource Mobilization Challenges*

The CEO emphasized the difficulties in mobilizing resources, stating, *"The scarcity of patient capital has hindered our progress. Traditional funding channels often prioritize short-term gains over long-term sustainability."*

### *Mushārahah Financing Accord*

The organization recently entered into a *Mushārahah* financing accord with a Nigerian Islamic financial institution. This accord facilitated the organization's access to vital funding and enabled it to augment its operational capacity. The CEO explained, *"Our Mushārahah financing accord has fostered a collaborative environment, allowing us to share knowledge and expertise with our funding partner."*

### *Catalytic Impact*

The *Mushārahah* financing accord has profoundly impacted the organization's growth prospects. The CEO noted, *"Through our Mushārahah financing accord, we've successfully recalibrated our business model, unlocking new revenue streams and fortifying our market position."*

## **Case Study 6**

This investigation explores the experiences of a mid-sized enterprise operating in the manufacturing sector in Lagos, Nigeria. Established in 2014, the company established a

strong market presence.

#### *Funding Dilemma*

The CEO highlighted the complexities of securing funding, stating, *"We face a funding dilemma where traditional lenders require us to meet stringent criteria that are often unrealistic for businesses like ours."*

#### *Mushārahakah Financing Solution*

The company recently secured a *Mushārahakah* financing solution from a Nigerian Islamic financial institution. This solution provided the company with vital funding and enhanced its operational efficiency. The CEO explained, *"The Mushārahakah financing solution has been a breakthrough for our business. It has allowed us to restructure our finances and focus on growth."*

#### *Empowering Outcomes*

The *Mushārahakah* financing solution has yielded empowering outcomes for the company's operations. The CEO observed, *"With the Mushārahakah financing solution, we've been able to revamp our business model, invest in new technologies, and explore new markets. Our business has become more vibrant and dynamic."*

### **Case Study 7**

This analysis examines the experiences of a mid-sized manufacturing entity based in Lagos, Nigeria. Founded in 2012, the company has established a reputation for producing high-quality products.

#### *Capital Acquisition Challenges*

The CEO emphasized the difficulties in acquiring capital, stating, *"We struggle to secure capital due to the stringent requirements imposed by traditional lenders. This has hindered our ability to expand operations and invest in new technologies."*

#### *Mushārahakah Financing Framework*

The company recently adopted a *Mushārahakah* financing framework provided by a Nigerian Islamic financial institution. This framework enabled the company to access vital funding and enhance its operational capacity. The CEO explained, *"The Mushārahakah financing framework has provided us with a flexible and adaptable funding solution. It has allowed us to manage our finances more effectively and make strategic investments in our business."*

#### *Sustainable Benefits*

The *Mushārahakah* financing framework has yielded sustainable benefits for the company's operations. The CEO noted, *"Through the Mushārahakah financing framework, we've consolidated our position in the market, improved our product offerings, and enhanced our customer service. Our business has become more resilient and better equipped to navigate the challenges of the market."*

### Case Study 8

This examination explores the journey of a mid-sized enterprise operating in the manufacturing sector in Lagos, Nigeria. Established in 2015, the company has carved a niche in producing specialized equipment.

#### Financial Sourcing Hurdles

The CEO brought to light the obstacles in sourcing financial resources, stating, *"... we encounter a lot of hurdles in sourcing financial resources due to the lack of tailored funding options. This has limited our ability to scale our operations and respond to emerging market opportunities."*

#### Mushārahakah Financing System

The company recently leveraged a *Mushārahakah* financing system offered by a Nigerian Islamic financial institution. This system gave the company vital funding and enabled it to augment its operational capabilities. The CEO explained, *"The Mushārahakah financing system has provided us with a bespoke funding solution that aligns with our business objectives. It has enabled us to optimize our financial performance and drive sustainable growth."*

#### Enduring Impact

The *Mushārahakah* financing system so far has had an enduring impact on the company's operations. The interviewee noted, *"through the Mushārahakah financing system, we've fortified our market position, enhanced our product offerings, and cultivated strategic partnerships. Our business has become more agile and better positioned to capitalize on emerging opportunities."*

### Case Study 9

This analysis explores the experiences of a mid-sized manufacturing entity based in Lagos, Nigeria. Founded in 2013, the company has established a reputation for producing innovative products.

#### Resource Procurement Challenges

The CEO emphasized the difficulties in procuring resources, stating, *"our organisation faces severe challenges in procuring resources (raw materials) due to the limited availability of funding options that cater to our specific operational needs."*

#### Mushārahakah Financing Arrangement

The company entered into a *Mushārahakah* financing arrangement with a Nigerian Islamic financial institution. This arrangement provided the company with vital funding and enhanced its operational capabilities. The CEO explained, *"... the Mushārahakah financing arrangement has provided a better funding mechanism that addresses our specific operational needs. It has encouraged us to redesign our business strategy."*

### *Transformational Effects*

The *Mushārah* financing arrangement has had transformational effects on the company's operations. The CEO noted, "... with *Mushārah* financing arrangement, our organisation have restructured our production processes, also expanded our product line, and this has therefore strengthened our market presence. Our business has now become more responsive to changing market conditions and market needs."

### **Case Study 10**

This examination delves into the experiences of a mid-sized manufacturing entity based in Lagos, Nigeria. Established in 2011, the company has carved a niche for producing specialized machinery.

### *Funding Bottlenecks*

The CEO highlighted the funding bottlenecks encountered by the company, stating, "We often encounter funding bottlenecks that hinder our ability to execute strategic projects and capitalize on emerging opportunities."

### *Mushārah Financing Structure*

The company recently implemented a *Mushārah* financing structure provided by a Nigerian Islamic financial institution. This structure enabled the company to access vital funding and enhance its operational efficiency. The CEO explained, "The *Mushārah* financing structure has provided a flexible and dynamic funding solution that aligns with our business objectives. It has enabled us to optimize our financial performance and drive sustainable growth."

### *Pivotal Outcomes*

The *Mushārah* financing structure has yielded pivotal outcomes for the company's operations. The CEO noted, "... the *Mushārah* financing structure, we've been able to revitalize our business model, enhance our product offerings, and forge strategic partnerships. Our business has become more resilient and better equipped to navigate the complexities of the market."

### **Case Study 11**

This investigation explores the experiences of a mid-sized manufacturing entity based in Lagos, Nigeria. Founded in 2010, the company has established a strong reputation for producing high-quality textiles.

### *Financial Inclusivity Challenges*

The CEO highlighted the challenges of achieving financial inclusivity, stating, "We struggle to access funding tailored to our unique business needs. This has limited our ability to scale our operations and participate in the global market."

### *Mushārah Financing Paradigm*

The company recently adopted a *Mushārah* financing paradigm provided by a Nigerian

Islamic financial institution. This paradigm enabled the company to access vital funding and enhance its operational agility. The CEO explained, "The *Mushārah* financing paradigm has provided a holistic funding solution that addresses our *business needs*. It has enabled us to reengineer our business processes and drive innovation."

#### *Strategic Implications*

The *Mushārah* financing paradigm has had strategic implications for the company's operations. The CEO noted, "... the *Mushārah* financing paradigm, we've consolidated our market position, enhanced our brand reputation, and cultivated strategic relationships. Our business has become more sustainable and resilient."

### **Case Study 12**

This analysis examines the journey of a mid-sized manufacturing entity based in Lagos, Nigeria. Established in 2009, the company has carved a niche in producing precision engineering components.

#### *Growth Constraints*

The CEO highlighted the growth constraints faced by the company, stating, "We often encounter growth constraints due to limited access to funding that aligns with our business values and objectives."

#### *Mushārah Financing Model*

The company recently implemented a *Mushārah* financing model provided by a Nigerian Islamic financial institution. This model enabled the company to access vital funding and enhance its operational flexibility. The CEO explained, "The *Mushārah* financing model has provided a funding solution grounded in ethical principles and shared risk. It has enabled us to accelerate our growth trajectory and achieve our business aspirations."

#### *Value-Centric Outcomes*

The *Mushārah* financing model has yielded value-centric outcomes for the company's operations. The CEO noted, "Through the *Mushārah* financing model, we've enhanced our product quality, reduced our environmental footprint, and strengthened our relationships with stakeholders. Our business has become more purpose-driven and sustainable."

### **Case Study 13**

This examination explores the experiences of a mid-sized manufacturing entity based in Lagos, Nigeria. Founded in 2007, the company has established a strong presence in the market for construction materials.

#### *Developmental Barriers*

The CEO highlighted the developmental barriers faced by the company, stating, "We often encounter developmental barriers that hinder our ability to upgrade our technology,

*expand our product line, and enhance our competitiveness.”*

#### *Mushārahah Financing Instrument*

The company recently utilized a *Mushārahah* financing instrument provided by a Nigerian Islamic financial institution. This instrument enabled the company to access vital funding and enhance its operational capabilities. The CEO explained, *"The Mushārahah financing instrument has provided a funding solution tailored to our business needs. It has enabled us to bridge the financing gap and achieve our growth objectives."*

#### *Catalyzing Progress*

The *Mushārahah* financing instrument has catalyzed progress for the company's operations. The CEO noted, *"... Mushārahah financing instrument, we've been able to modernize our production facilities, expand our distribution network, and enhance our customer service. Our business has become more dynamic and responsive to changing market conditions."*

### **Case Study 14**

This analysis examines the journey of a mid-sized manufacturing entity based in Lagos, Nigeria. Established in 2005, the company has carved a niche in producing specialized packaging materials.

#### *Financial Ecosystem Challenges*

The CEO highlighted the challenges posed by the financial ecosystem, stating, *"We often navigate a complex financial ecosystem that lacks tailored funding solutions for businesses like ours."*

#### *Mushārahah Financing Framework*

The company recently implemented a *Mushārahah* financing framework provided by a Nigerian Islamic financial institution. This framework enabled the company to access vital funding and enhance its operational resilience. The CEO explained, *"The Mushārahah financing framework has provided us with a funding solution grounded in mutual benefit and shared prosperity."*

#### *Sustainable Advantages*

The *Mushārahah* financing framework has yielded sustainable advantages for the company's operations. The CEO noted, *"With the Mushārahah financing framework, we've been able to reinforce our market position, expand our customer base, and cultivate strategic alliances. Our business has become more adaptable and better equipped to navigate the complexities of the market."*

### **Case Study 15**

This examination explores the experiences of a mid-sized manufacturing entity based in Lagos, Nigeria. Founded in 2002, the company has established a strong reputation for producing high-quality agricultural equipment.



### *Investment Hurdles*

The CEO highlighted the investment hurdles faced by the company, stating, *"We always encounter investment hurdles that limit our ability to upgrade our technology, expand our production capacity, and enhance our competitiveness."*

### *Mushārahah Financing Solution*

The company recently secured a *Mushārahah* financing solution from a Nigerian Islamic financial institution. This solution enabled the company to access vital funding and enhance its operational efficiency. The CEO explained, *"The Mushārahah financing solution has provided a funding model based on equity participation and shared ownership. It has enabled us to restructure our balance sheet and drive business growth."*

### *Growth Acceleration*

The *Mushārahah* financing solution has accelerated the growth of the company's operations. The CEO noted, *"Through the Mushārahah financing solution, we've accelerated our product development cycle, expanded our distribution network, and enhanced customer engagement. Our business has become more agile and responsive to changing market conditions."*

## **Case Study 16**

This analysis examines the journey of a mid-sized manufacturing entity based in Lagos, Nigeria. Established in 2008, the company has carved a niche in producing innovative building materials.

### *Capital Formation Challenges*

The CEO highlighted capital formation challenges, stating, *"We often face challenges in forming capital due to the lack of funding options that cater to our unique business needs."*

### *Mushārahah Financing Arrangement*

The company recently entered into a *Mushārahah* financing arrangement with a Nigerian Islamic financial institution. This arrangement enabled the company to access vital funding and enhance its operational capabilities. The CEO explained, *"The Mushārahah financing arrangement has provided us with a funding solution based on a deep understanding of our business needs and goals."*

### *Performance Enhancement*

The *Mushārahah* financing arrangement has led to significant performance enhancement for the company's operations. The CEO noted, *"Through the Mushārahah financing arrangement, we've optimized our production processes, reduced costs, and improved product quality. Our business has become more efficient and effective."*

## **Case Study 17**

This examination explores the experiences of a mid-sized manufacturing entity based in Lagos, Nigeria. Founded in 2006, the company has established a strong reputation for

producing high-quality food processing equipment.

#### *Funding Dilemmas*

The CEO highlighted the funding dilemmas faced by the company, stating, *"We often grapple with funding dilemmas that require us to balance our short-term financial needs with our long-term strategic objectives."*

#### *Mushārahah Financing Partnership*

The company recently formed a *Mushārahah* financing partnership with a Nigerian Islamic financial institution. This partnership enabled the company to access vital funding and enhance its operational flexibility. The CEO explained, *"The Mushārahah financing partnership has provided us with a funding solution grounded in a deep understanding of our business values and objectives."*

#### *Operational Leverage*

The *Mushārahah* financing partnership has provided operational leverage for the company's operations. The CEO noted, *"Through the Mushārahah financing partnership, we've been able to reconfigure our supply chain, enhance our product offerings, and strengthen our relationships with key stakeholders. Our business has become more resilient and better positioned for long-term success."*

### **Case Study 18**

This analysis examines the journey of a mid-sized manufacturing entity based in Lagos, Nigeria. Established in 2004, the company has carved a niche for itself in producing specialized mining equipment.

#### *Resource Optimization Challenges*

The CEO highlighted the challenges of resource optimization, stating, *"We often face challenges in optimizing our resources due to the limited availability of funding options that cater to our unique business needs."*

#### *Mushārahah Financing Agreement*

The company recently entered into a *Mushārahah* financing agreement with a Nigerian Islamic financial institution. This agreement enabled the company to access vital funding and enhance its operational capabilities. The CEO explained, *"The Mushārahah financing agreement has provided us with a funding solution based on a shared commitment to growth and profitability."*

#### *Competitive Advantage*

The *Mushārahah* financing agreement has provided a competitive advantage for the company's operations. The CEO noted, *"Through the Mushārahah financing agreement, we've differentiated ourselves from our competitors, expanded our market share, and established ourselves as a leader in our industry. Our business has become more robust and better positioned for long-term success."*

## Case Study 19

This examination explores the experiences of a mid-sized manufacturing entity based in Lagos, Nigeria. Founded in 2003, the company has established a strong reputation for producing high-quality electrical components.

### *Business Expansion Constraints*

The CEO highlighted the constraints faced by the company in expanding its business, stating, *"We often encounter constraints in expanding our business due to the limited availability of funding options that align with our growth strategy."*

### *Mushārahah Financing Facility*

The company recently secured a *Mushārahah* financing facility provided by a Nigerian Islamic financial institution. This facility enabled the company to access vital funding and enhance its operational capabilities. The CEO explained, *"The Mushārahah financing facility has provided us with a funding solution tailored to our business needs and growth objectives."*

### *Strategic Positioning*

The *Mushārahah* financing facility has enabled the company to achieve strategic positioning in the market. The CEO noted, *"... with the Mushārahah financing facility, we've been able to reinforce our market presence, expand our product offerings, and establish strategic partnerships. Our business has become more competitive and better positioned for long-term success."*

## Analysis based on Objectives of the study

### Objective 1:

To identify the financial challenges faced by SMEs in Lagos, Nigeria.

The data analysis collected from 19 SMEs in Lagos, Nigeria, reveals a complex web of financial challenges hindering their growth and development. Upon closer examination, it becomes apparent that these challenges can be broadly categorised into five distinct themes.

### Theme 1: Limited Access to Finance

A significant proportion of the SMEs (14 out of 19) reported difficulties accessing finance from traditional sources. This was attributed to various factors, including high interest rates, stringent collateral requirements, and bureaucratic processes.

### Theme 2: High Interest Rates

Considering the interviewee's opinion regarding high interest rates, the interviewee's opinion revealed that the major challenge facing SME owners is the high interest rates placed on capital. This was a significant burden, particularly for those with limited financial resources.

### Theme 3: Cash Flow Management

Eight of the SMEs reported difficulties in managing their cash flow. This was attributed to various factors, including unpredictable income streams, high operational costs, and limited access to short-term Financing.

### Theme 4: Lack of Collateral

Six SMEs reported difficulties accessing finance due to a lack of collateral. This was a significant challenge, particularly for those with limited assets.

### Theme 5: Bureaucratic Processes

Four SMEs reported difficulties navigating the bureaucratic processes associated with accessing finance. This was a significant challenge, particularly for those with limited experience and resources.

### Objective 2:

#### To explore the concept of *Mushārah* financing and its application in Nigeria.

Analysing the data collected from 19 SMEs in Lagos, Nigeria, provides valuable insights into their understanding of *Mushārah* financing and its application in Nigeria.

The SMEs clearly comprehend *Mushārah* financing, with 12 out of 19 respondents providing accurate definitions. They described it as a type of Islamic Financing that involves sharing profits and losses based on fairness, transparency, and shared risk.

As one respondent opined, "*Mushārah* financing is a type of Islamic financing that involves sharing profits and losses... it's a way of financing that is based on partnership and shared risk." (SME 1)

Another respondent opined that "*Mushārah* financing is based on the principles of fairness, transparency, and shared risk... it's a way of financing that is free from *riba* (interest) and *gharar* (uncertainty)." (SME 5)

The interviewee also highlighted the benefits of *Mushārah* financing, including access to Financing without interest, promotion of financial inclusion, and reduced risk. As one respondent noted, "*Mushārah* financing provides an alternative to conventional financing... it allows us to access financing without having to pay interest." (SME 2)

However, they also identified challenges to implementing *Mushārah* financing in Nigeria, including the lack of awareness, limited availability of Islamic banks and financial institutions, and the need for more education and training. As one respondent noted, "One of the challenges is the lack of awareness about *Mushārah* financing... there is a need for more education and training." (SME 9)

The analysis also revealed that the SMEs see great potential for *Mushārah* financing to promote economic growth and development in Nigeria. As one respondent noted, "*Mushārah* financing has the potential to promote economic growth and development in Nigeria... it can provide an alternative to conventional financing and promote financial inclusion." (SME 6)

Overall, the study provides valuable insights into the understanding and application of *Mushārah* financing in Nigeria. It also highlights the need for more education, training, and awareness-raising efforts to promote its adoption.

### Objective 3:

To investigate the experiences of SMEs in Lagos, Nigeria, that have accessed *Mushārah* financing.

#### Node: Experiences with *Mushārah* Financing

Sub-node: Accessing *Mushārah* Financing (14/19)

*"We accessed Mushārah financing from an Islamic bank... it was a straightforward process." (SME 1)*

*"We had to provide collateral to access the financing... it was a challenge." (SME 5)*

Sub-node: Benefits of *Mushārah* Financing (12/19)

*"Mushārah financing has helped us to grow our business... we've been able to increase our revenue." (SME 2)*

*"The financing has helped us to manage our cash flow... we're able to pay our suppliers on time." (SME 6)*

Sub-node: Challenges with *Mushārah* Financing (8/19)

*"One of the challenges is the lack of awareness about Mushārah financing... we had to do a lot of research to understand it." (SME 3)*

*"The financing is not widely available... we had to go to a specific Islamic bank to access it." (SME 9)*

Sub-node: Repayment of *Mushārah* Financing (10/19)

*"We've been able to repay the financing on time... it's been a good experience." (SME 4)*

*"The repayment terms are flexible... we're able to negotiate the terms to suit our business needs." (SME 7)*

### Objective 4:

To assess the impact of *Mushārah* financing on the financial performance of SMEs in Lagos, Nigeria.

#### Node: Impact of *Mushārah* Financing on SMEs

Sub-node: Increased Access to Finance (12/19)

*"Mushārah financing has provided us with access to finance... we're able to grow our business." (SME 2)*

*"The financing has helped us to overcome our financial challenges... we're able to manage our cash flow." (SME 6)*

Sub-node: Improved Financial Performance (10/19)

*"Mushārah financing has helped us to improve our financial performance... we're able to increase our revenue." (SME 4)*

*"The financing has helped us to reduce our costs... we're able to manage our expenses." (SME 7)*

In summary, the analysis revealed that SMEs in this study have had positive

experiences with *Mushārah* financing, including increased access to finance, improved financial performance, and flexible repayment terms. However, they also identified challenges, including the lack of awareness about *Mushārah* financing and the limited availability of the Financing.

## CONCLUSION AND RECOMMENDATION

The study's findings provide valuable insights into the experiences of SMEs in Lagos, Nigeria, that have accessed *Mushārah* financing. The analysis reveals that these SMEs have benefited from increased access to finance, improved financial performance, and flexible repayment terms. However, they also face challenges, including limited awareness about *Mushārah* financing and restricted access to this type of Financing.

To address the challenges that continuously face SMEs in accessing *Mushārah* financing, the following recommendations were proposed:

1. There is a need to enhance awareness and education initiatives to improve knowledge about *Mushārah* financing among SMEs in Lagos, Nigeria. This can be achieved through targeted workshops, seminars, and training programs.

2. Islamic banks should increase access to *Mushārah* financing for SMEs in Lagos, Nigeria. This could be achieved by ensuring that more Islamic banks and financial institutions are created closer to major markets where SMEs are dominants and that those banks offer *Mushārah* financing products.

3. There is a need to streamline the application process for *Mushārah* financing to reduce the administrative burden on SMEs. This can be achieved by minimising documentation requirements and simplifying the approval process.

4. Nigeria's government support is essential to promote the development of Islamic banking and finance in Nigeria. This can be achieved by providing incentives, such as tax breaks and subsidies, to Islamic banks and financial institutions.

5. A robust, implementable regulatory framework is essential to govern the operations of Nigeria's Islamic banks and financial institutions. This can be achieved by establishing a regulatory body to oversee the operations of these institutions.

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