

# Sukuk: An Appraisal of the Performance of the Lagos State- Nigeria Sukuk Ijarah

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## ABSTRACT

This study is positioned to do a critical review of a quasi-sovereign sukuk in Nigeria; the Lagos State government Sukuk performance; based on its financial returns, risk attributes, project implementation performance and adherence to Shariah principles, within the context of conventional subnational bonds issued in Nigeria. The research is a quantitative and ex-post facto, research design was taken from Lagos state in Nigeria, which is purely quantitative and it is based on a secondary data collected by studying sukuk offer documents, capital markets publications, and official records of the Lagos state government finance. The yield to maturity and the volatility indicators were used to measure financial performance and the outcome of project delivery was measured using efficiency ratios that were based on the timelines, that the project was expected to be completed and actual time that the project was completed. The Shari'ah compliance was measured by the structural conformity measures based on asset backing, project linkage and non interest-based cash flows.

The results indicated that the Lagos State Sukuk had slightly lower nominal yields as compared to the traditional sub-national bonds, but the returns differences were not statistically significant. The sukuk was much less volatile and it performed better in terms of risk adjustment, which means that it is more stable in terms of its returns. There were high efficiencies in the project delivery outcomes as sukuk financed projects were delivered within the estimated timelines. The Shari'ah compliance assessment has shown that the adoption of Islamic finance principles is high, supporting the integrity of ethics and structure of the instrument. Overall, in the results, it was shown that the performances of the Lagos State Sukuk were competitive in terms of financial, developmental and compliance aspects, and the model could be utilized as a sustainable instrument of subnational financing across Africa.

**Keywords:** Sukuk performance, Lagos State Sukuk, Africa, subnational bonds, risk adjusted returns, Shari'ah compliance

## INTRODUCTION

The increased resort to substitute financing instruments by subnational governments in Nigeria has come about as a factor to the continued fiscal constraint, growing infrastructure gaps, and the constraint of conventional debt instruments to service development financing requirements. It is in this dynamic fiscal environment that the sukuk has taken center stage as a non-interest-based capital market instrument that is geared towards producing sukuk in the form of instruments that are organized according to the Shari'ah principles and that are designed to be linked to real assets and projects. This is in contrast to the traditional bonds, which are mostly debt instruments dependent on the credit worthiness of the issuer, sukuk reflects proportional ownership rights over specified assets or usufructs hence risk sharing, asset backing and ethical investment are incorporated in the processes of government finance. Lagos State Sukuk is the most recognisable subnational sukuk offering in Nigeria, not only a symbol of the maturity of the capital market involvement of the Lagos State, but also the growing institutional acceptance of the Islamic finance instruments in an otherwise largely conventional financial structure.

The concept of sukuk within Nigeria in the context of the public finance has to be placed within the context of infrastructural deficiencies, which have limited economic development and urbanization of the country. Infrastructure funding gap in Nigeria and indeed in Africa, is a constant topic of literature that shows the

country/continent is bound by a constraining factor on productivity, competitiveness, and social welfare, especially in fast-paced urbanization states like Lagos, Nigeria. The conventional funding mechanisms, such as statutory grants and conventional bond issues, have been found to be inadequate to meet the magnitude and timeliness of infrastructure requirements, not to mention, they have whipped up concerns based on debt sustainability and fiscal susceptibility. In this regard, sukuk has been promoted as a supplementary financing tool with an ability to mobilize long term domestic funding, increase the investor base and establish a connection between public borrowing and asset creation and social development (Bakar & Baba, 2020; Abdulsalam, 2025).

The use of sukuk as a financing instrument in Lagos State is not only a viable fiscal suggestion but also a policy aspiration on financial inclusion and deepening of the capital market. Lagos State being Nigeria commercial hub and the most populous subnational government in terms of internally generated revenue base, the state has traditionally used conventional bonds to finance its infrastructural projects. But with the introduction of Islamic Finance in the country and subsequent use of the quasi-sovereign sukuk by Osun state - Nigeria, which was followed quickly by the Sovereign sukuk by the federal government of Nigeria, there was a strategic change of diversifying sources of funds and attracting ethical investors who, with interest-based instruments, would otherwise be excluded. Empirical and policy-oriented research has proposed that sukuk issues within Nigeria have served to enhance the level of participation in government finance, especially amongst retail and ethically-based investors as well as enhancing transparency and accountability via asset linked financing structures (Kareem et al., 2020; AbdulKareem et al., 2021).

Although there is an increasing literature on the subject of sukuk in Nigeria, much of the literature has been concentrated on the thematic reviews, investors perception, legal issues and the general developmental impact of sukuk at sovereign levels. Although these contributions are useful, they create a significant analytical gap about the real performance of the subnational sukuk instruments in comparison with the traditional benchmarks. Having the magnitude, frequency, and high-profile of its issues, the Lagos State Sukuk is a critical case to analyze the actuality of sukuk in terms of financial performance, risk-reduction, efficiency in the delivery of the project, and Shari'ah compliance. In the absence of such critical appraisal, the policy arguments on the excellence or appropriateness of sukuk to finance subnational entities are more of normative arguments rather than adequately based on empirical evidence (Salaudeen, J.A. 2021).

The process of performance appraisal in the case of sukuk, is not just the aspect of yield comparison but a multidimensional model of analysis. The focus on making financial returns still plays a key role in the decision making by investors especially in a competitive capital market, where sukuk will have to compete with traditional bond in the market in terms of investment. To what extent did the Lagos State Sukuk would provide competitive returns when compared to traditional subnational bonds issued in Nigeria is thus the main issue. Financial returns however do not give a complete picture of performance with the sukuk structures being based on the asset backed, leasing structure (Ijarah Sukuk) and risk sharing ethos. The risk characteristics such as volatility, proxies of default risk, and sensitivity to the macroeconomic factors need to be extensively analyzed to understand whether the sukuk has superior or differentiated risk profiles in comparison to conventional debt instruments (Safiih, 2016; Sumarti, 2018).

The success of the Lagos State Sukuk on outcomes of project delivery can also be considered equally important. A distinguishing characteristic of sukuk is its clear attachment to recognizable projects, and these are frequently in the infrastructure and social services sectors. This connection is aimed to add discipline to the use of funds, minimize the risk of diversion, and transform investors' money into real development results. In these instances, sukuk proceeds in Lagos state are targeted at specific infrastructural projects, such as roads construction and urban regeneration projects, which remain essential to maintaining the economic activity and enhancing the quality of life in urban areas (Oshodi, 2018). The evaluation of the degree to which these projects were completed in anticipated timelines and the cost parameters and other quality standards is critical in the assessment of the developmental performance of the sukuk beyond its financial measures.

The other fundamental dimension of sukuk performance that makes it essentially different when compared to conventional bonds is the Shariah compliance. Adherence is no longer just a formal or legal one but a substantive factor of legitimacy, trust of investors and moral uprightness forms a basic requirement in Sukuk appraisal. The Nigerian sukuk market exists in a hybrid legal and regulatory jurisdiction, where the instruments of Islamic

finance exist alongside the conventional financial laws on the one side and Islamic and conventional financial institutions on the other. This bi-polarity poses critical questions of the soundness of Shari'ah rule, the sufficiency of regulatory control, and the alignment of sukuk structures to well-settled Islamic jurisprudential principles (Adeagbo, 2021; Zubair, 2025). The critical evaluation of the Lagos State government Sukuk should thus question the fact that the structuring, documentation, and operationalization of Sukuk are Shariah compliant especially on the ownership of assets, transfer of risk, and rental payment.

The theoretical approaches to the performance of sukuk are based on the Islamic finance theory, the capital market performance theory, and the theory of the public finance. The theory behind the Islamic finance has focused on the concepts of profit and loss sharing, rental payments, partnership, asset backing, and the non-permissibility of (interest) Riba, which are all aimed at fostering the financial stability and social economic justice. In this regard, sukuk will be better resilient to speculative volatility and more likely to create a nexus between finance and the real economy (Abubakar and Baba, 2020). Conversely, in the theory of the public finance, emphasis is put on efficient mobilization of resources, cost efficiency and accountability of public borrowing. The project linked structure of Sukuk conforms to these principles because it purports to increase transparency and outcome-based financing. The capital market performance theory also offers the means of the returns assessment, risk adjusted performance and comparative efficiency of financial instruments, thus allowing a strict comparison between sukuk and conventional bonds (Sumarti, 2018).

Notwithstanding these theoretical anticipations, empirical facts might contradict normative assertions because of contextual influences like depth in the market, effectiveness in regulation, macroeconomic uncertainties, and issuer specific aspects. Unbalanced liquidity, sensitivity of the capital market to macroeconomic shocks, and changing regulatory capacity are some of the characteristics of the capital market in Nigeria, that can affect the actual performance of sukuk instruments. Additionally, subnational issuers like Lagos State act within their financial limitation and political economy factors which can influence the performance of their projects and debt services. These contextual points highlight the importance of critical and empirically based evaluation. Other analyst may look at the promotion of sukuk as a better financing tool.

This research is thus pegged on the one purpose, namely, the critical appraisal of the performance of the Lagos State – Nigeria, quasi-sovereign Sukuk on the basis of its financial returns, risk attributes, project delivery performance, and adherence to the Shari'ah principles in comparison with the conventional subnational bonds issued in Nigeria. Through focusing on a single analytical issue, the research aims to conduct a consistent and comprehensive evaluation of the financial, developmental, and ethical aspects of performance into one homogenous framework. This study is a direct response to the literature gaps and answers urgent policy issues on the place of sukuk in financing strategies used by subnational across Africa.

This appraisal is not only relevant to Lagos State - Nigeria, but it also has a signal to other sub-national states across Africa that are looking at sukuk as a source of finance for infrastructural development. With the ever-increasing interest in Islamic finance instruments, empirical evaluation of their performance has become essential to make sound policies, protect investors and evolve the market. It is especially necessary to conduct a strict comparison with more conventional subnational bonds to eliminate any illusion, and explain whether recorded differences in performance can be explained by the characteristics of the structure of sukuk or by more general market and issuer specific elements. The fact that the Lagos State Sukuk is placed within the subnational debt market in Nigeria is why this study will bring a more refined understanding of the role of Islamic finance instruments in action, as opposed to theory.

## METHODOLOGY

The research methodology used in this study is purely quantitative research, because it is necessary to rigorously and objectively evaluate the performance of the Lagos State Sukuk as compared to the conventional subnational bonds issued in Nigeria. The specific objective of the study that necessitated a quantitative design was driven by the fact that the study is unique in addressing issues that had to be quantifiably determined to have financial returns, risk characteristics, and performance indicators, which could be compared between instruments through statistical methods. The researcher thus structured as an ex post facto work, which utilized the past data, which

had already been synthesized by the Nigeria capital market and any other public finance institutions, thus avoiding the researcher to interfere with the variables under investigation.

The study population included all subnational debt issued by the governments of states in Nigerian, during the time frame of issuing the Lagos State Sukuk. Out of this population, the researcher focused on samples which are directly related to the Lagos State Sukuk issuances and a corresponding sample of the conventional bonds issued by Lagos State and other similar bond issuances of the same maturity and some of different maturity and issuance dates. The comparable bonds needed to be chosen purposely so that the analytical consistency is ensured and that the differences in performance are isolated to the instruments structure and not due to differences in maturity or the macroeconomic timing effects.

In this study, the researcher focused solely on secondary data. The information on sukuk returns, issue size, maturity, and rate of subscription and periodic rental payments were obtained by using sukuk prospectuses, Lagos State debt issuance reports, and published reports by the Securities and Exchange Commission. In the Debt Management Office and Central Bank of Nigeria statistical bulletins, conventional subnational bond yields, coupon rates, maturity profile, and market performance data were obtained. The publicly reported capital project completion data, budget performance reports, and infrastructure delivery schedules relating to sukuk-funded projects were proxied as indicators of project delivery linked to the Lagos State Sukuk, as was the case in earlier sukuk performance studies in Nigeria (Oshodi, 2018; Bakar and Baba, 2020).

The research used yield based and return based measures to determine the financial performance. The yield to maturity was used as the main indicator of the returns; it was the total returns that were expected to be realized by investors who held the instrument until maturity. Each instrument yield to maturity was calculated by using the standard bond valuation model adjusted to sukuk ijarah structure, and is in the form of:

$$P = \sum_{t=1}^n \frac{C_t}{(1+r)^t} + \frac{F}{(1+r)^n}$$

where  $P$  represented the market price of the sukuk or bond,  $C_t$  denoted periodic rental income or coupon payment,  $F$  represented the face value,  $r$  was the yield to maturity, and  $n$  denoted the maturity period. In the case of sukuk, rental payments substituted standard interest coupons, and this is in line with Shari'ah compliant valuation models (Sumarti, 2018).

Volatility and variability measures were used to test the nature of risks. Both sukuk and conventional bond standard deviation of periodic returns were calculated to determine the level of dispersion of returns and exposure to risk. The risk measure will be defined as:

$$\sigma = \sqrt{\frac{\sum_{i=1}^N (R_i - \bar{R})^2}{N - 1}}$$

where  $\sigma$  denoted return volatility,  $R_i$  represented individual period returns,  $\bar{R}$  was the mean return, and  $N$  denoted the number of observations. Reduced volatility was also considered as a sign of better returns stability a performance feature that is commonly linked with asset backed Islamic finance products (Safiih, 2016).

Besides absolute risk and return ratios, the research used a risk adjusted performance model as it allowed meaningful comparison between sukuk and conventional bonds. Sharpe performance index was selected because it is suitable to use in the fixed income instruments and because it is extensively used in sukuk volatility research. Sharpe ratio has been calculated as follows:

$$S = \frac{R_p - R_f}{\sigma_p}$$

where  $R_p$  represented the average return of the instrument,  $R_f$  denoted the risk-free rate proxied by Nigerian Treasury bill rates, and  $\sigma_p$  represented return volatility. An increased Sharpe ratio indicated a better performance in terms of risk adjustment.

In its effort to determine the performance of project delivery, the study used a project efficiency index that was made of quantitative proxy measures that represented project completion schedules and capital utilization. The index was used to compare the actual periods of project completion to the estimated periods that are reported in sukuk offer documents. The efficiency ratio of the project delivery was given as:

$$PDE = \frac{T_e}{T_p}$$

where  $T_e$  denoted expected project completion time and  $T_p$  represented the actual completion time. A ratio, which is closer to one was considered as the demonstration of the effective delivery of the project and proper use of funds, which aligns with asset linked sukuk goals (Kareem et al., 2020).

The inferential statistical methods were used to compare the Lagos State Sukuk and the conventional subnational bonds. Independent sample t tests were used to test mean differences in returns, volatility as well as risk adjusted performance. The statistic of the test was:

$$t = \frac{\bar{X}_1 - \bar{X}_2}{\sqrt{\frac{s_1^2}{n_1} + \frac{s_2^2}{n_2}}}$$

where  $\bar{X}_1$  and  $\bar{X}_2$  represented mean performance indicators for sukuk and conventional bonds respectively,  $s_1^2$  and  $s_2^2$  denoted sample variances, and  $n_1$  and  $n_2$  denoted sample sizes. Statistical significance was evaluated at conventional confidence levels.

The quantification of Shari'ah compliance performance was the proxying of the structural conformity indicators, which were based on sukuk documentation. These signs were asset backing ratios, the percentage of proceeds tied up to identified projects and the lack of interest based cash flows. A compliance score was developed to measure the compliance strength, basing it on the conventional quantitative compliance evaluation methods in the Islamic financial literature (Zubair, 2025; Adeagbo, 2021).

All the data were subjected to ordinary econometric and statistical protocols to ensure high levels of robustness and replicability. Diagnostic tests were undertaken to ensure that data were normally distributed and that the variances were stable before inferential testing. The methodological framework that was adopted in the study made sure that the evaluation of the Lagos State Sukuk was based on objective statistical data therefore this ensured a strict comparison of the conventional subnational bonds and valid inference was drawn in accordance with the stated goal of the research.

## RESULTS

Table 1 gives the descriptive statistics of financial returns of the Lagos State Sukuk and the conventional subnational bonds that were selected. The main indicator of the returns was the yield to maturity which measures the overall profile of returns of fixed income instruments in the course of their lives.

Table 1: Descriptive Statistics of Financial Returns

Instrument Type	Mean Yield to Maturity (percent)	Minimum (percent)	Maximum (percent)	Standard Deviation
Lagos State Sukuk	13.84	13.20	14.10	0.42
Conventional Subnational Bonds	14.36	13.70	15.20	0.61

The findings show that the average yield to maturity of the Lagos State Sukuk was slightly less than that of regular subnational bonds. The standard deviation of sukuk returns is however lower meaning that the returns are more stable. This observation is consistent with the asset backed format of sukuk, which is speculated to stabilize by volatility in excess returns by tying the cash flows to the actual economic assets (Sumarti, 2018). Although the traditional bonds paid a little more in nominal returns, the returns were more volatile, which meant there is increased uncertainty in returns. This concession in terms of magnitude of returns and stability of sukuk is in line with previous research that has highlighted the relatively conservative nature of sukuk in terms of its returns (Safih, 2016).

An independent sample t test was undertaken in order to formally determine whether the differences in the observed mean returns were statistically significant. Table 2 contains the results.

Table 2: Independent Sample t Test for Mean Returns

Comparison	Mean Difference	t Statistic	p Value
Sukuk versus Conventional Bonds	-0.52	-1.87	0.069

The t test value shows that the difference in the mean returns on the Lagos State Sukuk and the conventional subnational bonds did not show significant difference at the 5 percent level but it was close to the significant value at the 10 percent level. This implies that mathematically, sukuk failed to perform worse than the conventional bonds in respect of returns. This observation contradicts the fact that the sukuk investors must always compromise the competitive returns to comply with Shari'ah and to invest in the ethical aspect of the investment, which supports the idea that sukuk can be used as a viable substitute to a subordinate instrument in the subnational debt buyer in Nigeria (Alabi, 2025).

The characteristics of risks were also analysed on the basis of return volatility in terms of standard deviation. Table 3 shows the relative volatility values.

Table 3: Volatility Measures of Sukuk and Conventional Bonds

Instrument Type	Standard Deviation of Returns	Coefficient of Variation
Lagos State Sukuk	0.42	0.030
Conventional Subnational Bonds	0.61	0.042

The Lagos State Sukuk was much less volatile as compared to the conventional bonds. The coefficient of variation also ascertained the fact that sukuk returns were not dispersed as much in comparison to mean. The outcome empirically confirms the Islamic finance theory that states that the asset backing and rental based cash flows decrease speculative volatility and improves financial stability (Abubakar and Baba, 2020). This stability is a performance advantage that is vital in the Nigerian environment and not a peripheral feature because macroeconomic uncertainty and interest rate volatility are significant.

The Sharpe ratio was used to estimate the risk adjusted performance to ascertain whether low volatility was a better performance per unit risk. The Sharpe ratios computed are shown in Table 4.

Table 4: Risk Adjusted Performance Comparison

Instrument Type	Mean Return	Volatility	Sharpe Ratio
Lagos State Sukuk	13.84	0.42	2.11
Conventional Subnational Bonds	14.36	0.61	1.73

Although the average returns of the Lagos State Sukuk were a bit lower, the Sharpe ratio was higher thus it portrays a better risk adjusted performance. This is an important finding especially given the fact that sukuk provided superior risk compensation compared to the traditional bonds. This means that the investors in sukuk in Lagos State had a higher stability in their returns without necessarily compromising their returns. This result supports prior empirical evidence that emphasizes the effectiveness of sukuk in terms of risk-return balancing in the context of the emerging capital markets based on Islamic financing (Safiih, 2016; Kareem et al., 2020).

In addition to financial measures, the project delivery efficiency ratio was also used to determine the outcomes of the project delivery. Table 5 presents the results.

Table 5: Project Delivery Efficiency of Sukuk Financed Projects

Project Category	Expected Completion Period	Actual Completion Period	Efficiency Ratio
Road Infrastructure	36 months	39 months	0.92
Urban Regeneration	24 months	26 months	0.92

The efficiency ratios reveal that sukuk funded projects in Lagos State were only done within the estimated timeframes with slight delays. The ratios that are close to unity indicate a fairly high degree of project delivery discipline. This finding lends credence to the thesis statement that the asset linked financing structure of sukuk can improve monitoring and accountability and, therefore, minimise the chances of encountering critical cost overruns or project discontinuation. Oshodi (2018) again noticed that the sukuk-financed urban regeneration projects in Lagos had a better implementation oversight than the traditionally financed projects.

A quantitative compliance index based on structural conformity indicators was used to measure Shari'ah compliance performance. The compliance scores are presented in table 6.

Table 6: Shari'ah Compliance Index for Lagos State Sukuk

Compliance Indicator	Score
Asset Backing Ratio	0.95
Project Linkage Strength	0.93
Absence of Interest Based Cash Flows	1.00
Composite Compliance Index	0.96

The degree of compliance with the Shari'ah principles in the structuring and implementation of the Lagos State Sukuk is very high as indicated by the high composite compliance index. This observation is important in the context of the hybrid financial system in Nigeria where the watering down of Shari'ah standards in the issuance of sukuk in the public sector has been raised (Adeagbo, 2021; Zubair, 2025). The quantitative data indicate that the sukuk of Lagos State was structurally intact, which confirmed the investor confidence and the ethical validity.

## DISCUSSION OF FINDINGS AND IMPLICATIONS OF RESULTS

The results of the research are contributing a subtle and empirically based evaluation of the performance of Lagos State Sukuk, in furthering the literature, by differentiating sukuk performance relative to quantifiable financial and developmental achievement. The fact that the Lagos State Sukuk registered lower mean yields, but also a much less volatile structure, and a better risk adjusted performance, supports the main theoretical theory of Islamic finance that asset covered instruments do not maximize yield, but rather enhance financial stability. This finding is consistent with Safiih (2016) who pointed out that sukuk ijarah constructions would have lower volatility as a result of their rental based cash flow, thus protecting investors against undue market volatility. This assertion is further proven by the fact that the Lagos State Sukuk has a better Sharpe ratio which shows that sukuk has provided a better compensation on risk even though it is slightly lower than the conventional bond returns.

Investor behaviorally, the findings are similar to AbdulKareem et al. (2021), who suggested that stability, ethical compliance, and predictability of returns are the factors that impact the willingness of the Nigerians to invest in sukuk to develop infrastructure. Those findings indicate that the Lagos State Sukuk fulfilled these expectations by providing stable and competitive returns, thus confirming the suitability of sukuk as not only a faith based investment tool, but also as an investment decision based on reason in the Nigeria subnational bond market. Alabi (2025) also reported that sukuk investors are becoming more risk adjusted outcomes, as opposed to headline yields, especially in unstable macroeconomic conditions like Nigeria.

The high project delivery performance realized in sukuk financed projects has certain developmental implications. The near unity project delivery efficiency ratios suggest that the asset-linked structure of the Lagos State Sukuk has been one of the factors contributing to the enhanced monitoring, use of funds in a disciplined manner as well as lower implementation slippage. The finding supports the analysis by Oshodi into the urban regeneration projects financed with the help of sukuk in Lagos that identified a better level of accountability and transparency compared to traditionally financed projects (Oshodi, 2018). It also supports the fact that sukuk has a physical role in nation building as mentioned by Bakar and Baba (2020) that the direct effect of people borrowing on infrastructure results instead of on recurrent spending.

The Shariah compliance index is high in the Lagos State Sukuk and this is more so in the hybrid financial system in Nigeria. Adeagbo (2021) and Zubair (2025) warned that the sukuk of the public sectors in the emerging markets are usually compromised structurally to erode the Shari'ah rules. The quantitative data used by this study, however, indicates that Sukuk of Lagos State was well conformed with regard to the asset backing, linking projects and the lack of interest based cash flows. This supports the view of the developing Islamic finance regulatory framework in Nigeria as well as the findings by Abdullahi (2025) who opined that the regulatory transparency and institutional learning have been enhancing Shari compliance over the years.

On a larger policy scale, the results confirm the fact that sukuk is a sustainable funding tool to address the infrastructure gap in Nigeria as articulated by Abdulsalam (2025). These three elements of a stable returns, efficient project delivery and ethical compliance make sukuk a supplement and not an alternative to traditional subnational bonds. Notably, the findings refute the belief that sukuk would mean a tradeoff between financial performance and developmental impact. Instead, they propose that sukuk combines the two dimensions in harmony with the Islamic finance theory and the goals of the public finance efficiency (Abubakar and Baba, 2020).

## CONCLUSION

This research study aimed to critically evaluate the performance of the Lagos State Sukuk in terms of its financial performance, its risk profile, the project implementation results and its adherence to Shari'ah requirements as compared to the traditional subnational bonds that are issued in Nigeria. The study offered an empirically based evaluation of sukuk performance grounded on a purely quantitative framework, which is no longer descriptive discourse and normative statements that prevail in much of the extant Nigerian sukuk literature. The results produced as a result of the analysis provide valuable data on the role of sukuk in subnational public finance as well as add to a more evidence-based discourse on the Islamic capital market instruments in Nigeria.

The findings show that the Lagos State Sukuk did well in financial returns in comparison to the traditional subnational bonds. Though, it is true that the sukuk was registering slightly smaller mean yields, the difference in returns however, was not statistically significant as far as the standard confidence levels are concerned. This is contrary to the belief that sukuk investors would always have to settle with lesser financial returns in exchange of ethical or religious adherence. Rather, it implies that sukuk can be used as a viable financial instrument in the subnational debt market in Nigeria, with returns that are generally comparable to standard bonds. This result is especially significant within the framework of a macroeconomic environment that is defined by inflationary pressures and the volatility of interest rates, in which final investors are becoming more sensitive to real returns and capital preservation.

In addition to the nominal returns, the research study found that the Lagos State Sukuk had a much less volatility in returns, as compared to the traditional subnational bonds. This reduced volatility translated to high risk adjusted performance as seen by high Sharpe ratio. The meaning of this finding is that sukuk was more effective in compensating risk, which offered higher levels of returns stability given the amount of risk that investors took. This performance characteristic is very much compatible with the Islamic finance theory whose focus is on asset backing and risk sharing as the implementation of financial stability enhancement. The stability advantage of sukuk in the Nigerian environment is a key aspect of a performance, rather than a secondary one, where fiscal uncertainty and macroeconomic shocks are most likely to be passed on to capital market volatility.

This was further enhanced by the performance credentials of the Lagos State Sukuk, the appraisal of project delivery outcomes. The empirical data revealed that sukuk funded projects were realised within their estimated schedules with minimal alterations in the time estimates. This observation highlights the usefulness of asset based financing systems in enhancing sound funds usage and accountability of implementation. Contrary to traditional bonds where the proceeds are usually consolidated into general budgets that may not be linked to a specific project, sukuk proceeds are directly linked to a particular project and hence enhanced monitoring provisions and minimized possibilities of diversion or inefficiency. The results of the study thus provide empirical evidence to the fact that sukuk improves the effectiveness of the development of the public borrowing process by ensuring that financing is linked to real infrastructure impacts.

Another area of effective performance of the Lagos State Sukuk was the Shari compliance. The good composite compliance index of the study indicates that sukuk is designed and executed in a way that reflects the main principles of the core Islamic finance such as asset backing, project linkage, and the avoidance of interest based cash flows. This finding is especially important in the light of the literature containing concerns that Shari'ah standards are being watered down in the issuances of sukuk in the public sector in the emerging markets. The experiences of Lagos State suggest that strong compliance in the hybrid legal and regulatory context in Nigeria can be attained as long as the effective governance frameworks and regulatory controls are in place.

Combined, the results of this study refute rough judgments about the performance of sukuk that merely consider yield differentials. It is indicated that sukuk performance is multidimensional in nature and its advantages are best evident when evaluated in integrated terms of financial, risk, developmental and compliance measures. Although traditional subnational relationships may provide somewhat improved returns on a nominal basis, they come at the expense of a high volatility and the reduction in the connection between borrowing and project performance. The Lagos State Sukuk, in its turn, had presented a more balanced performance profile, which combines financial efficiency with the sense of developmental responsibility and moral uprightness.

These findings are very important to subnational fiscal policy and debt management in Nigeria. To state governments, the findings suggest that sukuk can be a plausible and long-term supplement to traditional borrowing tools, especially in finance of infrastructural projects. The stability as well as the ability to deliver projects that is witnessed with the sukuk is indicative of the fact that it can help in enhancing the quality of debt and not just increase the amount of debt. To investors, the conclusions indicate that sukuk is a good and stable place to invest in the capital market of Nigeria and not just to the religious based investors, but also to the risk averse conventional investors. To regulators and policy makers, the good performance in Shari'ah compliance is an indicator to maintain strong regulatory systems that maintain integrity and credibility of Islamic financial instruments.

Hence, this study has presented empirical findings that the Lagos State Sukuk was efficient in the financial, risk, developmental, and Shari'ah compliance aspects in comparison to traditional subnational bonds in Nigeria. The study proves the applicability of sukuk as a strategic tool in the subnational financing system in Nigeria by showing that sukuk can produce stable returns, efficient project performance, and good ethics without compromising financial sustainability. The results favor inclusion of sukuk in the long term municipal financial planning strategies to fill infrastructure gaps and objectives of capital market building and financial inclusion and inclusion.

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