



Interest-Free Banking in a Dual Monetary System: An Institutional Analysis of Nigeria with Comparative Insights from Malaysia

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ABSTRACT

Nigeria combines a large potential market for non-interest finance with a sector that accounted for only 1.1 percent of banking-system assets at the end of 2023. This study examines the institutional conditions shaping interest-free banking in Nigeria and draws comparative insights from Malaysia. It uses a mixed-method institutional design combining documentary analysis, an expert survey of 109 respondents, semi-structured interviews with a 20-person sub-sample, and descriptive financial evidence from Nigerian non-interest financial institutions and Malaysian Islamic banks. The expert assessment yields an overall institutional-quality score of 2.56/5.00, classified as Weak. Islamic capital-market infrastructure records the lowest score (2.18), followed by Sharia governance (2.52), while the legal and regulatory framework (2.68) and human capital/public awareness (2.84) fall within the Moderate band but remain below the neutral scale point of 3.0. Interview and documentary evidence identify recurring constraints in legal specificity, Sharia-governance coordination, liquidity-management infrastructure, capital-market depth, specialist human capital, and public awareness. Descriptive comparison with Malaysia is consistent with the proposition that mature complementary institutions are associated with stronger Islamic-banking performance, although the study does not claim causal identification. The findings support a sequenced reform agenda centred on legal clarity, governance coherence, liquidity and capital-market infrastructure, consumer protection and institutional capacity. The article contributes an empirically grounded institutional critique while distinguishing verified survey and documentary findings from statistical claims that cannot be independently reproduced from the surviving research files.

Keywords: interest-free banking; institutional economics; dual monetary system; financial inclusion; Sharia governance

INTRODUCTION

The global Islamic financial services industry reached USD 3.88 trillion in total assets in 2024, representing 14.9 percent year-on-year growth according to the Islamic Financial Services Board (IFSB, 2025). Islamic banking remained the dominant segment of the industry. Sub-Saharan Africa nevertheless accounts for a small share of global Islamic-finance assets despite its large Muslim population. Nigeria exemplifies this development gap: Fitch-based industry estimates reported by IBS Intelligence place non-interest-bank assets at about 1.1 percent of total Nigerian banking-industry assets at the end of 2023 (IBS Intelligence, 2024).

A conceptual clarification is necessary at the outset. This study uses the term “dual monetary system” to denote a financial system in which conventional interest-based banking and non-interest banking coexist within a single national monetary architecture, operating under the same central bank authority and the same currency, but under a shared regulatory framework that accommodates both banking models. This differs from a fully separate currency system: Nigeria operates one currency, the naira, and one central bank, the CBN, within which both banking streams operate. The duality is institutional rather than monetary in the strict sense, reflecting the coexistence of two distinct financial intermediation paradigms rather than two monetary systems. This distinction matters because it clarifies the study’s central argument: the constraints on non-interest banking in Nigeria are institutional, legislative, governance, and capital market, not fundamentally monetary.

The welfare consequences of this institutional underperformance are geographically important. The EFInA Access to Financial Services in Nigeria 2023 survey reports that 26 percent of Nigerian adults were financially excluded, down from 32 percent in 2020, and documents substantial regional disparities (EFInA, 2023). Religious acceptability can be one factor shaping financial-service choices in parts of northern Nigeria, alongside income, geography, documentation, trust, financial literacy, and digital access. Non-interest banking is therefore relevant to inclusion policy, but it should not be treated as a single-cause solution to Nigeria's broader exclusion problem.

Nigeria's regulatory history contextualises the institutional paradox. The CBN issued its framework for Non-Interest Financial Institutions (NIFIs) in 2011. Jaiz Bank Plc commenced operations in January 2012; TAJ Bank commenced operations in December 2019; and Lotus Bank received its CBN licence in May 2021. The CBN subsequently approved the development of Alternative Bank from Sterling Bank's non-interest operations. Nigeria has also developed dedicated central-bank liquidity instruments for NIFIs: three instruments were introduced in 2012, while the Intra-day Facility (IDF) and Funding for Liquidity Facility (FfLF) followed in 2017 and were incorporated into revised operational guidelines in 2022 (CBN, 2012; CBN, 2021; CBN, 2022). In 2023, NIFIs accessed NGN 52.31 billion through the FfLF (CBN, 2024). These measures demonstrate regulatory accommodation, but the sector remained small relative to conventional banking at the end of the study period.

The core research question motivating this study is: why has formal regulatory permission for non-interest banking not translated into deeper sectoral development in Nigeria? Drawing on North's (1990) New Institutional Economics as the primary theoretical anchor, the study evaluates the institutional environment through four interdependent dimensions: legal and regulatory arrangements, Sharia governance, Islamic capital-market infrastructure, and human capital/public awareness. Malaysia serves as a comparative benchmark for examining how complementary institutions can support a mature dual-banking architecture. The analysis is deliberately mixed-method and interpretive: expert assessments, documentary evidence, interviews, and descriptive financial indicators are triangulated rather than used to claim causal effects that the available data cannot establish.

Four literature gaps motivate the study. First, much Nigerian scholarship is legal, descriptive or institution-specific rather than organised around a multidimensional institutional framework. Second, the interaction among legislation, Sharia governance, liquidity infrastructure and human capital is insufficiently integrated in existing analyses. Third, comparative lessons from mature dual-banking systems are often presented descriptively without explicit attention to institutional complementarity and transferability. Fourth, the perspectives of regulators, practitioners, Sharia scholars, researchers, and deposit-insurance officials are rarely synthesised within a single empirical institutional assessment. The article addresses these gaps without asserting unverified priority over the entire literature.

LITERATURE REVIEW AND THEORETICAL FRAMEWORK

New Institutional Economics: The Primary Theoretical Anchor

North's (1990) New Institutional Economics (NIE) is the primary theoretical foundation of this study. North defines institutions as formal rules (laws and regulations), informal constraints (norms and conventions), and enforcement mechanisms structuring economic interaction, and argues that the performance of economies and their sectors is fundamentally shaped by the institutional matrix, the interacting set of these formal rules, informal constraints, and enforcement characteristics. Applied to dual banking, NIE predicts that the performance gap between Nigerian NIFIs and Malaysian Islamic banks is not primarily a function of market demand, cultural attitudes, or macroeconomic conditions, but of the differential quality of the institutional environments within which they operate.

Path dependency, a central NIE insight, explains why institutional reform is difficult: Nigeria's financial system has been built around conventional banking for decades, and the accumulated human capital, regulatory expertise, legal precedents, and risk management methodologies of that system represent an institutional formation whose gravitational pull systematically disadvantages the nascent NIFI sector, even where formal

regulatory recognition exists. North's analysis further cautions against an exclusively legislative approach: the formal architecture must be accompanied by slower-moving changes in professional norms, consumer awareness, and political consensus that constitute the informal institutional environment.

Williamson's Institutional Hierarchy and Reform Sequencing

Williamson's (2000) four-level institutional hierarchy operationalises the NIE framework and provides the logic for the study's reform sequencing. Level 1 (informal norms and culture, including religious conviction) shapes the demand for non-interest banking. Level 2 (institutional environment, legislation and regulation) provides the formal legal foundation. Level 3 (governance arrangements, Sharia oversight and contract enforcement) determines the credibility and authenticity of non-interest products. Level 4 (financial performance outcomes) reflects the aggregate effect of the three preceding levels. Deficiencies at Levels 2 and 3 translate predictably into suboptimal Level 4 outcomes, irrespective of favourable Level 1 conditions. Critically, Williamson's hierarchy implies that reform must be sequenced: Level 2 legislative reform must precede Level 3 governance development, which must precede Level 4 capital market infrastructure development. This sequencing logic directly underpins the reform framework proposed in Section VII.

La Porta et al. extend the NIE framework empirically, demonstrating across 49 countries that legal origin and legal institution quality, specifically the quality of enforcement rather than merely rules on the books, are primary determinants of financial market development. Applied to the Nigerian context, this directs analytical attention toward the enforcement infrastructure of Nigeria's NIFI framework: the non-binding character of CBN Sharia governance guidelines and the absence of statutory SAC authority are precisely the enforcement-quality failures that La Porta et al.'s framework predicts will constrain financial development.

Institutional Complementarity

El Hawary, Grais, and Iqbal identify institutional complementarity as the defining feature of mature dual banking systems: the effectiveness of the non-interest banking segment depends on complementary institutional infrastructure across four dimensions legislation, Sharia governance, Islamic capital markets, and human capital such that weakness in any single dimension constrains overall sector development, even where others are relatively stronger. This complementarity proposition has a direct policy implication: partial reform simply shifts the binding constraint from one dimension to another without achieving meaningful sector development. Consider three concrete examples: good legislation combined with weak liquidity infrastructure produces regulatory certainty without operational competitive parity; good Sharia governance combined with inadequate legislation produces credible standards without statutory enforceability; and strong banks combined with inadequate human capital produce institutional ambition without implementation capacity. Nigeria currently fails on all four dimensions simultaneously; the overall composite score of 2.56/5.00 confirms this.

Supporting theoretical lenses complement NIE. Acemoglu and Robinson argue that inclusive institutions are necessary conditions for sustained financial development and introduce the concept of "critical junctures", historical moments when regulatory innovation creates potential for more inclusive financial architecture. Nigeria's 2011 non-interest banking framework represents such a critical juncture; whether its potential is realised depends on whether the institutional changes initiated are deepened or arrested. DiMaggio and Powell predict three isomorphic pressures that operate in the Nigerian NIFI context: coercive isomorphism (regulatory requirements designed for conventional banks force NIFIs to adopt conventional structures); mimetic isomorphism (NIFIs copy conventional banking practice under uncertainty); and normative isomorphism (professionals trained in conventional banking import its norms into NIFI practice). All three operate systematically in the Nigerian environment, explaining why NIFIs have not developed a genuinely distinctive institutional identity after thirteen years. The financial inclusion mandate is grounded in Freeman's stakeholder theory and the maqāṣid al-Sharia framework, which identifies financial inclusion as a core Islamic finance social obligation, elevating Nigeria's NIFI development challenge from a commercial objective to a social justice imperative.

Nigeria-Specific Empirical Literature

Nigeria-specific literature on non-interest banking is dominated by legal, regulatory, and single-bank studies. Bebeji, Bala, and Bala (2020), for example, characterise the Nigerian legal framework as incoherent in important respects and recommend comprehensive legislation to support Islamic banking and financial inclusion. This legal literature is useful because it identifies gaps in primary legislation, contract recognition, and institutional coordination, but it does not by itself establish the magnitude of the financial-performance effects attributed to those gaps. The present study therefore treats the legal literature as institutional evidence to be triangulated with bank-level and expert evidence, not as causal proof of performance outcomes.

The Nigerian quantitative literature is narrower. Abdullahi and Yusuf (2022), in an assessment of Jaiz Bank, report that GDP is positively associated with performance while several bank-specific and macroeconomic variables, including capital adequacy in their specification, are not statistically significant. That result should not be extended into a claim that liquidity infrastructure or product range is necessarily the binding constraint without additional evidence. More broadly, the heavy reliance of prior Nigerian studies on Jaiz Bank underscores the value, and the data limitations, of attempting sector-wide analysis as newer NIFIs enter the market.

Malaysian Institutional Evidence

For Malaysia, Sufian (2009) shows that bank efficiency is sensitive to bank-specific and macroeconomic conditions during an unstable period, illustrating the importance of controlling for the environment in which financial institutions operate. Laldin and Furqani (2018) document the development of Malaysia's Sharia-governance framework and the compliance architecture strengthened under IFSA 2013. Hasan and Dridi (2010) find that Islamic banks were affected differently from conventional banks during the global financial crisis: their business model helped cushion profitability in 2008, while weaknesses in risk management contributed to larger profitability declines in some Islamic banks in 2009. These studies support institutional and governance analysis, but they do not imply that every Malaysian performance advantage is caused by a single institutional mechanism. Bank Negara Malaysia's 2025 reporting further shows the continued evolution of this ecosystem, including a 48 percent Islamic-financing share, value-based intermediation initiatives, Sharia-contract work and deeper Islamic money-market infrastructure (BNM, 2026). These later developments are treated as post-study context rather than as 2011-2023 outcome data.

Cross-country evidence provides further context. Beck, Demirgüç-Kunt, and Merrouche (2013) find that Islamic banks are generally less cost-effective but exhibit higher intermediation ratios, higher asset quality, and stronger capitalisation, with substantial variation across countries. Imam and Kpodar (2016) find Islamic-banking development positively associated with economic growth across 52 countries and recommend modernising the legislative, regulatory, and infrastructural environment to support the sector. Abedifar, Molyneux, and Tarazi (2013), using 553 banks in 24 countries, find lower credit risk and greater stability for some small Islamic banks, particularly in predominantly Muslim countries. Together, these studies justify attention to institutional context while cautioning against attributing performance differences to institutional quality more precisely than the underlying designs permit.

Literature Synthesis and the Unresolved Institutional Question

Taken together, the literature establishes several propositions but leaves an important analytical gap. The international evidence shows that Islamic banks can achieve competitive stability and risk outcomes where the institutional environment is supportive, while cross-country studies identify legal and institutional quality as important correlates of Islamic-banking development. Recent Nigerian work sharpens the demand- and inclusion-side picture. Abdullahi, Sharofiddin, and Kasim (2024) assess the contribution of non-interest banks to financial inclusion from a supply-side perspective, while recent research in Muslim-dominated Nigerian communities shows that behavioural factors, government support, and adoption of Islamic-finance products matter for financial-inclusion participation. Gimba, Gambo, and Dasuki (2025) further examine the mediating role of regulatory quality in the relationship between Islamic-finance products and financial inclusion. These

studies reinforce, rather than remove, the need to connect demand, governance, legal architecture, and market infrastructure within a single institutional framework.

This study addresses that unresolved question by moving beyond a binary comparison of Islamic and conventional banking performance. Its unit of explanation is the institutional ecosystem within which non-interest banks operate. This distinction is important because bank-level outcomes may reflect constraints that individual banks cannot solve through managerial effort. A NIFI cannot by itself enact legislation defining investment accounts, create binding national Sharia standards, establish tax neutrality, generate a sovereign and corporate sukuk yield curve, or create an interbank market with sufficient counterparties and central-bank support. Treating these deficiencies as bank-level inefficiencies would therefore misdiagnose the problem and produce inappropriate policy prescriptions.

The comparative use of Malaysia is similarly institutional rather than imitative. Malaysia is not presented as a culturally or politically identical comparator. Its value lies in demonstrating the cumulative effects of long-run institutional sequencing in a common-law-influenced dual banking environment. The relevant question is therefore not whether Nigeria can copy Malaysian institutions verbatim, but which institutional functions are indispensable and how they can be adapted to Nigeria's constitutional, federal, demographic, and market conditions. This functional-comparative approach provides the bridge between the theoretical framework and the empirical analysis that follows.

Institutional inputs

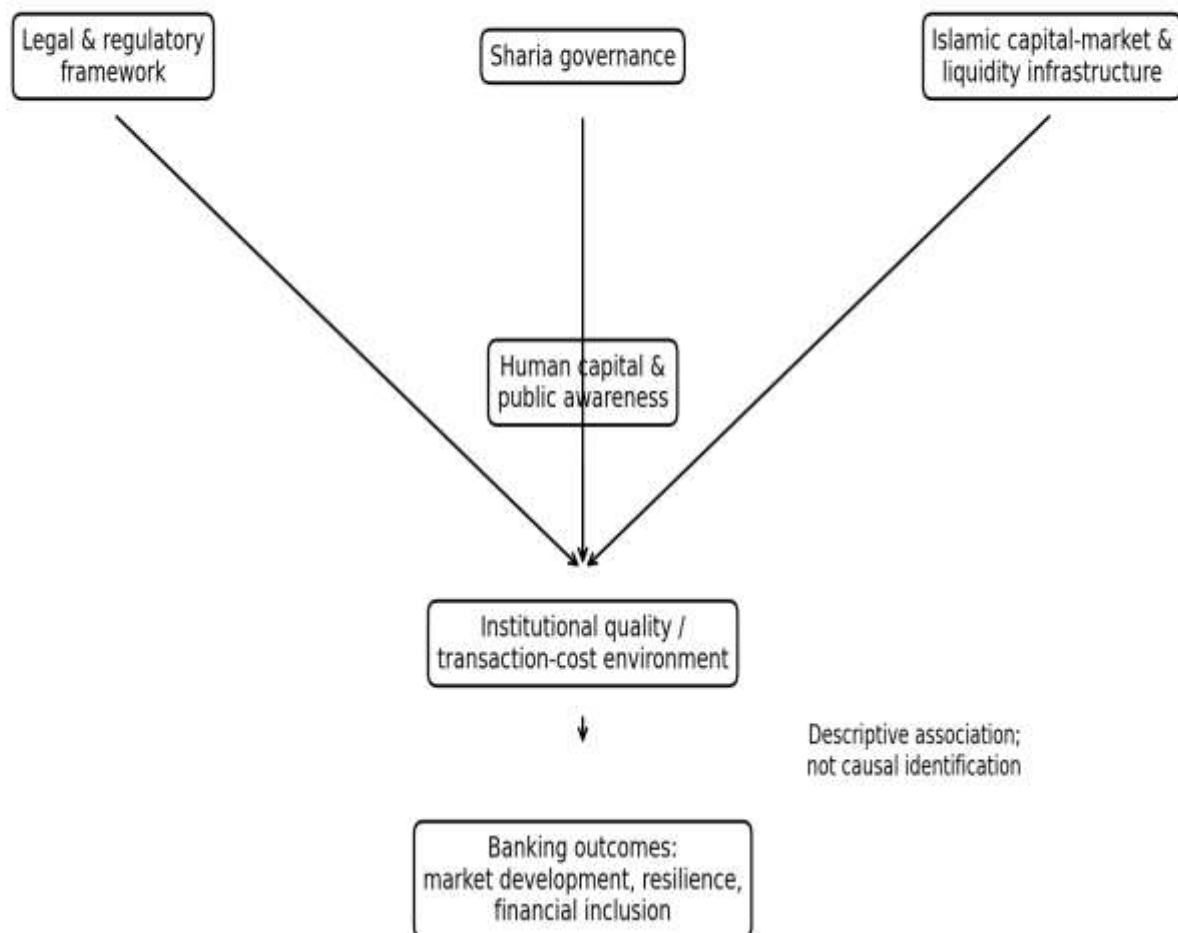


Figure 1: Conceptual Framework Linking Institutional Dimensions to Non-Interest Banking Outcomes

Note: Arrows represent the study's institutional mechanism and triangulation logic; they do not denote estimated causal effects.

Nigeria's Non-Interest Banking Institutional Environment

Institutional Evolution: A Chronological Overview

Nigeria's dual monetary system is the product of a deliberate, if incomplete, three-decade institutional construction process. The landmark institutions and their sequencing reveal both the progress achieved and the gaps that remain.

2011: The CBN issued the Guidelines for the Regulation and Supervision of Institutions Offering Non-Interest Financial Services, establishing the principal regulatory framework for full-fledged non-interest banking. 2012: Jaiz Bank Plc commenced operations in January. The CBN also introduced three dedicated NIFI liquidity-management instruments: the Safe Custody (Wadiah) Account, CBN Non-Interest Note, and CBN Non-Interest Asset-Backed Securities. 2017: The CBN introduced the Intra-day Facility (IDF) and Funding for Liquidity Facility (FfLF), while the Federal Government launched its sovereign sukuk programme. 2019: TAJ Bank commenced operations in December. 2020: BOFIA 2020 replaced the earlier banking statute and retained the statutory basis for CBN regulation of specialised banks. 2021: The CBN licensed Lotus Bank as a non-interest bank. 2022: Revised CBN guidelines consolidated the operation of six central-bank instruments for NIFIs; CBN records also show Approval-in-Principle for Alternative Bank under a holding-company arrangement. 2023: Nigeria's non-interest-bank assets remained about 1.1 percent of total banking-industry assets, while the broader Islamic-finance industry was estimated at USD 3.8 billion (CBN, 2022; CBN, 2024; IBS Intelligence, 2024).

This chronology reveals a pattern of incremental institutional construction without the comprehensive, sequenced investment that characterised Malaysia's development. Each institutional milestone was achieved, but the gaps between milestones, most notably the absence of a standalone Islamic banking statute, a statutory national SAC, and a functioning Islamic interbank money market, have consistently prevented the sector from achieving the operational scale and competitive parity that would enable self-sustaining growth.

The Four Institutional Dimensions: Current State Assessment

Legal and Regulatory Framework: Nigeria's NIFI architecture rests on BOFIA 2020, CBN rules and guidelines for non-interest financial institutions, and SEC rules governing non-interest capital-market products and Shariah advisory services. This framework provides a formal basis for NIFI operations, but important questions remain concerning the legal characterisation of profit-sharing investment accounts, specialised dispute resolution, and the consistent treatment of Sharia-compliant contracts across banking, commercial, and fiscal law. Historical concerns about tax neutrality should also be distinguished from the current position: Nigeria's 2025 tax reform legislation commenced in 2026, after the study period, and therefore requires a fresh transaction-by-transaction assessment before any present-day claim of tax disadvantage is made (Nigeria Tax Act, 2025; Nigeria Tax Administration Act, 2025).

Sharia Governance Architecture: Each licensed NIFI is required to maintain an internal Sharia Advisory Board, but there is no statutory national-level SAC with binding authority over all institutions. The CBN's Financial Regulations Advisory Council of Experts (FRACE) performs an advisory function but lacks the statutory authority, dedicated mandate, and public accountability mechanisms of Malaysia's SAC. This decentralised model produces the fragmentation, inconsistency, and investor uncertainty documented in the institutional quality survey.

Islamic Capital Market Infrastructure: Nigeria's sovereign sukuk programme is a significant institutional achievement. By the end of the 2023 study period, six domestic sovereign sukuk series had been issued since 2017, with cumulative issuance of approximately NGN 1.09 trillion. The Debt Management Office reported that NGN 742.557 billion raised through the first five issuances had been deployed to the construction and rehabilitation of about 4,000 kilometres of roads and bridges across the six geopolitical zones and the Federal Capital Territory (DMO, 2023). Yet sovereign issuance alone does not establish a deep Islamic money market.

The CBN's FfLF is an important liquidity-management facility, and NIFIs accessed NGN 52.31 billion through it in 2023 (CBN, 2024), but the broader ecosystem still requires deeper secondary-market liquidity, more diverse Sharia-compliant instruments, and stronger price-discovery mechanisms.

Human Capital and Public Awareness: The Nigerian Islamic finance professional ecosystem remains nascent relative to the sector's developmental needs. While Bayero University Kano, Ahmadu Bello University, and a small number of private institutions offer Islamic finance programmes, no dedicated Islamic finance university equivalent to INCEIF exists in Nigeria. The shortage of scholars with concurrent expertise in classical Islamic jurisprudence and contemporary finance, the rarest and most valuable human capital in the Islamic finance system, constrains both the quality of Sharia governance and the pace of product innovation. Public awareness remains low, with significant segments of the northern Nigerian population unaware that Sharia-compliant banking alternatives exist, despite strong revealed preference for non-interest financial services.

Tax Neutrality, Contract Recognition, and Competitive Parity

An additional institutional issue cuts across the legal and capital-market dimensions: the treatment of non-interest transactions by the general tax and commercial-law framework. Islamic finance structures may achieve an economic result comparable to conventional financing through asset purchases, leases, agency arrangements, or partnership contracts. Historically, multiple legal transfers could create additional stamp-duty, value-added-tax, registration, or documentation consequences if fiscal rules focused on legal form rather than economic substance. Because Nigeria enacted a major package of tax reforms in 2025 with key provisions commencing in 2026, however, the present tax treatment of each structure must be assessed under the new legislation rather than inferred from the pre-reform study period.

Malaysia's experience remains relevant because its institutional development involved not only banking regulation but also deliberate fiscal and legal accommodation of Sharia-compliant structures. The transferable principle is competitive neutrality rather than preferential taxation: economically comparable financing structures should not face avoidable fiscal distortions merely because their contractual forms differ. For Nigeria, this supports a post-2025 tax-neutrality review covering asset-based financing, leasing, sukuk, investment accounts, and investor returns, with recommendations based on the current Nigeria Tax Act and related administrative legislation.

Contract recognition is equally important. Profit-Sharing Investment Accounts do not fit neatly within the conventional binary of deposits and equity investments. Their legal character affects deposit protection, disclosure obligations, loss allocation, capital treatment, and the rights of account holders in insolvency. Likewise, disputes involving murabahah, ijara, musharakah, mudarabah, wakalah, and sukuk structures may require courts and arbitrators to understand both the commercial substance of the transaction and the governing Sharia standards incorporated into the contract. A mature dual system therefore needs clear statutory definitions, predictable enforcement, and specialist judicial or arbitral competence. These elements reduce uncertainty for banks, customers, investors, regulators, and courts simultaneously.

Institutional Political Economy and the Limits of Formal Permission

Nigeria's experience since 2011 illustrates the distinction between formal permission and institutional capability. Authorising NIFIs created legal entry, but entry alone could not supply the complementary institutions required for scale. The conventional banking system benefits from decades of accumulated legislation, case law, treasury instruments, professional routines, market benchmarks, and regulatory experience. New NIFIs enter that environment with permission to operate differently but must still interact with infrastructure designed primarily around conventional interest-bearing intermediation. This is a path-dependence problem in North's sense: inherited institutions shape the cost and feasibility of alternative organisational forms even after formal rules are changed.

The political economy of reform matters for the same reason. Non-interest banking has periodically been interpreted in public debate through a religious rather than financial-development lens. That controversy raises the political cost of reforms whose economic purpose is to create regulatory parity. A durable reform strategy

should therefore emphasise functional objectives that are intelligible across religious communities: widening financial choice, mobilising savings, financing infrastructure and SMEs, improving consumer protection, attracting ethical and asset-backed investment, and reducing exclusion. Religion-neutral statutory language can preserve the Sharia-compliant substance of relevant contracts while grounding state action in financial-market efficiency and equal treatment. This approach also broadens the potential constituency for reform beyond Muslim consumers to any individual or institution seeking non-interest, asset-backed, partnership-based, or ethical financial products.

METHODOLOGY

Research Design

This study adopts a mixed-method institutional design grounded in pragmatist epistemology and critical realist ontology. The quantitative component is descriptive and survey-based, while documentary analysis and semi-structured interviews explain the institutional mechanisms underlying the observed assessments. The questionnaire was developed around four institutional domains derived from New Institutional Economics, Islamic-finance governance literature, and Nigeria's regulatory context: legal/regulatory arrangements, Sharia governance, capital-market and liquidity infrastructure, and human capital/public awareness. Documentary sources were used to frame the instrument and to check whether stakeholder assessments were consistent with observable institutional arrangements. Malaysia was selected purposively as a functional benchmark because it operates a mature dual-banking architecture with dedicated Sharia, liquidity-market and legislative institutions. The design therefore emphasises triangulation and institutional explanation rather than causal econometric identification.

Data and Sample

Secondary financial evidence covers Nigerian non-interest commercial banks for which published annual reports and regulatory data were available during the 2011–2023 study window. Because the institutions entered the market at different dates, these data are used descriptively rather than represented as a balanced 39-observation panel. The article reports sector and bank performance indicators only where they can be traced to published financial statements or regulatory sources. For Malaysia, a purposive sample of five Islamic banks, stratified by size and ownership structure, provides a descriptive benchmark. Secondary sources include audited annual reports, CBN and BNM publications, and relevant official financial-sector databases.

Primary data were collected in 2024 through a purposive expert questionnaire directed at stakeholder groups with direct regulatory, managerial, Sharia-governance, analytical, academic, or deposit-insurance knowledge of non-interest banking. Of a target of 120 experts, 109 usable responses were obtained (90.8%): CBN regulatory officers ($n = 18$), NIFI executive management ($n = 22$), Sharia board members ($n = 13$), financial analysts and researchers ($n = 28$), Islamic-finance lecturers ($n = 19$), and NDIC officers ($n = 9$). A 20-person key-informant sub-sample was then selected across these stakeholder categories for semi-structured interviews so that the qualitative phase could probe explanations for the survey patterns rather than constitute a separate population. The underlying dissertation reports thematic saturation at approximately the sixteenth interview. The appendix reports 17 scaled questionnaire items across Sections B-E and an overall Cronbach's alpha of 0.84. Because the narrative description elsewhere in the dissertation refers to a larger set of substantive questions, this article uses the retained appendix structure for quantitative scale reporting and does not claim that every substantive or open-ended question formed part of the composite index.

Institutional Quality Index Construction

Table 1 summarises the construction of the institutional-quality index. The retained appendix reliability table identifies 17 scaled items: six legal/regulatory, six Sharia-governance, three capital-market/performance, and two financial-inclusion/awareness items. Items were grouped by their substantive institutional domain, and dimension means were calculated on the study's five-point response scale. The reported overall index is the composite of the four dimension scores retained in the study materials. Interpretation follows the stated bands: 1.00-1.80 Very Weak; 1.81-2.60 Weak; 2.61-3.40 Moderate; 3.41-4.20 Strong; and 4.21-5.00 Very Strong. The

overall Cronbach's alpha of 0.84 is treated as evidence of internal consistency only; the article does not infer construct validity or reproduce factor analysis because the item-level dataset was unavailable for independent re-analysis.

Table 1: Construction of the Institutional Quality Index

Dimension	Key Indicators (Sample)	No. of Items	Scale	Composite Score
Legal & Regulatory Framework	Standalone Islamic banking legislation; tax neutrality; SAC statutory authority; NIFI deposit protection	6	1–5	2.68
Sharia Governance Architecture	National SAC with binding authority; institutional Sharia board standards; Sharia audit mechanisms; compliance enforceability	6	1–5	2.52
Islamic Capital Market Infrastructure	Sharia-compliant benchmark yield curve; Islamic interbank money market; sukuk market depth and liquidity; hedging instruments	3	1–5	2.18
Human Capital & Public Awareness	Sharia scholars with finance expertise; certified Islamic finance professionals; university curricula; consumer awareness	2	1–5	2.84
Overall Composite Index	Mean of the four reported institutional-dimension scores	17 (scaled)	1–5	2.56

Note: 1.00–1.80 = Very Weak; 1.81–2.60 = Weak; 2.61–3.40 = Moderate; 3.41–4.20 = Strong; 4.21–5.00 = Very Strong

Analytical Integration and Interpretation Strategy

The analytical strategy is based on triangulation. Expert survey scores describe how knowledgeable stakeholders assess the institutional environment; documentary evidence establishes the legal, regulatory, and market architecture; interviews illuminate mechanisms and operational consequences; and financial indicators provide descriptive context for Nigeria and Malaysia. The study treats convergence across these sources as stronger evidence than any single source. Where evidence diverges, the divergence is retained rather than forced into a single causal interpretation.

The financial evidence is interpreted descriptively. The study does not infer causal effects from the Nigerian bank observations or from cross-country mean differences, because institutional entry dates, small samples, macroeconomic differences, and the absence of a reproducible bank-year dataset prevent defensible causal estimation. The comparative statistics therefore indicate the scale and direction of performance differences that require institutional explanation; they do not by themselves prove that institutional quality caused those differences.

The 2024 expert survey is cross-sectional and is therefore used only to assess the institutional environment at the time of data collection. Its dimension scores are not treated as time-varying bank-year regressors for 2011–2023. This distinction preserves the temporal integrity of the evidence and avoids attributing longitudinal variation to survey measures that were collected at one point in time.

For the qualitative component, interview evidence is used to explain mechanisms rather than to estimate prevalence. The semi-structured guide followed the same four institutional domains used in the survey. Interview

notes and retained study materials were organised by domain and stakeholder category, and recurring statements were coded thematically for legal uncertainty, Sharia-governance coordination, liquidity-management constraints, product-development and specialist capacity, and consumer awareness. Themes were compared across regulator, bank-management, Sharia-governance, academic, analyst, and deposit-insurance perspectives, with convergence and contradiction retained in the interpretation. Because the original verbatim transcripts were not available for independent authentication during manuscript preparation, the article uses paraphrased thematic findings rather than direct quotations. Survey patterns identify the institutional dimensions viewed as stronger or weaker, while qualitative evidence helps explain how those constraints are experienced in practice.

RESULTS

Institutional Quality Assessment

Table 2 presents expert assessment scores for Nigeria's four institutional dimensions. All four means are below the neutral scale point of 3.0, but the manuscript's stated classification bands place Legal and Regulatory Framework (2.68) and Human Capital and Public Awareness (2.84) in the Moderate band, while Sharia Governance (2.52), Islamic Capital Market Infrastructure (2.18), and the overall composite (2.56) fall in the Weak band.

Table 2: Expert Assessment of Nigeria's Non-Interest Banking Institutional Framework (N = 109)

Institutional Dimension	Mean	SD	Min–Max	Classification
Legal and Regulatory Framework	2.68	0.74	1.20–4.60	Moderate
Sharia Governance Architecture	2.52	0.82	1.10–4.40	Weak
Islamic Capital Market Infrastructure	2.18	0.69	1.00–3.80	Weak
Human Capital and Public Awareness	2.84	0.91	1.30–4.80	Moderate
Overall Composite Index	2.56	0.72	1.15–4.40	Weak

Note: 1.00–1.80 = Very Weak; 1.81–2.60 = Weak; 2.61–3.40 = Moderate; 3.41–4.20 = Strong; 4.21–5.00 = Very Strong

The Islamic capital market infrastructure dimension receives the lowest score (2.18) and the narrowest reported standard deviation (0.69), indicating broad agreement across respondent categories on the severity of this gap. The underlying research materials identify especially low assessments for the absence of a Sharia-compliant benchmark yield curve, an Islamic interbank money market, and a centralised binding Sharia authority. Because the appendix documents 17 scaled items while the dissertation narrative refers more broadly to substantive questionnaire items, this article does not claim a verified rank across an unreconciled 68-item scale. The important defensible finding is the dimension-level pattern: capital-market infrastructure is the weakest of the four reported institutional dimensions, while legal/regulatory and human-capital dimensions score somewhat higher but remain below the neutral scale point.

The qualitative material also points to operational consequences behind the institutional scores. Interview participants described the opportunity cost of holding surplus liquidity when suitable Sharia-compliant short-term placements are limited, and Sharia-governance participants described difficulties created by the absence of a single binding national authority for industry-wide rulings. These accounts are used as explanatory qualitative evidence rather than as independently verifiable quotations. They are consistent with the broader institutional argument that fragmented governance and shallow liquidity infrastructure can raise compliance costs, reduce standardisation, and constrain balance-sheet management.

Comparative Financial Performance

The original research materials contained bank-level Nigeria–Malaysia performance means, but the underlying observation-level dataset was not available for independent reproduction. To avoid presenting unreproducible statistics as verified results, this submission copy omits those bank-level means, t-tests, Mann–Whitney tests, p-values, and effect sizes. The comparative financial discussion therefore relies on published system-level indicators and institutional evidence.

Selected system-level indicators illustrate the difference in scale but should not be treated as directly equivalent measures. Nigerian non-interest-bank assets were reported at about 1.1 percent of total banking-industry assets at the end of 2023, while Malaysia’s Islamic financing represented 45.6 percent of total financing in the financial system in 2023 (IBS Intelligence, 2024; BNM, 2023). The denominators differ, so these figures are used only to demonstrate the relative maturity and market penetration of the two systems.

Financial Inclusion Context

The financial-inclusion evidence is interpreted descriptively rather than through the previously reported regional correlation coefficients, because the underlying state-level analytical file is not available for independent reproduction. EFinA evidence nevertheless documents substantial regional disparities in financial exclusion, with northern zones among the most excluded, while the study’s interviews identify religious objections to interest-based finance as one of several barriers affecting some consumers. The institutional implication is therefore narrower but still important: non-interest finance can expand the menu of acceptable financial services in underserved communities, but its contribution depends on branch and agent reach, digital access, affordability, trust, income, documentation, and financial literacy as well as religious preference.

DISCUSSION

Regulatory Quality and the Legislative Gap

The legal and regulatory framework records a mean score of 2.68, placing it in the Moderate band but still below the neutral scale point of 3.0. The qualitative and documentary evidence nevertheless identifies material weaknesses in legal specificity, treatment of non-interest contracts, governance authority, and regulatory coordination. The analytical significance of this dimension lies not in an unreproducible regression coefficient but in the convergence between expert assessment, documentary analysis, and interview evidence. Within North’s institutional framework, uncertainty in formal rules can raise transaction costs, weaken predictability, and constrain investment even where market demand exists.

Sharia Governance and Institutional Legitimacy

Sharia governance records a mean score of 2.52, classified as Weak. Interview evidence points to fragmentation across institution-level Sharia boards and to the absence of a single binding national authority capable of standardising interpretations across the sector. This does not establish a quantified causal effect on bank growth, but it identifies a plausible institutional mechanism: inconsistent rulings can increase product-development costs, create uncertainty and reduce the benefits of standardisation. Malaysia’s centralised Sharia-governance architecture provides a useful institutional contrast, while any Nigerian adaptation must remain consistent with the country’s constitutional and regulatory setting.

Islamic Capital-Market Infrastructure

Islamic capital-market infrastructure records the weakest dimension score, 2.18. Interview testimony and documentary evidence converge on the operational importance of limited Sharia-compliant liquidity-management options, benchmark instruments and secondary-market depth. A treasury manager’s testimony about idle surplus liquidity illustrates the mechanism directly: when suitable overnight or short-term instruments are unavailable, liquidity can remain underutilised. The evidence therefore supports treating market infrastructure as a major operational constraint, without attaching a numerical causal coefficient that cannot be independently reproduced.

Human Capital: A Medium-Term Rather Than Immediate Binding Constraint

Human capital and public awareness receive a mean institutional score of 2.84, placing the dimension in the Moderate band. The qualitative evidence nevertheless identifies shortages of professionals who combine expertise in finance with Islamic jurisprudence, as well as uneven public understanding of non-interest products. The score should therefore be read comparatively: this dimension is less weak than Sharia governance and capital-market infrastructure, but it still falls below the neutral scale point and remains relevant to product innovation, governance quality and consumer adoption.

Malaysia as Institutional Benchmark: What Can Be Transferred

Malaysia's progression from the Islamic Banking Act 1983 to an Islamic-financing share of 45.6 percent of total financing in 2023 illustrates the cumulative effect of long-run institutional development (BNM, 2023). Three Malaysian precedents are especially relevant. First, dedicated legislation provided early legal certainty. Second, the Sharia Advisory Council evolved into a statutory national reference point; under the Central Bank of Malaysia Act 2009, it serves as the highest Sharia authority for Islamic financial business regulated by BNM. Third, the Islamic Interbank Money Market, established in 1994, created dedicated infrastructure for short-term liquidity management. These precedents demonstrate institutional functions rather than a template for mechanical transplantation.

Transferability is assessed against four operational criteria. A Malaysian institution is treated as potentially transferable only where (1) it performs a function for which a comparable Nigerian institutional gap is evidenced; (2) the function can be implemented consistently with Nigeria's Constitution, BOFIA, CBN and SEC mandates, and federal structure; (3) the proposal is proportionate to Nigeria's smaller non-interest-finance market and available administrative capacity; and (4) it can be adapted without assuming Malaysia's religious, political or market conditions. On this basis, legal certainty, coordinated Sharia reference mechanisms, market-based liquidity infrastructure and specialist capacity-building are functionally transferable, whereas their precise Malaysian organisational forms are not. Nigeria's constitutional prohibition of a state religion, federal structure and religio-political sensitivities therefore require religion-neutral drafting, multi-stakeholder legitimacy and proportionate institutional design.

Table 3: Functional Criteria for Nigeria-Malaysia Institutional Transferability

Institutional Function	Malaysia	Nigeria	Transferability Reading
National Sharia reference	Statutory SAC under CBA 2009	FRACE and institution-level arrangements within CBN framework	Transfer function: stronger coordination and authoritative consistency; adapt legal form to Nigerian constitutional setting.
Short-term liquidity market	Dedicated Islamic interbank market and market instruments	CBN NIFI instruments including IDF and FfLF; thinner market depth	Transfer function: deepen tradable, market-based liquidity channels rather than copy institutional form.
Dedicated legal architecture	Long-run specialised Islamic-finance legislation	BOFIA plus CBN/SEC rules and specialised guidelines	Transfer function: improve legal certainty and contract treatment through religion-neutral specialised provisions.
Human-capital ecosystem	Long-established specialist training and research infrastructure	Growing but more limited specialist capacity	Transfer function: scale professional training, university-industry links and regulatory expertise proportionately.

Financial Inclusion: Geographically Differentiated and Scale-Constrained

Financial inclusion remains an important institutional outcome, but the article does not retain the previously reported north–south correlation coefficients because the state-level analytical file was not available for independent reproduction. EFINA evidence and the study's qualitative material nevertheless support a more cautious conclusion: exclusion is geographically uneven, and religious acceptability is one of several factors shaping financial-service choices in parts of northern Nigeria. NIFIs can therefore contribute to inclusion by widening product choice, but their effect depends on reach, affordability, trust, digital access, income, documentation and financial literacy.

From Comparative Performance to Institutional Mechanism

The Nigeria-Malaysia contrast is analytically useful only when comparable indicators are interpreted within their proper denominators and institutional context. The article therefore relies on system-level penetration indicators rather than unreproducible bank-level profitability or asset-quality means. Nigeria's approximately 1.1 percent non-interest-bank share of banking assets and Malaysia's 45.6 percent Islamic-financing share are not statistically equivalent measures; they indicate different forms of market penetration and are used only as contextual evidence of differing system maturity. The institutional comparison then asks which supporting functions are present: statutory Sharia authority, liquidity-market infrastructure, capital-market depth, professional capacity, and accumulated regulatory learning.

This mechanism-based interpretation avoids simple causal attribution. Malaysia's deeper Islamic-finance penetration coexists with a more mature supporting ecosystem, but the comparison does not establish that transplanting any single Malaysian rule would reproduce Malaysian outcomes in Nigeria. The stronger inference comes from triangulation: Nigerian institutional-quality scores, documentary evidence, interview accounts of operational constraints, and the functional comparison with Malaysia point toward a common institutional explanation. The mixed-method design is therefore strongest when these sources are read together and when country-specific differences are treated as limits on transfer rather than ignored.

Financial Inclusion as an Institutional Outcome

The inclusion result also warrants a broader interpretation. Financial inclusion is often measured as a generic expansion of accounts, credit, payments, or formal financial usage. In a dual banking context, however, inclusion also has a product-compatibility dimension. A household may live near a bank and possess the documentation required to open an account yet remain voluntarily outside the formal system because the available products conflict with religious convictions. Non-interest banking can reduce this form of exclusion only where three conditions coincide: credible Sharia governance, physical or digital access, and products suited to household and enterprise needs. The regional exclusion pattern and qualitative evidence are consistent with this mechanism, while the wider evidence cautions against assuming a uniform national effect.

Accordingly, branch expansion alone is unlikely to maximise the inclusion dividend. NIFIs require a distribution strategy combining digital channels, agent banking, micro and SME products, agricultural and asset-financing structures, and public education that explains the economic substance of non-interest products in accessible language. Consumer protection is equally important. If rapid expansion produces opaque pricing, inconsistent Sharia representations, or weak complaint resolution, the reputational damage would undermine precisely the trust on which inclusion depends. The inclusion agenda must therefore remain integrated with the governance and human-capital dimensions of the institutional framework rather than being treated as a separate outreach programme.

INSTITUTIONAL REFORM FRAMEWORK

Drawing on the four-dimensional conceptual model, the empirical findings, and the comparative Malaysian evidence, this study proposes a sequenced institutional reform framework of thirteen recommendations across five actor categories. The framework is structured on the Problem → Evidence → Reform logic, ensuring that every recommendation is grounded in specific empirical findings rather than asserted by the authors. The

sequencing follows Williamson's hierarchy: Level 2 legislative reforms are designated as immediate priorities; Level 3 governance reforms follow as high priority once the legislative foundation is established; capital market and institutional capacity reforms at Level 3 are designated high priority; and Level 4 market expansion reforms (human capital, awareness, product diversification) are medium priority. Table 4 presents the complete framework.

Table 4: Sequenced Institutional Reform Framework – Problem → Evidence → Reform

Institutional Problem	Empirical Evidence	Proposed Reform	Responsible Actor	Priority
No standalone Islamic banking statute; reliance on BOFIA and CBN guidelines	IQ score 2.68; legal and regulatory framework rated Moderate but below the neutral scale point of 3.0	Enact Non-Interest Banking and Finance Act (NIBFA) in religion-neutral terms; statutory investment account recognition; NDIC protection provisions	National Assembly / CBN	Immediate
Need for current tax-neutrality assessment after the 2025 tax reforms	Historical tax-neutrality concerns fall within the study period; new federal tax legislation commenced in 2026	Conduct transaction-by-transaction review under the Nigeria Tax Act 2025 and related legislation; correct any demonstrable unequal treatment	Federal Govt / NRS	Immediate
Sharia governance fragmentation; no binding national SAC	IQ score 2.52; interview evidence identifies fragmentation and standardisation concerns	Consider a statutory national Sharia advisory mechanism with clearly defined authority, designed consistently with Nigeria's constitutional and judicial structure	CBN	Immediate
No Islamic interbank money market for overnight Sharia-compliant placements	IQ score 2.18; CBN FfLF usage reached NGN 52.31 billion in 2023, showing both demand for and use of dedicated liquidity support	Deepen Sharia-compliant interbank and central-bank liquidity options; assess eligible international instruments under applicable prudential rules	CBN	High
Shallow sukuk market; no benchmark yield curve; thin secondary market	IQ score 2.18; sovereign sukuk issuance is established, but expert assessment indicates weak capital-market infrastructure	Deepen sukuk secondary-market infrastructure, broaden corporate issuance and improve transparent Sharia-compliant pricing benchmarks	CBN / SEC / DMO	High
Need to strengthen dedicated NIFI policy and market-development capacity within the CBN	CBN already operates specialist NIFI/FRACE functions; sector development requires sustained technical and coordination capacity	Strengthen and resource existing specialist NIFI functions, with clear responsibility for policy coordination, market development and IFSB engagement	CBN	High
Existing non-interest capital-market rules require deeper integration and market development	SEC rules already address Shariah advisory services; market-depth and secondary-market constraints remain	Deepen and consolidate the Islamic capital-market framework; strengthen sukuk secondary-market infrastructure, screening standards, funds and other Sharia-compliant products	SEC	High
Need for broader NIFI product diversification	Interview and documentary evidence identify product-development and market-depth constraints	Develop a broader mix of Sharia-compliant retail, SME, agricultural and asset-financing products, subject to demand and risk assessment	NIFIs	Medium



Human Capital shortage; few professionals with dual jurisprudence and finance expertise	IQ score 2.84; shortage of dual-expertise Sharia scholars	Joint NIFI Human Capital Development Committee; AAOIFI/INCEIF sponsorships; university Islamic finance chairs	CBN / NIFIs / Universities	Medium
Public awareness and distribution constraints	IQ score 2.84; survey and qualitative evidence identify awareness and access constraints	Expand digital and agent distribution, consumer education and transparent product communication across relevant communities	NIFIs / CBN	Medium
Academic and research capacity constraints	Survey and literature evidence indicate continuing need for specialised Islamic-finance research and dual-discipline expertise	Support specialist university programmes, research collaboration and professional-development pathways in Islamic finance	Universities / CBN	Long-term
Need to clarify and periodically assess the adequacy of NIDIS protection for investment-type non-interest deposits	NDIC's NIDIS framework expressly covers Mudarabah and Musharakah deposits; the policy issue is adequacy, legal clarity and treatment of risk-sharing features, not absence of coverage	Review NIDIS coverage, disclosure and payout rules for investment-type accounts; align depositor protection with risk-sharing characteristics and current NDIC legislation	Federal Govt / NDIC	Immediate
Need for periodic alignment with evolving IFSB standards	International prudential and Sharia-governance standards continue to evolve	Periodically benchmark and update CBN NIFI rules against applicable current IFSB standards, with transparent implementation mapping	CBN	High

Note: NIBFA = Non-Interest Banking and Finance Act; NSAC = National Sharia Advisory Council; NIIMM = Nigerian Islamic Interbank Money Market; PSIA = Profit-Sharing Investment Account; NRS = Nigeria Revenue Service; DMO = Debt Management Office; SEC = Securities and Exchange Commission; IILM = International Islamic Liquidity Management Corporation; IFSB = Islamic Financial Services Board.

Three implementation insights deserve emphasis. First, any proposal for a statutory national Sharia advisory body should be anchored in legislation and designed consistently with Nigeria's constitutional and judicial structure. Second, the CBN's participation in international Islamic-liquidity initiatives creates an avenue for assessing additional Sharia-compliant liquidity instruments for Nigerian NIFIs; eligibility for prudential liquidity treatment should be determined expressly under applicable CBN and Basel-aligned rules rather than assumed. Third, capital-market deepening should build on the SEC's existing non-interest capital-market and Shariah-advisory rules, focusing on market depth, standardisation, corporate issuance, secondary-market liquidity, and transparent pricing rather than describing the regulatory field as wholly absent.

A fourth implementation insight concerns institutional coordination. The proposed reforms cut across the National Assembly, CBN, SEC, DMO, revenue authorities, universities, professional bodies, and the NIFIs themselves. Fragmented implementation would reproduce the very institutional problem the framework is designed to solve. A practical reform programme therefore requires a standing inter-agency mechanism with defined milestones: legislative drafting and tax-neutrality review in the first phase; establishment of the NSAC and dedicated CBN institutional capacity in the second; liquidity-market and capital-market deepening in the third; and human-capital, product-diversification, and public-awareness programmes as continuous supporting measures. The sequencing should be monitored against measurable indicators such as NIFI asset share, sukuk secondary-market turnover, volume of Sharia-compliant interbank transactions, number of certified professionals, branch and digital-service penetration, and changes in financial-exclusion rates in high-need states.

A fifth insight is that implementation should be adaptive rather than imitative. Malaysia provides evidence that deliberate institutional construction can move Islamic banking from a niche activity to a systemically important segment, but Nigeria should reproduce functions rather than institutions mechanically. The Malaysian SAC demonstrates the value of authoritative central Sharia governance; Nigeria must design an equivalent body that is compatible with its constitutional structure and judicial system. The IIMM demonstrates the value of continuous Sharia-compliant liquidity trading; Nigeria's equivalent must be calibrated to the smaller scale of its NIFI sector and should build initially around instruments with demonstrable domestic demand. INCEIF and ISRA demonstrate the value of specialised human-capital institutions; Nigeria may achieve the same function through strengthened university programmes, professional certification, regulator-industry partnerships, and regional centres of excellence rather than immediately replicating a dedicated university. Functional adaptation is therefore the governing principle of comparative institutional learning.

CONCLUSION, LIMITATIONS, AND FUTURE RESEARCH

Synthesis of Findings and Institutional Interdependence

The central conclusion emerging from the evidence is that Nigeria's non-interest banking challenge cannot be reduced to the weakness of any single institution. The four dimensions measured in this study operate as an interdependent system. Regulatory quality supplies legal certainty; Sharia governance supplies legitimacy and standardisation; Islamic capital-market infrastructure supplies the liquidity and investment channels through which balance sheets can be managed competitively; and human capital supplies the expertise required to translate rules and instruments into credible products. The composite score of 2.56/5.00 is therefore more informative than any dimension viewed in isolation. It indicates a system in which weaknesses reinforce one another. A bank may possess competent management and strong customer demand, but without a deep market for Sharia-compliant liquid assets it bears an avoidable treasury cost. A regulator may issue detailed guidelines, but without statutory authority and predictable dispute-resolution rules, the credibility of those guidelines remains limited. Likewise, a national Sharia body would have reduced practical value if the market still lacked instruments through which its rulings could be operationalised. This is the institutional-complementarity problem identified in the theoretical framework and confirmed by the Nigerian evidence.

This interdependence also explains why isolated reforms have produced less sectoral transformation than their individual significance might suggest. Nigeria's sovereign sukuk programme demonstrates that Sharia-compliant instruments can be successfully issued at scale and can mobilise funds for public infrastructure. Yet sovereign issuance has not automatically generated a liquid secondary market, a benchmark yield curve, a broad corporate sukuk segment, or an Islamic interbank market. Similarly, the introduction of the IDF and FfLF addressed an important liquidity need but did not create the continuous market-based liquidity architecture available to Malaysian Islamic banks through the IIMM. The policy lesson is that reform must be conceived as ecosystem construction rather than as a succession of disconnected regulatory interventions. The thirteen recommendations in this study are therefore deliberately sequenced and actor-specific, because the expected benefit of each reform depends partly on complementary reforms being implemented alongside it.

Policy Significance for Nigeria's Dual Banking Architecture

The broader significance of the findings extends beyond the commercial fortunes of existing NIFIs. A genuinely functional dual banking architecture expands the range of financial contracts available to households, firms, governments, and institutional investors. In Nigeria, where religious objection to interest-bearing products forms part of the explanation for financial exclusion in several northern states, institutional reform of non-interest banking is simultaneously a banking-sector, inclusion, and development-policy question. Regional disparities in financial exclusion support a targeted rather than uniform interpretation of the sector's potential social value. It suggests that the marginal developmental return to expanding credible non-interest financial access is likely to be greatest in communities where conventional banking products face a religious acceptability constraint.

At the same time, the reform agenda should not be framed as conferring religious privilege. The institutional case is stronger when expressed in functional and religion-neutral terms: legal recognition of alternative financing contracts, tax neutrality between economically equivalent transactions, consistent prudential treatment,

credible governance, consumer protection, and competitive access to liquidity-management infrastructure. This framing is particularly important in Nigeria's constitutional and political environment. It permits the state to deepen non-interest finance as part of financial-market diversification while maintaining equal regulatory treatment across faiths and business models. In this sense, the proposed NIBFA is best understood not as a sectarian statute but as specialised financial legislation designed to remove transaction-cost disadvantages and legal ambiguities that arise when non-interest contracts are forced into a framework originally designed for conventional debt-based intermediation.

This study identifies a systematically constrained institutional environment for Nigeria's non-interest banking sector across four mutually reinforcing dimensions. The expert assessment produces an overall institutional-quality score of 2.56/5.00 (Weak), with Islamic capital-market infrastructure (2.18) and Sharia governance (2.52) emerging as the weakest dimensions, while the legal/regulatory framework (2.68) and human capital/public awareness (2.84) fall within the Moderate band but remain below the neutral scale point. Documentary and interview evidence explain how these weaknesses interact through legal uncertainty, governance fragmentation, limited liquidity-management options, shallow market infrastructure, and capacity constraints. The Malaysia comparison provides a mature institutional benchmark and descriptive performance contrast, not a causal counterfactual.

Four principal contributions emerge. First, the study applies New Institutional Economics to the development of dual banking in a Sub-Saharan African setting. Second, it develops a four-dimensional institutional-quality framework that can be refined and tested in future work using preserved item-level data. Third, it integrates financial-inclusion concerns into an institutional analysis of non-interest banking while deliberately avoiding unreproducible state-level causal or correlation estimates. Fourth, it develops a sequenced reform framework linking identified institutional constraints to specific policy functions and responsible actors.

The study has important limitations. First, the Nigerian non-interest banking population is small, and institutions entered the market at different dates, limiting bank-level inferential analysis. Second, the 2024 expert survey is cross-sectional and captures stakeholder assessment at one point in time; it cannot establish causal effects on banking performance. Third, the retained appendix materials document 17 scaled questionnaire items and an overall Cronbach's alpha of 0.84, but the item-level dataset was unavailable for independent re-analysis during preparation of this article; factor analysis, regression, and structural-equation modelling are therefore not reproduced. Fourth, the Nigeria-Malaysia comparison remains descriptive and cannot fully control for differences in market size, institutional history, bank age, financial depth, or macroeconomic conditions. Fifth, the primary sample is expert- and institution-facing, so household-level consumer demand, product preferences, and behavioural barriers are not measured directly. Sixth, the study period ends in 2023; later developments are used only to update institutional context and literature.

Future research should preserve and deposit item-level survey data where consent and confidentiality arrangements permit, allowing factor analysis, regression, or structural-equation modelling to test the proposed institutional framework. Longitudinal designs could examine whether changes in legal quality, Sharia coordination, and liquidity infrastructure precede measurable changes in sector outcomes. Household-level studies in northern and other underserved communities should test demand-side determinants including religious acceptability, trust, price, digital access and financial literacy. Comparative work should also extend the functional-transferability criteria used here to Kenya, Senegal, Tanzania and other African dual-banking jurisdictions.

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Data Availability: Secondary evidence used in the article is drawn from publicly available regulatory publications, audited annual reports, and published databases. Primary survey and interview data are not publicly deposited. This article reports only primary-data results supported by retained study records and appendix materials and does not reproduce econometric analyses whose underlying working files were unavailable for independent verification.

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