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SHARĪʿAH-COMPLIANT FINANCE AND FINANCIAL INCLUSION: A CRITIQUE OF PALLIATIVE MEASURES ON THE REMOVAL OF FUEL SUBSIDY IN NIGERIA

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ABSTRACT

Fuel is an essential commodity whose availability, affordability, and otherwise affect the market prices of virtually all other essential goods and services. It is empirically observable that the high price of fuel will undoubtedly contribute to the increasing prices of other fundamental needs such as food and transportation. This scenario will bring about undue hardship and a decline in the standard of living of any country. The foregoing informed the reason why the Nigerian government, over time, subsidized the price of fuel, especially the Premium Motor Spirit. However, due to high-level corruption and maladministration of the subsidy regime in Nigeria, the government deemed it expedient to remove the subsidy and allow market forces to determine the selling price. The removal expectedly affected the financial ability of Nigerians, as all goods and services, especially transportation, witnessed a drastic hike in prices. Thus, the incumbent government had to roll out its palliative plans and measures to ameliorate the suffering caused by the subsidy removal and ensure the financial uplifting of Nigerians. The palliative measures for micro, small, and

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medium enterprises (MSMEs) and start-ups, however, raised concerns of marginalization and exclusion of Nigerians who, due to faith or other convictions, are opposed to any financial arrangement that is not Sharī'ah compliant. This research, therefore, combined doctrinal and empirical methodologies to critique the palliative measures for MSMEs and start-ups set out by the Nigerian government, with the view to determining their Sharī'ah compliance and whether or not they have fostered financial inclusion, especially from an Islamic perspective. The research found that the fuel subsidy removal palliative occasioned financial exclusion rather than the desired inclusion due to non-compliance with Sharī'ah parameters. The work recommends, among others, a revisiting of the scheme to ensure it is Sharī'ah compliant.

Keywords*: Sharī'ah compliant, fuel subsidy, palliative, financial inclusion, Nigeria*

INTRODUCTION

In Nigeria, fuel significantly influences the economic lives of citizens. Its price plays a crucial role in shaping the Nigerian economy. Recognizing this reality necessitated the subsidization of fuel prices—particularly the premium motor spirit (PMS)—to ensure affordability and to mitigate the severe negative effects that scarcity or high prices could have on the economy. However, a series of anomalies has crippled the fuel subsidy regime. Serious economic crimes, corruption, and sabotage have continually undermined the purpose of introducing fuel subsidies. These issues have plunged the country into economic and financial crises, leading successive administrations to propose the removal of the subsidy. Despite these proposals, efforts to eliminate the subsidy have been largely unsuccessful.

However, the Tinubu administration took the bull by the horns and announced the final and total removal of fuel subsidies during its inaugural speech.[2] This removal, however, presented several economic and financial

[2] Simon, 'Full Text of President Tinubu's Broadcast to Nigerians', Channels Television, https://www.channelstv.com/2023/07/31/full-text-of-president-tinubus-broadcast-to-nigerians/, accessed on 17 August 2023; Premium Times, 'Subsidy Removal: What Tinubu told Nigerians about palliatives (Full text)',

challenges, leading to a significant outcry among Nigerians. In response, the government proposed rolling out palliative schemes to alleviate the hardships caused by the subsidy removal. The palliative measure was officially approved by the National Executive Council and is structured as a loan program for approximately one hundred thousand small and medium-scale enterprises (SMEs). Beneficiaries can access loans ranging from ₦500,000 to ₦1,000,000 at an interest rate of 9 percent.

This research focuses on the palliative scheme for micro, small, and medium enterprises (MSMEs), critically examining its design to assess its compliance with *Sharī'ah* principles. Additionally, it evaluates the scheme's effectiveness in promoting financial inclusion and its overall success or shortcomings.

RESEARCH METHODOLOGY

This study empirically studied the disposition of Nigerians to the palliative measures designed by the Federal Government of Nigeria to cushion the negative effects brought about by the removal of fuel subsidies. While an online questionnaire was disseminated randomly to collect data, the data were quantitatively and descriptively analyzed to determine the attitude and readiness of respondents to undertake and participate in fuel subsidy removal palliative measures that involve *ribā* (interest), a *Sharī'ah*-prohibited element. Thus, the study through the use of an online questionnaire determined the level of financial inclusion brought about by the fuel subsidy removal palliative measure.

This paper further analyzes and reviews relevant doctrinal literature, including journal articles, official reports, and newspapers, to discuss relevant concepts, principles, and philosophies such as fuel subsidy, finance, *Sharī'ah*-compliant finance, and financial inclusion. In determining the level of financial inclusion caused by the palliative initiative, the paper descriptively analyzed the responses generated from the online questionnaire and made appropriate discussions of the data.

Premium Times, 31 July 2023, https://www.premiumtimesng.com/news/top-news/613268-subsidy-removal-what-tinubu-told-nigerians-about-palliatives-full-text.html, accessed on 17 August 2023.

RESEARCH SCOPE AND LIMITATION

The empirical data collection for this research encountered a shortfall in responses from certain geopolitical zones, including the South East, North East, North West, and South-South. In contrast, the North Central and South West zones provided encouraging responses, contributing 63.7 percent and 23.8 percent of the total responses, respectively. Additionally, the number of Christian respondents was notably lower compared to Muslim respondents.

Another limitation of this research is the inability to access official sources from the Nigerian government. This was primarily due to the scarcity and unavailability of official information regarding the implementing agency at the time of this study. Consequently, the scope of the research is limited to analyzing data and the reactions of individual citizens regarding the palliative schemes.

RESEARCH BACKGROUND

Regulating fuel prices, particularly the Premium Motor Spirit (PMS), plays a significant role in stabilizing the economy and enhancing the financial capacity of citizens. However, removing subsidies aims to secure long-term benefits for future generations, compensating for the depletion of irreplaceable oil resources caused by current consumption.[3] Nigeria faces a peculiar challenge of widespread corruption and maladministration, particularly pronounced in the petroleum sector.[4] For instance, an estimated USD 30 billion has been spent by the Nigerian government on fuel subsidies over just 18 years. This is particularly concerning given the government's meager revenue, which has left the country with no choice but to borrow to sustain the subsidy scheme. For example, in 2022, the government borrowed ₦1 trillion to fund fuel subsidies. This has resulted in the mismanagement and inability to account for billions of naira allocated for subsidizing fuel for Nigerians.[5] For instance, an estimated

[3] Victoria U. Obasi, Esther C. Ezenkwa, Doris O. Onwa & David M.E. Nwogbaga, 'The Political Economy of Fuel Subsidy Removal In Nigeria', *African Journal of Politics and Administrative Studies,* vol. 10/1 (2017): 63.

[4] Victoria U. Obasi, Esther C. Ezenkwa, Doris O. Onwa & David M.E. Nwogbaga, 'The Political Economy of Fuel Subsidy Removal In Nigeria', 58.

[5] Monica Mark, 'Nigeria fuel subsidy scheme hit by corruption', The Guardian, 19 April 2012, https://www.theguardian.com/world/2012/apr/19/nigeria-fuel-subsidy-scheme-corruption, accessed 17 August, 2023; News Agency of

USD 30 billion was spent by the Nigerian government on fuel subsidies over a span of just 18 years. This is alarming, considering the government's limited revenue, which has forced the country to resort to borrowing to sustain the subsidy scheme. Notably, in 2022, ₦1 trillion was borrowed to fund fuel subsidies.[6] To mitigate the hardship and economic challenges that arise from high fuel prices, the government subsidized fuel for Nigerians. However, the illegal exportation of subsidized fuel to neighbouring countries such as Benin Republic, Togo, Cameroon, and Ghana continues unchecked. As a result, the government expressed significant concern over the losses incurred under the fuel subsidy regime and has stated its intention to remove the subsidies.

President Goodluck Jonathan made an unsuccessful attempt to remove the subsidy on Premium Motor Spirit, aiming to address the challenges associated with the subsidy and alleviate its negative impacts on citizens. As part of this effort, the Subsidy Reinvestment Programme (SURE-P) was introduced to support the transition plan for subsidy removal.[7] However, the attempt failed, due to the political situation at the time. The President Muhammadu Buhari Administration was successful towards the tail end of its tenure and was able to remove the subsidy on the Premium Motor Spirit by making provisions for its appropriation to stop in June 2023. However, the administration did not fully implement the subsidy removal until its term ended. The incumbent administration of President Tinubu was able to fully remove the subsidy initiated by its predecessor in his inaugural speech and commenced immediate implementation. The removal of subsidies on Premium Motor Spirit and the subsequent implementation, however, attracted serious economic hardship and financially incapacitated

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Nigeria, 'Over $10 billion stolen by NNPC, others in fuel subsidy scam: Reps', Peoples Gazette, 29 June 2022, https://gazettengr.com/over-10-billion-stolen-by-nnpc-others-in-fuel-subsidy-scam-reps/; N.a., 'Nigeria fuel subsidy report 'reveals $6bn fraud', BBC News, 24 April 2012, https://www.bbc.com/news/world-africa-17823959, accessed on 29 December 2023; QueenEstherIroanusi, 'Subsidy: Governors accuse NNPC of fraud, secrecy', *Premium Times*, 27 January 2022, https://www.premiumtimesng.com/news/top-news/508171-subsidy-governors-accuse-nnpc-of-fraud-secrecy.html?tztc=1, accessed on 28 December 2023.

6 Oyedele T, 'Fuel subsidy in Nigeria -issues, challenges and the way forward', PWC Network, 2.

7 A Sanusi & M A Gado, 'An Assessment of the Prospects and Challeneges of Subsidy Re-Investment and Empowerment Program (SURE-P) of Former President Goodluck Jonathan of Nigerians', *Global Journal of Applied, Management and Social Sciences (GOJAMSS)*, vol. 14 (2017): 166-178

Nigerians. The Nigerian Labour Congress (NLC) and other concerned bodies agitated for salary increments and palliative measures to soften the inconveniences caused. Thus, the president, in his nationwide broadcast on the 31st day of July 2023, itemized the palliative measures that his government intended to put in place to reduce the negative effects of the subsidy removal.[8]

However, what is of concern is that the said palliative measures seem to financially exclude a significant number of Nigerians who are averse to engaging in any financial relationship and transaction that is not *Sharī'ah* compliant. The government will, by the *Sharī'ah*-contravening measures, be depriving this category of people the right to benefit from the palliative, thus financially excluding rather than including them. This paper, therefore, sets out to critique the palliative measures intended to ameliorate the hardship caused by subsidy removal from the perspective of *Sharī'ah* compliant finance, as well as empirically showcase how the palliatives have hampered the financial inclusion of a significant number of Nigerians.

LITERATURE REVIEW

This part of the paper will examine and review literature thematically relevant to the research topic and its objectives. It will examine past academic works on aspects related to the current research. The literature to be considered will include journal articles, books, official reports, and newspapers. The thematic aspects reviewed will include fuel subsidies, financial inclusion, finance, and Islamic finance.

1. What is Fuel Subsidy?

Subsidy refers to the financial provision rendered by the government to reduce the cost of a commodity. Black's Law Dictionary defines subsidy as a grant made by the government to any enterprise whose promotion is considered to be in the public interest, which can be a direct payment, such as a cash grant, but often takes indirect forms such as research and development support. The Oxford Advanced Learner's Dictionary defines subsidy as money paid by a government or an organization to reduce the costs of services or to produce goods so that their prices can be kept low. It

[8] Simon, 'Full Text of President Tinubu's Broadcast to Nigerians', Channels Television; Premium Times, 'Subsidy Removal: What Tinubu told Nigerians about palliatives (Full text)'.

has been defined as the indirect financial support provided by a government, organization, institution, or individual to specific individuals, organizations, or entities.[9]

Fuel subsidy is the government discount on the market price of fossil fuel to make consumers pay less than the prevailing market price of fuel.[10] Thus, fuel subsidy is the amount of money that the government pays to fuel dealers and retailers to cover the difference between the actual purchase price and the regulated pump price. According to Obasi et al.,[11] the government intends, with fuel subsidy, to enhance the financial capacity of citizens and accept financial losses in the spirit of its national responsibility to ensure the socio-economic well-being of the populace.

2. *Sharī'ah*-Compliant Finance: Philosophy and Guiding Principles

The term *finance* has been defined as the management of money and includes activities such as investing, borrowing, lending, budgeting, saving, and forecasting.[12] Thus, borrowing from the foregoing, finance can be defined as the channelling of capital between surplus and deficit units into a venture to make returns. Financing allows deficit units to command a larger amount of money, which is not ordinarily at their disposal. The term does not really acquire a different definition in Islamic Economics and Finance; rather, what makes a financial arrangement Islamic is its compliance with the guiding financial principles as espoused from the

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9 Peter Ogbabor, Kayode Oni & Agbolade Wahab, 'Assessing the Implication of Fuel Subsidy Removal in Nigeria: Economic, Social and Political Considerations', Kreston Pedabo, 21 June 2023, https://krestonpedabo.com/assessing-the-implication-of-fuel-subsidy-removal-in-nigeria-economic-social-and-political-considerations/, accessed on 28 December 2023.

10 O H Ovaga & M E Okechukwu, 'Subsidy in the downstream oil sector and the fate of the masses in Nigeria', *Kuwait Chapter of Arabian Journal of Business and Management Review*, vol. 1/6 (2022): 1-20 as cited by Peterson K. Ozili & Kingsley Obiora, 'Implications of fuel subsidy removal on the Nigerian economy', in *Public Policy's Role in Achieving Sustainable Development Goals*, eds. Mahani Hamdan et al. (Hershey: IGI Global, 2023) https://doi.org/10.4018/978-1-6684-8903-1.ch007, 2.

11 Victoria U. Obasi, Esther C. Ezenkwa, Doris O. Onwa & David M.E. Nwogbaga, 'The Political Economy of Fuel Subsidy Removal in Nigeria', 58.

12 Tim Vipond, 'What is Finance', Corporate Finance Institute, https://corporatefinanceinstitute.com/resources/wealth-management/what-is-finance-definition/, accessed on 18 August 2023

various sources of Islamic law and does not violate any of its prohibitions.[13] A finance arrangement that scales through and passes the test of validity when tested against these Islamic guiding principles is regarded as *Sharī'ah* Compliant. According to al-Jarhi,[14] Islamic Finance can be described as a system through which finance is provided in the form of money in return for either equity or rights to share in future business profits, or in the form of goods and services delivered in return for a commitment to repay their value at a future date. A striking feature of this definition is that Islamic Finance observes the principle of profit and loss sharing, which ensures that both the financier and the financed party bear equal risk and share in predetermined profits, as may be agreed upon. This contrasts with conventional finance, which often puts the financed party at a disadvantage by solely bearing the financial risk and paying interest to the financier.

Islamic Finance is often referred to as non-interest finance;[15] this nomenclature, however, is not encompassing. It only ascribes the financial system to a unit of its numerous prohibitions, while neglecting others, which may create an erroneous impression that once a financial arrangement is devoid of interest, then it is Islamic. It is instructive to note that there are many other validity tests that a financial arrangement must pass before qualifying as Islamic or *Sharī'ah* compliant. These include freedom from uncertainty and gambling, and the arrangement must not foster any item proscribed in Islamic law.[16] It is, therefore, more appropriate to refer to the financial activities that pass the validity test under Islamic law as Islamic or *Sharī'ah*-compliant finance. The appellation of Islamic or *Sharī'ah*-compliant finance will forestall the erroneous reference to any financial arrangement that does not involve interest but contains any of the other prohibited items as Islamic.

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[13] Bala Shanmugam & Zaha Rina Zahari, 'Overview of Contemporary Islamic Finance', in *A Premier on Islamic Finance*, eds. Bala Shanmugam & Zaha Rina Zahari (n.p: The Research Foundation of CFA Institute, 2009), 1.

[14] Mabid Ali al-Jarhi, 'Islamic Banking and Finance: Philosophical Underpinnings', in *Islamic Banking and Finance: Fundamentals and Contemporary Issues*, eds. Salman Syed Ali & Ausaf Ahmad (Jeddah, Saudi Arabia: Islamic Research and Training Institute, 2007), 7

[15] Mahmoud A. El-Gamal, *Islamic Finance Law, Economics and Practice* (UK: Cambridge University Press, 2006)

[16] Bala Shanmugam & Zaha Rina Zahari, 'Overview of Contemporary Islamic Finance'.

Sharī'ah Compliant Finance's fundamental philosophy is to establish justice and equity in the distribution of wealth, conduct finance with religious consciousness and sincerity, socio-economic security, eradication of poverty, fostering of brotherhood, mercy, and comparisons in financial activities in society.[17] Finance is anchored on the principle of profit and risk sharing rather than interest charging;[18] it encourages justice, equity, and the eradication of cheat and other unfair attributes in financial relationship.[19] The core guiding principle of Islamic finance is the avoidance of practices and attributes that are prohibited by Islamic Law. Items such as *ribā* (interest), *maysir* (gambling), and *gharar* (uncertainty) are antithetical to *Sharī'ah* principles[20] and must not be present in a financial arrangement that would be regarded as *Sharī'ah* compliant.

3. Rationale for the Prohibition of Interest in Islamic Finance

As mentioned, the philosophical foundation of Islamic Finance is the abhorrence of all forms of cheating and injustice. One notable item often present in financial transactions is interest. Contemporary Finance does not have any objections to the charging of interest, although the financial world is now shifting towards the avoidance of excessive interest charging. Conversely, Islamic law views interest charging as a form of cheating and injustice, as well as an instrument to put financed parties in a financially

[17] Mohammad Mansoor Khan & Muhammad Ishaq Bhatti, 'Islamic Economics: Divine Vision of Distributive Justice, in *Developments in Islamic Banking: The Case Study of Pakistan*, eds. Mohammad Mansoor Khan & Muhammad Ishaq Bhatti (London: Palgrave Macmillan, 2008), 7.

[18] Monzer Kahf & Tariqullah Khan, 'Principles of Islamic Financing: A Survey', *Research Paper No. 16* (Islamic Research and Training Institute, Islamic Development Bank,1992), 20-24.

[19] M. Umar Chapra, *The Islamic Welfare State and its Role in the Economy* (UK, Leicester: The Islamic Foundation, 1979) as cited by Muhammad Ayub, *Understanding Islamic Finance* (England: John Wiley & Sons Ltd, 2007), 40, Mabid Ali al-Jarhi, 'Islamic Banking and Finance: Philosophical Underpinnings', 13-21.

[20] Mohammad Mansoor Khan & Muhammad Ishaq Bhatti, 'Islamic Economics: Divine Vision of Distributive Justice, 20-22.

disadvantaged position.[21] The prohibition of *ribā* (interest) is a fundamental attribute that distinguishes Islamic finance from conventional finance.[22]

According to J.T. Borhan, *ribā* is the increase of capital in a financial transaction paid by the borrower or financed party without the lender or financier bearing any risk or giving sufficient consideration in return for the increment. According to him, *ribā* is an unfair financial phenomenon that occasions the exploitation of the party who pays the increment on the capital.[23]

The avoidance of *ribā* is also a religious obligation and a means of spiritual cleansing and upliftment. For Muslims, every divine commandment must be followed. These commandments may come in the form of prohibitions, as in the case of *ribā*. In such instances, the prohibition must be avoided. There is much textual evidence that prohibits charging and payment of interest in financial transactions. This evidence is constructed in tenses that are grammatically structured in a manner that passes the message that *ribā* is prohibited. Allah says:

ٱلَّذِينَ يَأْكُلُونَ ٱلرِّبَوٰاْ لَا يَقُومُونَ إِلَّا كَمَا يَقُومُ ٱلَّذِى يَتَخَبَّطُهُ ٱلشَّيْطَٰنُ مِنَ ٱلْمَسِّ ۚ ذَٰلِكَ بِأَنَّهُمْ قَالُوٓاْ إِنَّمَا ٱلْبَيْعُ مِثْلُ ٱلرِّبَوٰاْ ۗ وَأَحَلَّ ٱللَّهُ ٱلْبَيْعَ وَحَرَّمَ ٱلرِّبَوٰاْ ۚ فَمَن جَآءَهُۥ مَوْعِظَةٌ مِّن رَّبِّهِۦ فَٱنتَهَىٰ فَلَهُۥ مَا سَلَفَ وَأَمْرُهُۥٓ إِلَى ٱللَّهِ ۖ وَمَنْ عَادَ فَأُوْلَٰٓئِكَ أَصْحَٰبُ ٱلنَّارِ ۖ هُمْ فِيهَا خَٰلِدُونَ ﴿٢٧٥﴾

"Those who take interest shall be raised like those who have been driven to madness by the touch of the Devil; this is because they say: "Trade is like interest" while Allah has permitted trade and forbidden interest. Hence those who have received the admonition from their Lord and desist, shall be pardoned of what has already passed, their case being entrusted to Allah; but those who are incarcitrant shall be the inhabitants of the fire and abide therein for ever".

(Surah al-Baqarah, 2: 275)

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21 Securities Commission Malaysia & World Bank Group, *Islamic Finance: A Catalyst for Financial Inclusion* (Kuala Lumpur: Securities Comission Malaysia, 2020), 22.

22 Mahmoud A. El-Gamal, *Islamic Finance Law, Economics and Practice*.

23 Joni Tamkin Borhan, 'Rationale and Consequences for the Prohibition of Riba in an Islamic Economic System', *Innovatio*, vol. VII/2 (2009): 291-292

> *The Prophet was reported to have strongly prohibited and attached severe punishment to the charging and paying of ribā in numerous hadith. For instance Jābir reported that the Prophet cursed the one who received ribā, and the one who pay ribā, the one who records it and the two witnesses to the ribā-based transaction and he said: "They are all alike (in guilt)".*[24]

According to Siddiqi, although the reason for the prohibition of *ribā* is not known through textual evidence, some reasons can be deduced from the textual evidence that prohibits it. According to him, deducible reasons include the fact that *ribā* corrupts society, encourages the improper derivation of benefits from other people's wealth, lowers the dignity of human personality, retards societal growth, and allows injustice.[25]

The existence of *ribā* (interest) in a transaction can mar and cripple the prospect of such transactions, diminish hitherto multiplying wealth, create a chaotic atmosphere in society, lead to widespread poverty, hinder economic viability and stability in society, and breed other socio-economic vices. Thus, Islamic law sternly prohibits *ribā*.

4. Financial Inclusion and Islamic Finance Perspective

The concept of financial inclusion has not received a definite universally accepted definition; [26] however, it had been viewed from a multidimensional approach[27] that seeks to achieve its objective of ensuring the assimilation of those outside the financial realm into the same. Dimensions such as the share of people within a given population who operate accounts with formal or semi-formal financial institutions, the exclusion of some groups of people from the financial system, the availability and ease of access to financial services for members of society, as well as the internet prowess of a given population in exploring digital

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[24] Muslim, *Ṣaḥīḥ Muslim* (Riyāḍ, Sa'ūdī 'Arabiyah: Bayt al-Afkār al-Dawliyyah, 1998), 'Bāb La'na Akili al-Ribā wa Mū'kilihi', *ḥadīth* no. 106

[25] Mohammad Nejatullah Siddiqi, '*Riba,* Bank Interest and the Rationale of its Prohibition', *Visiting Scholars' Research Series No. 2* (Saudi Arabia, Jeddah: Islamic Research and Training Institute, 2004), 41.

[26] Securities Commission Malaysia & World Bank Group, *Islamic Finance: A Catalyst for Financial Inclusion*.

[27] Cyn-Young Park & Rogelio Mercado, 'Understanding Financial Inclusion: What Matters and How It Matters', *ADBI Working Paper Series,* no. 1287 (Tokyo: Asian Development Bank Institute (ADBI), 2021), 1

financial services have been adopted in measuring the level of financial inclusion at a given time and society.[28] Despite the plausibility in the definition of financial inclusion, researchers had however taken a clue from the various dimensions and the objective attempted to define the concept. Serma[29] viewed financial inclusion as a combination of multiple factors such as ease of access, availability, and usage of financial services for all members of society. According to Camara and Tuesta,[30] financial inclusion is the maximization of usage and access to financial systems and services, and the minimization of involuntary exclusion.

Thus, it is pertinent to state that the overall objective of financial inclusion is to ensure the accommodation and assimilation of those who are, for one reason or another, not included in a particular financial arrangement or service. Achieving this objective underscores the definition of financial inclusion as the retention of the included persons in the financial system and the assimilation of the excluded by removing the bottlenecks causing the initial exclusion. Islamic Finance not only pursues the objective of including those excluded from formal or semi-formal financial intermediaries but also sets out to achieve a more beneficial objective of ensuring the financial stability and welfare of all members of society.[31] Islamic Finance sets out to remove all antithetical items that may occasion any form of inequality and injustice in financial arrangements, as well as ensure the just and equal distribution of financial wealth in society through its risk-sharing arrangements and redistributive instruments. The objective of financial inclusion is achieved primarily through these two dimensions.[32]

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[28] Cyn-Young Park & Rogelio Mercado, 'Understanding Financial Inclusion: What Matters and How It Matters'.

[29] Mandira Sarma, 'Index of Financial Inclusion', *Working Paper, No. 215* (New Delhi: Indian Council for Research on International Economic Relations (ICRIER, 2008), 5

[30] Noelia Camara & David Tuesta, 'Measuring Financial Inclusion: A Multidimensional Index', *BBVA Research Working Paper* vol.14/26 (Madrid: BBVA, September 2014).

[31] Fauz Moh'd Khamis, Mohamad Yazid Bin Isa & Noraini Yusuff, 'Constructing Indicators For Islamic Financial Inclusion', *International Journal of Islamic Economics,* vol. 3/2 (2021): 105, https://doi.org/10.32332/ijie.v3i2.3720

[32] Zamir Iqbal & Abbas Mirakhor, 'Financial Inclusion: Islamic Finance Perspective', *Journal of Islamic Business and Management,* vol. 2/1 (2012): 43-50.

Furthermore, Islamic Finance, unlike its conventional counterpart, not only seeks to make a profit but also serves as an instrument of social solidarity.[33] Instruments such as *ṣadaqah*, *waqf*, *zakāh*, *qarḍ ḥasan* and inheritance play the role of social finance with the sole objective of financially helping the poor without expecting any gain in return. This strengthens societal bonds and reduces poverty to the barest minimum, if not totally eradicating it. Islamic finance frowns upon financial practices that result in injustices and financial marginalization, such as interest, uncertainty, and gambling. *Sharī'ah*, as a regulating law, regards the avoidance of these items as a religious obligation, the violation of which is punishable. The foregoing explains why any Muslim will vigorously avoid financial arrangements that involve any of these prohibited items. It is thus expected that any palliative measure put in place by the Nigerian Government will serve its purpose of engendering succor and financial relief to the economic hardship occasioned by the removal of fuel subsidy, and must not include factors that will result in the involuntary exclusion of any segment of the country. In this vein, the palliative measure should not include any factor that will render it invalid when tested against *Sharī'ah's* guiding principles.

DATA ANALYSIS OF THE PALLIATIVE MEASURES ON SUBSIDY REMOVAL

1. *Sharī'ah* Analysis of the Palliative Measures

As a result of the severe hardship experienced by individuals and businesses due to the removal of the subsidy on the price of Premium Motor Spirit and its subsequent negative effects on the economic standard of citizens, the federal government, in a nationwide broadcast on the 31st of July 2023, rolled out several palliative measures to cushion the economic and financial hardships experienced in the country.[34] The palliative measures were designed to span several components of the country's economy, such as food security, fiscal policies, the manufacturing industry, job creation, and the tax regime, among others. However, this paper

[33] Securities Commission Malaysia & World Bank Group, *Islamic Finance: A Catalyst for Financial Inclusion*, 25

[34] Simon, 'Full Text of President Tinubu's Broadcast to Nigerians'; Premium Times, 'Subsidy Removal: What Tinubu told Nigerians about palliatives (Full text)'.

concerns its research on palliative measures with regard to micro-, small-, and medium-sized enterprises (MSMEs).

In furtherance of its drive to provide succor to MSMEs and the informal sector of the country's economy, the Federal Government, in its palliative measures, earmarked the sum of seventy-five Billion Naira to energize the sector and improve the economic conditions of the promoters. The palliative scheme for this category of business is designed to afford 100,000 enterprise promoters a loan sum of between five hundred thousand and one million naira at an interest rate of 9 percent per annum, repayable within 36 months. Start-up businesses thus benefit from this scheme. The federal government intends to drive financial inclusion by onboarding beneficiaries into the formal banking system. However, the scheme, as presently designed, rather than ensuring financial inclusion, will result in the exclusion of enterprise promoters and starters who are opposed to interest-based loan schemes.

One major concern of the MSME palliative scheme is that it will be interest-structured. Interest is one of the elements that negatively affects the *Sharī'ah* compliance of any financial scheme, and it is instructive to note that the prohibition of engaging in any interest-based transaction is rooted in the primary sources of Islamic law itself, from which Islamic Finance derives its validity and with which it must comply. The charging and paying of interest in financial transactions is regarded as an open declaration of war against Almighty Allah and His Prophet. Allah says:

يَٰٓأَيُّهَا ٱلَّذِينَ ءَامَنُواْ ٱتَّقُواْ ٱللَّهَ وَذَرُواْ مَا بَقِيَ مِنَ ٱلرِّبَوٰٓاْ إِن كُنتُم مُّؤۡمِنِينَ ﴿٢٧٨﴾ فَإِن لَّمۡ تَفۡعَلُواْ فَأۡذَنُواْ بِحَرۡبٖ مِّنَ ٱللَّهِ وَرَسُولِهِۦۖ وَإِن تُبۡتُمۡ فَلَكُمۡ رُءُوسُ أَمۡوَٰلِكُمۡ لَا تَظۡلِمُونَ وَلَا تُظۡلَمُونَ ﴿٢٧٩﴾

"O you who believe, be careful of (your duty to) Allah and relinquish what remains (due) from usury, if you are believers. But if you do (it) not, then be apprised of war from Allah and His Apostle; and if you repent, then you shall have your capital, neither shall you make (the debtor) suffer loss nor shall you be made to suffer loss".

(Surah al-Baqarah, 2: 278-279)

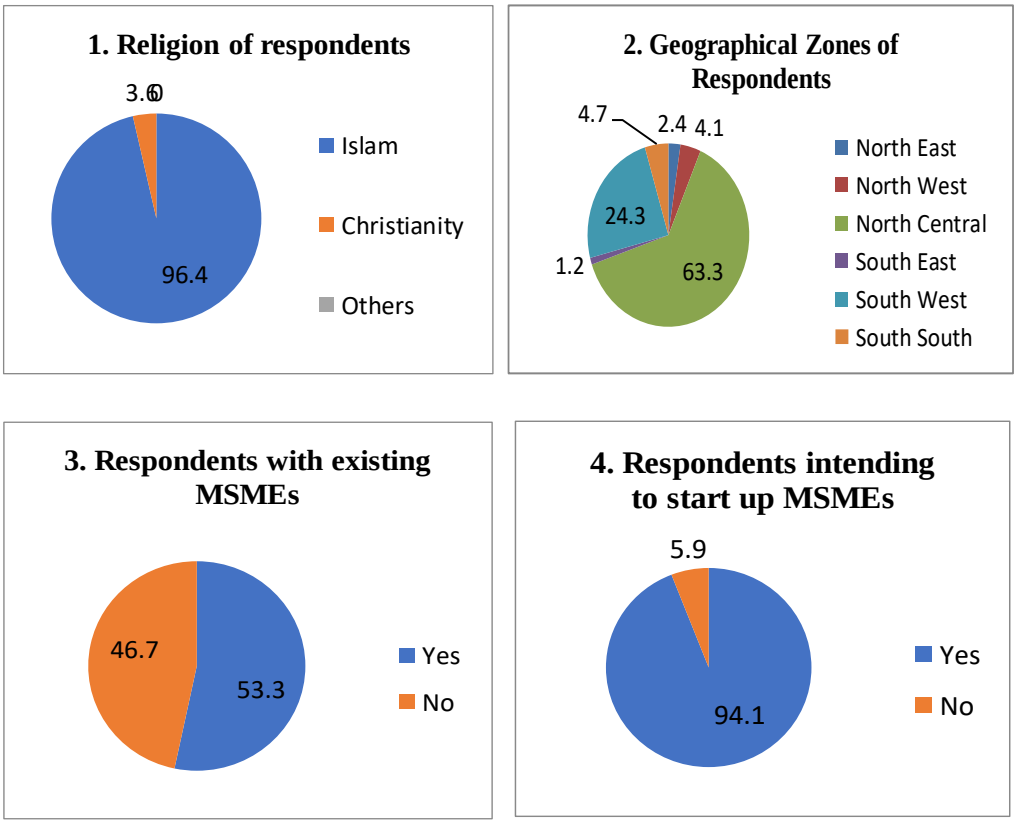
The above authority unequivocally prohibits the charging of interest as it occasions injustice in a financial dealing; it also prohibits the payment of interest whenever such is demanded, and the payment of interest amounts to the wilful submission of oneself for exploitation, and injustice according

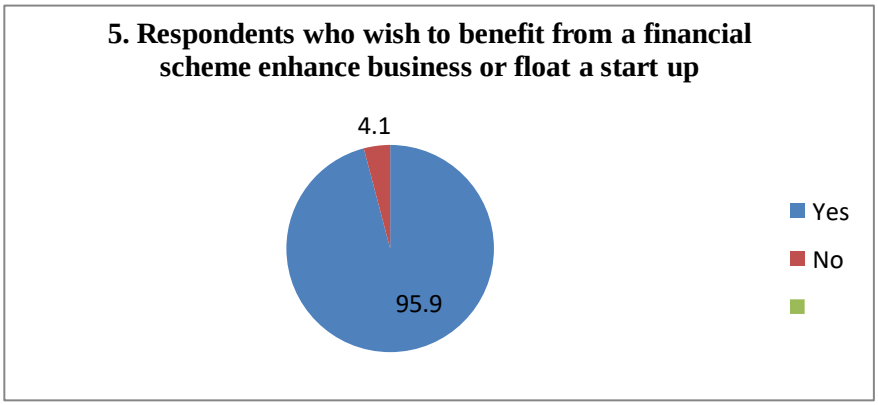
to the principles of Islamic law is unreasonable and assists in the sinful cause of promoting interest-based transactions.

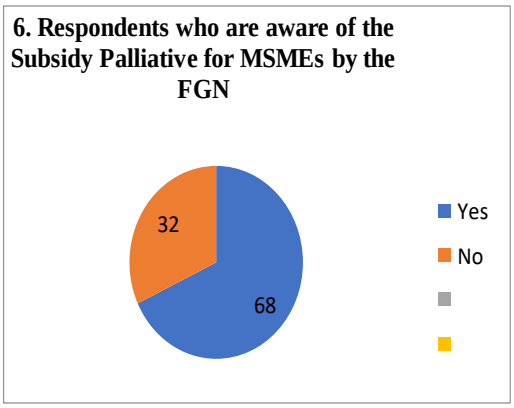
DATA COLLECTION

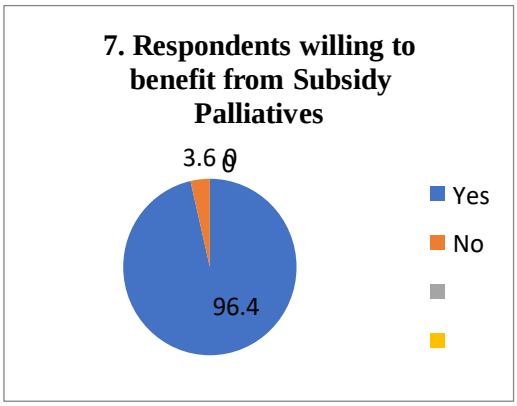
Empirical data were collected using a questionnaire designed on Google Forms. The Questionnaire was disseminated online through WhatsApp, Telegram, and personal email. The questionnaire was formulated using a number of questions capable of extracting information regarding respondents' attitudes toward the Federal Government of Nigeria's palliative scheme occasioned by the removal of fuel subsidy, while paying particular attention to the fact that the scheme was designed with *ribā*-based contract(s).

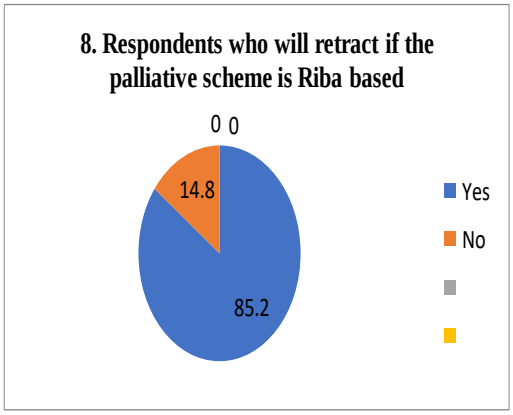
Chart 1: Data Collection Chats

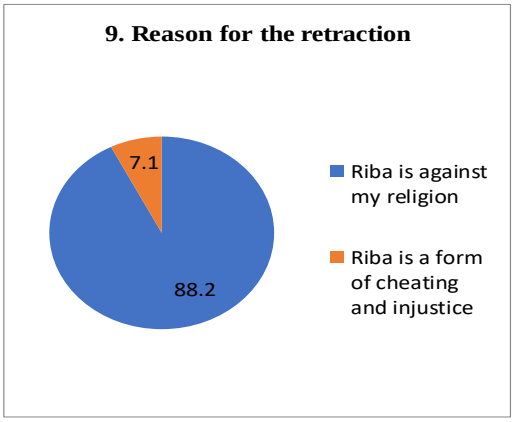












Source: Result of Questionnaire administered using an online Google Form

ANALYSIS AND DISCUSSION OF EMPIRICAL DATA

A total of 169 responses were obtained from the disseminated questionnaire, with respondents from all six geopolitical zones of Nigeria. Of the respondents, 96.4% were Muslim and 3.6% were Christian. 53.3% of respondents already had existing MSMEs, while 94.1% were interested in starting one. 95.9% of respondents were willing to benefit from a financing scheme to either enhance their existing businesses or float start-ups. 68% of respondents were already aware of the federal government's MSME palliative on the removal of fuel subsidy, and 96.4% indicated a willingness to benefit from the scheme. However, 85.2% of respondents would decline participation due to the scheme's *ribā*-based financial arrangement, with only 14.8% willing to participate regardless of the involvement of *ribā*. A total of 163 respondents indicated a willingness to benefit from the palliative scheme designed to ameliorate the harshness generated by the removal of subsidies. However, 144 of these 163 respondents would opt out if the scheme is *ribā*-structured. Thus, 88.4% of the 163 respondents would refrain from participating in the scheme if it is *ribā*-based.

The respondents who chose to refrain from the *ribā*-structured palliative scheme gave a number of reasons, including the incompatibility of *ribā* (interest) with their religion, the view that *ribā* charging is a form of cheat, and injustice among others. Of the respondents, 88.2% would refrain from the *ribā*-structured palliative scheme due to its incompatibility with their religion, 7.1% would refrain because they view *ribā* as a form of cheat and injustice, and 0.6% would refrain for the reasons mentioned earlier. Thus, 95.9% of all the respondents refused to participate in the palliative scheme due to the involvement of *ribā* (interest). Interestingly, five out of the six Christian respondents also indicated refraining from the *ribā*-structured palliative measure due to their religious beliefs and the perception of *ribā* as a form of cheat and injustice. It is pertinent to state that the scheme is oblivious to the fact that enterprise promoters and start-ups operating on Islamic Finance principles and other religious reasons are not allowed to undertake any interest-based loan scheme.[35] Thus, the charging of 9 percent interest or any interest rate whatsoever will draw back these businesses from the welfare benefits that the palliative scheme is designed to provide. The presence of interest in the structure of the MSME palliative

[35] Muhammad Ayub, *Understanding Islamic Finance*, 44-57; Bala Shanmugam & Zaha Rina Zahari, 'Overview of Contemporary Islamic Finance', 4.

on the removal of fuel subsidy will lead to the financial exclusion of the majority of Nigerians rather than fostering financial inclusion. This clearly indicates that a larger percentage of the respondents who would have been willing to benefit from the palliative will be prevented because of the presence of interest in the scheme.

RECOMMENDATION

In view of the foregoing, it is hereby recommended as follows:

The Nigerian Government should redesign its palliative measures for micro-, small-, and medium-scale enterprises and start-ups to accommodate *Sharī'ah*-compliant financial products to ensure the inclusion of enterprises and start-ups inclined towards the avoidance of interest. The Government should undertake wider consultations with concerned persons and institutions, including Islamic financial experts and institutions, in future events for designing palliative schemes. The Government should consider Islamic Financial inclusion parameters in palliative and other financing schemes to prevent the avoidable exclusion of willing persons due to religion and beliefs.

CONCLUSION AND FINDING(S)

Fuel, especially premium motor spirit, is an essential commodity that affects and dictates the market value of other commodities. In Nigeria, the price of fuel significantly determines the economic situation and standard of living of citizens and businesses, as it stimulates transportation costs and the cost of other essential commodities. It is in this view that the Nigerian government has found it imperative to subsidize the growing high price of fuel, despite the disadvantages and inadequacy of the subsidy regime. Conversely, subsidy removal has been credited with having the potential to allow the development of other sectors of the economy, such as health, transportation, and education, boosting the fiscal prowess of the country and ensuring an increase in the country's revenue, which will ensure infrastructural development, among others. This and other disadvantages related to fuel subsidies, such as corruption, budgetary burden, deficit in other sectors of the economy, and maladministration, made it imperative for the government to remove the subsidy. Considering the negative impact of subsidy removal on citizens and businesses, the Nigerian Government formulated palliative measures that include interest-based loan schemes to micro, small, and medium enterprises and start-ups to cushion the effect of subsidy removal while achieving financial inclusion in the same vein.

However, the scheme excluded persons who were opposed to interest-based financial dealings because of faith and principles. It is thus imperative for the government to reconsider this scheme and fashion out way(s) to include categories of persons and enterprises that are also ordinarily willing to benefit from the scheme.

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