

## The Contribution of Islamic Banking on Investment for Economic Development in Malaysia: Pathways for Nigeria

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### ABSTRACT

This study aims to investigate the contribution of Islamic banking to investment for economic development in Malaysia and to explore potential pathways for economic development through Islamic banks in Nigeria, drawing on Malaysia as a model. We employed a qualitative approach using a face-to-face interview technique for the data collection. The sample size of twelve (12) participants from Islamic banking experts, investment experts, and economic development experts was engaged. The data was analysed using a thematic and descriptive analysis. The outcome of the study revealed that Malaysia incorporated foreign banks and foreign investors mostly from the Middle East region. Additionally, several Malaysian Islamic banks engaged in offshore investments in neighbouring countries such as Indonesia and Thailand. However, Malaysian Islamic banks are not proficient in engaging in shipping investment; they prefer to go to the safe zone. Furthermore, the results show that Islamic banks in Malaysia are beyond profit and loss sharing investment accounts (PSIAs). The data shows that the system has the potential to support Islamic capital market investment, Islamic micro-investment, business investment accounts, Islamic gold investment accounts, agricultural investment, and an Islamic microfinance model for the benefit of micro-entrepreneurs, small-scale farmers, and SMEs for economic development. The study has practical and economic implications for the contemporary Islamic finance stakeholders, Islamic bankers, Islamic economists, real estate investors, shipping investors, offshore investors, and Islamic micro-investors

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### Introduction

Achieving economic development has been an endeavouring task among most developing countries in the world. Realisation of this objective has being a great concern to the developing economies across the globe (Shinkafi, Yahaya, Ali, & Othman, 2021). Over the years, Malaysia has witnessed a proliferation of Islamic banking and has accommodates these institutions which have a noticeable significance on the country's economy. The unprecedented support of the entire financial sector formed a significant contribution to Malaysia's economic development (Laldin, 2008; Mansor, 2007). The Islamic banks are keen in the provisions of variety of services and all-encompassing Islamic financing products that suited the desire of customers' varied segments (Laldin, 2008; Lamido, 2014; Lo & Leow, 2014). Thus, investment outlet to various sectors and in varied degree couple with the effective operation of the Islamic

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banks and strategies of investment in area of financial development ranging from foreign investment, real estate investment, capital market investment, offshore investment, and Islamic micro-investment displayed a tremendous contribution to economic development in Malaysia (Mizanur-Rahman, 2014; Nawaz, 2017).

Nigeria in particular has a long-term economic perspective plan, with a set target of developing its economy to the level of ratings among the world's top twenty economies. Accomplishment of the objectives of this nature requires a vigorous and strong-willed financial system spearheaded by sound banking and investment to muscle and propelled the economy (Mizanur-Rahman, 2014). Islamic banking and investment has always strived to provide such lubricant inputs to achieve the said objective (Rahman, Muhammad, & Mahayudin, 2013). Banks are crucial agents of economics development; they invest and provide investment avenues to other stakeholders in the financial institutions (Lamido, 2014). These activities are potent and have impact on the economic development either directly or indirectly. Therefore, the Malaysian contribution of Islamic banking on investment could serve as pathways for Nigeria to achieve its anticipated economic development. Hence, this study aimed to explore the contribution of Islamic banking on investment for economic development in Malaysia; to also discover the prospective pathways for economic development through Islamic banks in Nigeria. The study also intended to address the following research questions: a) how does Islamic banking contribute to investment for economic development in Malaysia? b) How can Nigeria drive the pathways from the Malaysian experience?

## Literature Review

Al Hallaq, Ajlouni, and Al-Douri (2019) reveals that Islamic banking in Jordan has an optimistic impression on total investment and modification on net transfers from abroad. The size of investment and savings has an emotional impact on the smoothness of the GDP, which in turn affects the real per capita income. Correspondingly, Alaeddin, Archer, Karim, and Rasid (2017) found that Islamic banking market discipline heavily depends on the role of depositors and investors in the global development of Islamic banking market stability and resilience. Likewise, Ibrahim (2015), consider that specific focus on Islamic capital market investment can promote the viability of Islamic finance; demonstrates its bearings on economic wellbeing; policies (especially economic stability, economic development, financial inclusion) and the stability of the policies (Ibrahim, 2015).

Accordingly, Kacar, Curic, and Ikic (2017) reveals that Islamic banks can finance the economy and agricultural investment in particular. It can make some comparative advantage in respect to other domestic banks; establish a strong business relationship with the client in the Muslim nations for the local companies to perform in their markets in terms of profitability, efficiency, and performance. Moreover, Suandi (2017) found that diversity of profit-loss sharing investment accounts (PSIAs) under various accounting standards and various reporting techniques for unique transactions in Islamic banks resulted the inadequacy of current accounting standards to guide the industry, which generates possible challenges of comparability. Equally, Rahman et al. (2013) considered realise that Islamic banks can use certain products that are more or less debt-based products rather than partnership based that could advance enterprising values in society. They suggest Islamic micro-investment as a model for achieving Islamic financial objectives, wealth, businesses, and other lawful transactions through partnership investment based contracts specifically for low-income earners and SMEs.

In their study, AbdulRahman, Muhammad, Ahmed, and Amin (2016) found that Islamic micro-investment through Islamic microfinance banks can serve as a model that could connect the charitable or waqaf division to fund the micro-entrepreneurs and economic empowerment of the populace. Furthermore, Fasih (2012) originates that Islamic banking has the possibilities to cater and uplift the needs of vulnerable individuals likes of farmers and SMEs and nurture

inclusive economic growth and development. Thus, there is a robust signal that free-interest financing system has the potential to attract investment and foreign investors. Still, Nawaz (2017) found that investments in human capital development have a significant positive effect on the market value of Islamic banks.

In his empirical work, Kassim (2016) found that Islamic finance contributes to the real economy by effectively booming out the financial intermediation role of combining and controlling funds to the investment activities, further expansion of the industry, and enable the healthier growth and strength of the industry through the refinement of legal and regulatory principles. Yet again, Amin (2016) designates that applicability of the TRA in the contemporary context of Islamic banks could expand the scope of the theory including Islamic gold investment accounts. The outcomes obtained are relevant to provide Islamic banks with new insights into factors determining Muslim male investors' decision to open Islamic gold investment accounts.

On the contraries, Alhammadi, Archer, Padgett, and Karim (2018) discerns the practices of Islamic banks in managing the Shari'ah compliant profit sharing investment accounts (PSIAs) as an alternative to interest-bearing deposit accounts using unrestricted *Mudarabah* contract. The authors argued that unrestricted investment account holders (UIAH) are exposed to risk and losses of the invested deposits and assets, while the banks that manage these assets (*Mudarib*) does not accept any losses while they receive 50 per cent of the earned profits or more on the PSIA. Similarly, AlShattarat and Atmeh (2016) proves that the implementation of *Mudarabah* contracts in Islamic banks inflicts a number of problems. These challenges involve difficulty in determining the actual profit emerging from *Mudarabah* and in sharing these profits to the existing parties. Corporate governance principle is difficult to maintain in *Mudarabah* contract, since depositors or shareholders are exposed to risk without governance right, and the contract is likely to lessen the fair presentation of financial reporting. In addition to that, reserve usage to furnish the future losses is likely to undermine the concept of *Mudarabah* profit-loss sharing and lead to earning management. Lastly, Aggarwal and Yousef (2000) argues that most of the Islamic banks are not operating based on profit and loss sharing (equity), however, instead, the banks look debtlike in nature. The authors claimed that there exist some bias and rare long-term financing for the agricultural industry and entrepreneurs. Their model shows that debtlike instruments are a rational response by Islamic banks to their contracting settings. As the agency challenges become more severe, debt becomes the dominant instrument of finance. They suggested conditions, which they thought that banning debt increases social welfare and the other that, banning debt decreases social welfare.

### **Concept of Islamic Banking**

The Islamic banking system is guided by the ethics of Islamic law based on profit and loss sharing (PLS) and the prohibition of Riba according to the direction of Islamic economic principles. In other words, the Islamic banking system refers to the banking action that is in line with the Islamic decisions of the Shari'ah and its practical application through the development of the Islamic economy. Islamic banking is devoid of interest and excessive risk-taking. The sources of Islamic banking are derived from the primary and secondary sources of Islamic Law (Yahaya, Shinkafi, & Haji-Othman, 2017). According to Islam, the members of OIC, Muslim countries, IDB, and all existing Islamic banks, have universally accepted a definition of Islamic banking as a financial institution whose statutes, rules and procedures expressly state its commitment to the principles of Islamic law, and forbade of the receipt and payment of interest on any of its transactions (Islam & Pramanik, 2007). Islamic Banking is defined as banking in consonance with the ethos and value system of Islam (Lamido, 2014).

Muslim jurists developed various techniques to suit the modern operation of Islamic banking. Islamic banking in the contemporary world receives universal acceptance due to its potential and recorded success. Therefore, Islamic banking is a pleasant transaction that requires not

usury, uncertain businesses, and gambling. It also strictly adheres to Shari'ah compliance principles. Islamic banking deals with the goods, services, transactions and Shari'ah accepted financial products with a view to promoting human welfare, personal satisfaction, business commitment, and development in the general society of humankind. Thus, from the above definitions, one may realise that Islamic banking stands in clear harmony with the philosophy of Islamic economic value system.

### **The Concept of Investment in Islam**

Investment from the economic perspective is regarded as buying commodities or goods that are not consumed at the moment but are used with the hope that it will generate or appreciate in the future to derive profit. It also means the creation of wealth or goods capable of generating other goods or services. In finance, investment is a purchase of monetary asset purchased with the idea that the asset will provide income or sold at a higher price for a profit in the future. However, Islamic investment is unique, comprehensive in its nature, and not limited to the purchase that hopes for the benefit in the future. It extends beyond the investor's welfare, and interest, but rather the entire society. Ethically, right and obligations of individuals and organisations need to be respected according to ethical values of Islam. Socially, Islamic investment aimed at realising the goal of socio-economic justice, social relations, social conducts, sense of brotherhood, social responsibility of individuals and the firms as outlined by Shari'ah. Spiritually, Islamic investment is to satisfy the will of Allah by considering the investment as an act of worship, the capital should be *halal*, the products or firms to invest in should be *halal* and base on the teachings of Islam. Economically, although Islam encourages business and accepts profits, it prohibited all forms of unlawful (*haram*) such as cheating, interest, fraud, exploitation and so on. Morally, Islam creates a sense of truthfulness, generosity, kindness, leniency to workers and customers, fair treatment, and avoidance of evil practices (Anas & Mounira, 2009). The choices and acceptable range of Islamic investment are very wide and inclusive. It involves investment in companies, businesses, and funding that are based on '*halal*' including interest-free bank deposits. Islamic investment is devoid of *haram* that involves the acquisition of shares in companies such as alcohol, pork, gambling, and investment on conventional banks savings, investment deposits, and purchase of interest-yielding bonds.

### **Islamic Banking and Investment**

Concerning the linkage between Islamic banking and investment features, Lamido (2014) supports that Islamic banking is an effective means of promoting domestic and foreign investment, productive ventures and provides a strong incentive for promoting investment and productivity in the economy, financing the poor and small firms who have no collateral. In their study, AbdulRahman et al. (2016) found that Islamic microfinance banks has potential significant relationship with the Islamic micro-investment, *Waqaf* or charitable sector to support micro-entrepreneurs. However, Fasih (2012) opines that Islamic banking has the potential to uplift vulnerable groups such as farmer and Small and Medium Enterprises SMEs and can foster investment and inclusive economic development. On the contrary, Nawaz (2017) finds that investments in knowledge resources (human capital, in particular) have a significantly positive impact on the market value of Islamic banks. In his empirical work, Kassim (2016) found that Islamic finance has an impact on the performances of major macroeconomic indicators, contributions to the real economy by effectively carrying out the financial intermediation role of pooling and channelling funds to investment activities. Notwithstanding, Amin (2016) reveals that Islamic banks has influence on Muslim male investors' decision to open Islamic gold investment accounts. Finally, Hossain (2016) found that low and stable inflation is important for maintaining the viability of Islamic banking and finance within a dual banking system. Islamic banks results in more stable macroeconomic environment that would be more conducive to the development of an investment in Islamic financial sector that would promote economic development.

## **Linkage between Islamic Banking and Economic Development**

Islamic finance sector is generally conducive to economic growth and development comprising the Islamic banking system (Bakhita, 2017). Abduh and Azmi (2012) found that there is a noteworthy connection in the short term and long-term periods between Islamic financial developments IFDs and economic growth and development. The linkage, nonetheless, is neither Schumpeter's supply leading nor Robinson's demand following. It seems like a bi-directional connection. Furqani and Mulyany (2009) identified that there is an existing links between financial development and economic growth and development. Saleem (2007) Islamic banking is extra suitable to economic development not only in the Muslim nations but also in the Western countries. Accordingly, Sarwer, Muhammad, and Ahmad (2013) exposes that there is dynamic interaction between Islamic finance and economic growth, and the way Islamic banks can become additionally developed to mobilize funds in production that can foster economic development. Some scholars believe that legal ground is one of the factors that accelerate economic growth. For example, Levine (1998) finds that legal setting as an exogenous factor has strong linkage and influences the banking industry with a long-run economic development, which associated with banking development that stimulates economic growth.

## **Contribution of Islamic Banks on Economic Development**

The significant role of the banking sector towards economic development could not be underestimated. Mobilization of resources and channelling them for various developmental purposes including investment are considered as the most vital role of the banks. Banks perform a pivotal role in the field of financial intermediation. In this regard, Habib (2005) found that Islamic financial system has a meaningful contribution to global economic development, due to its effective financing instruments that can offer services to both present and future needs of the global society. The author further emphasises the need to enhance economic development through equity-based institutions and instruments (such as private equity funds, venture capital, and investment banks), and services to small firms. Islamic banks have an effect on financial transformation, growth, positive feedback about the banking system and that the Islamic banking system is more beneficial for economic development (Naveed, Shafique, Ahmad, Adeel, & Tariq, 2015).

Islamic financial institutions have a pivotal role in economic development, even though in a mass of potentially opposing techniques. The accessible experimental data discloses that banking role during the course of economic development advances gradually. The financial system turns into additional market-based as they develop, with the growth of securities and markets overruling that of the banking system (Johnson, 2013). Financial system especially banking, which affords access of capital to investors, plays an imperative role in financing economic development. He further explains that in contemporary economic activities the banking system is the heart of every economy globally particularly on matters of economic development. Interestingly, the author trust that Islamic banks have an encouraging impression of economic development than conventional banks. This is due to the elimination of interest, using PLS principles, and its similarity with the universal banks (Mohammad, 2011). Islamic banking modes of financing are useful in promoting economic development. Thus, Islamic banks have the potential of achieving economic development by boosting agriculture and human development in both the rural and urban communities of the country (Lamido, 2014). Besides that, Bakhita (2017) claims that Islamic banks have the potentials to attain social justice, socio-economic development, serves as a path for fostering human well-being, handle funds from the server to investors, and support investment. Likewise, Islamic finance and monetary system is characterised by economic stability, efficiency, growth-promoting, and reducing moral hazard and advance selection of problems. The system is known for its

inclusive risk sharing, provides more sustainability in the financial industry, more conducive to poverty alleviation and human welfare (Al-Jarhi, 2005). Furthermore, Islamic banks in Nigeria have the potential to adopt new financing policies that will encourage economic development that involve the support of SMEs, raising the living standard of people, developing new schemes for housing and real sector financing, and enhancing income generation (Gumel, 2014). Further still, Islamic banks have the potential to stimulate the infrastructure for the growth of equity financing by leveraging the productive potential of SMEs, generating employment especially for youth, enhancing financial inclusion through microfinance, and enhance prospects for balanced global growth, development, and shared prosperity (Mizanur-Rahman, 2014).

### Study Approach

The study is qualitative approach, which resorted to a social constructivist approach and engaged in face-to-face interview as a means of data collection following the guide of (Creswell, 2007a, 2007b, 2014). The recruitment of participants encompasses Islamic banking experts, investment experts, and economic development experts. These participants were recruited with the view to provide the needed information that relates to the contribution of Islamic banking on investment for economic development. The applied criteria for the selection of the participants are professionalism and expertise, relevance, aptitude to respond to the intended questions and readiness to grant the interview. We employed the total sample size of 12 participants and divided into 3 with each category containing 4 participants unbiasedly. Regarding the choice of small participant's sample size, we are guided by the view of Onwuegbuzie and Leech (2007) that in qualitative study the practice and choice of a small sample size are very significant due to their ability to determine the researcher's generalisation. Similarly, we also relied on Guest, Bunce, and Johnson (2006) that advises a sample of six to twelve participants as sufficient and adequate for the useful development of meaningful interpretations. Earlier, Sandelowski (1995) guided that in qualitative research sampling size should be neither too little nor excessively heavy to make it difficult for achieving the data. Thus, the selection of small sampling size for this study was inspired by Guest et al. (2006) and Onwuegbuzie and Leech (2007) to achieve the adequacy and the meaning of the phenomenon, productivity of the data, and varied and in-depth data obtained from the respondents. The gathered from the responses of the participants was converted to text through transcription, we coded the participants using mixture of letters and numbers, the transcribed data was edited, reported, and analysed. The method of data analysis employed was thematic analysis and theoretical data explanation using the guide of (Ozkan, 2004). Discussion of the major findings were made available to confirm the achievement of research objectives and to determine the successful answer to the principal research questions.

### Presentation and Analysis of Data

#### Demographic Data of the Participants

This part deals with the demographic data of the participants giving age, sex, educational qualification, and occupation. The table below presents the distribution of respondents by Nigerian universities.

**Table 1:** Demographic Data of the Participants

S/No	Participants	Sex	Age	Occupation	Qualification
				n	n
1.	PT: 1	M	45	L	Ph.D.
2.	PT: 2	M	39	L	M.Sc
3.	PT: 3	M	45	L	Ph.D.
4.	PT: 4	M	65	L	Ph.D.
5.	PT: 5	M	41	L	Ph.D.

6.	PT: 6	M	45	L	Ph.D.
7.	PT: 7	F	35	L	M.Sc
8.	PT: 8	F	34	L	M.Sc
9.	PT: 9	M	44	L	Ph.D.
10.	PT:10	M	51	L	Ph.D.
11.	PT:11	F	47	L	Ph.D.
12.	PT:12	M	58	L	Ph.D.

**Keys:** PT= Participant; M=Male; F=Female; L=Lecturer

### Data Presentation, Analysis, and Interpretation

The evidence of the data that emerged from the responses of the participants was presented and interpreted the data accordingly. The major themes and sub-themes that emerged from the analysis of the entire data were made available as they emerged. These major themes include (the potential of Islamic finance on entrepreneurship development; the role of Islamic financing products on entrepreneurship development; and the impact of Islamic finance on entrepreneurship for sustainable economic development in Nigeria). These themes emerged out of consideration of the frequent wordings of the participants that involve the main ideas and subthemes. The analysis and interpretation of data were supported with theoretical data explanations.

### Trends of Islamic Banking Contribution to Investment in Malaysia

The results that emerged from the interview indicates that Malaysia shows commitment towards investment by incorporating foreign banks; introducing Shari'ah approved securities, and foreign collaboration for Islamic market value, which in turn generates employment, projects, and economic growth and development. The result further shows that Malaysian Islamic banks engaged in offshore investment in neighbouring countries such as Indonesia, Thailand, etc. Other investments mentioned by the participants include green Sukuk investment, real estate investment, Islamic micro-investment, capital market investment, agricultural investment, and investment on human capital development among others.

### Incorporation of Foreign Banks and Foreign Direct Investment FDI

The available data that emerged from the responses of the participants revealed that in the year 2004 Malaysia started to grants new licenses to foreign institutions by Bank Negara Malaysia (BNM). These foreign institutions include Al-Rajhi Bank & Investment Corporation Berhad, Asian Finance Bank Berhad, HSBC Amanah Malaysia Berhad, Kuwait Finance House, OCBC Al-Amin Bank Berhad, and Standard Chartered Saadiq Berhad. The year 2005 saw the entrance of Kuwait Finance House, Al-Rajhi, and Asian Finance (a consortium of Qatar Islamic Bank, RUSD Investment Bank Inc. and Global Investment House). In this respect, the data gathered from the responses of the participants noted that Malaysia integrated foreign banks from the Middle East and other places to reap the benefit of Islamic banking system. One of the participants related that:

*We can go back to my previous point, the largest bank in Malaysia is Maybank, it has a large share, and the keyword is the amount of capital in the bank as it includes the market share, through direct and indirect financing. I think the government has provided Bank Negara Malaysia with enough stimulus to get what is needed. Islamic banks are in line with the Islamic school of thought in the Middle East and in Malaysia.*

*In the year 2004, we started to grants new licenses to foreign financial institutions (including Islamic banks) by Bank Negara Malaysia (BNM). These foreign institutions include Al-Rajhi Bank & Investment Corporation Berhad, Asian Finance Bank Berhad, HSBC Amanah Malaysia Berhad, Kuwait Finance House,*

*OCBC Al-Amin Bank Berhad, and Standard Chartered Saadiq Berhad. The year 2005 saw the entrance of Kuwait Finance House, Al-Rajhi, and Asian Finance (a consortium of Qatar Islamic Bank, RUSD Investment Bank Inc. and Global Investment House). Therefore, I think in Malaysia we did not only accept foreign banks, but also encourage FDI, and go abroad for offshore investment, especially in Indonesia, and Thailand (PT: 5).*

Likewise, another participant related that:

*This of course, in case of investments, the question should be why does China come to invest largely in Malaysia? Let say foreign direct investment FDI in Malaysia. Like what, why does China come and invest in Malaysia financial sector as a large scale? You see, before it does, it means the banking and financial structure of Malaysia attracted foreign investors. I would say the banking structure in particular, and the banking system itself is huge. Therefore, what Islamic banking does in its services? Definitely, the exports of the financing contracts or products are efficient, which promotes more attraction to a large number of foreign investors. Yes, it is understood that the more banks you have, the better the efficiency, and market. We cannot yet claim that we have enough banks..., you know, if you have more banks, they will have more programs and have better investments. However, I have to acknowledge that Islamic banks in Malaysia are deeply committed in that respect (PT: 4).*

Similarly, one of the participants added

*We have many foreign direct investments that accepted the incorporation of foreign banks to Malaysia. We have created finance; we also have that money from foreign investors of the Middle East and other foreign branches to put their money in Malaysia. Again, you can draw a law to the capital markets, because the presence of Islamic banking or even Islamic capital market has many real economic activities, such as infrastructure, and buildings of ports, waterways, airports, and civil constructions. In addition, Islamic finance is good enough to support property investment, real estate investment, and people are mentioning the value proposition of Islamic capital market, and they also say the Islamic finance is supporting real economic activities (PT: 10).*

### **Islamic Capital Market and Shari'ah Compliance Investments**

Besides the presence of foreign banks and foreign investors in Malaysia, one of the economic presence is the introduction of Shari'ah approved securities that score a part in Kuala Lumpur Stock Exchange KLSE, where all Shari'ah compliance financial institutions under Islamic Financial Capital Market IFCM with the possibilities can participate in the business. This means that there is an Islamic capital market investment in term of shares and capital market with the Islamic banks as one of the core runners of the Shari'ah approved securities in Kuala Lumpur Stock Exchange KLSE. In this regard, one of the participants reveals that:

*I think there is Islamic capital market investment in terms of shares, through the shares by the Shari'ah approved securities in Kuala Lumpur Stock Exchange KLSE, because; we have the Shari'ah Financial Capital Market, Shari'ah Council, meaning that, there is a list of companies that are in the business, which is in accordance with Shari'ah principles. For example, they are offering and investing the money in the plantation, in whatever investment as long as it is not contrary to the Shari'ah values. There are many companies in Malaysia in which they are offering the investment. We have also the Islamic Unit Trust, in which, the funds in the Islamic Unit Trust has been invested in the Shari'ah compliance*



*activities, which has been operated by the Shari'ah compliance companies, such as Shari'ah compliance investment (PT: 2).*

Another participant reports that:

*"...Of course, some banking institutions are dealing with Capital Markets. For example, in Capital Market, we have Islamic Finance Fund Management. Therefore, this is the separate entity under the Capital Market. These institutions are under Security Commission Malaysia. However, the Security Commission Malaysia is the regulator for the Islamic Financial Capital Market, and the Sukuk also besides being under the supervision of the Security Commission Malaysia. It also falls under the category of Capital Market. We have also private entity; this is also under Capital Market they are not under banking or Takaful institutions. Therefore, what I am saying is that, because of the amendments to the existing laws that include Capital Market and Services Act (CMSA), our strategies and policies pave the way for the Islamic Capital Market investment to flourish (PT: 6).*

The data that emerge from the responses of the interview established that Malaysia introduced Shari'ah approved securities that score a part in Kuala Lumpur Stock Exchange KLSE, Shari'ah Financial Capital Market, Shari'ah Advisory Council, where all Shari'ah compliance financial institutions are Islamic Financial Capital Market with the possibilities to participate in the business. The result from the interview further points out that Malaysia has real estate investment, which is also under the Capital Market investment. They are under the supervision of the Security Commission Malaysia. In this regard, one of the participants reveals that:

*We have also real estate investment, which is also under the Capital Market. They are under the supervision of the Security Commission Malaysia, just like what you called Security and Exchange Commission in Nigeria (PT: 11).*

### **Sukuk Investment**

Some of the respondents believe that Sukuk investment is one of the best investment institutions in Islamic finance that supports infrastructural development in Malaysia. In this respect, one of the participants reported:

*Investment may be in terms of being Sukuk investment, Yeah..., I can see that the word investment is more relaxed to the Sukuk investment. Nowadays, the government is very keen to introduce the green Sukuk for infrastructural development; it is the best and very close to the environment. Thus, Islamic banking system has the potential to excel in several real economic activities, Sukuk is good for our infrastructure, and we have the expansion of our ports, developing modern waterways, contemporary airports, and civil constructions. Therefore, Islamic financial system is not only affecting the Muslims but also the non-Muslims (PT: 7).*

### **Offshore Investment**

The data that emerged from the responses of the participants shows that Islamic banking system in Malaysia contributes to promoting offshore investment in neighbouring countries. In this respect, one of the participants noted that:

*Actually, when we are talking about the investments, there are varieties of investments, which actually these (Islamic) banks are involved. It could be in the property investment, which is very popular in Malaysia, and they are investing in*

*it. This is quite common, and they are doing other investments. We have discussed a different type of investments coming forward depends on the capacity of those (Islamic) banks. Some of the Islamic banks in Malaysia are already involved in offshore investment. Among the commercial banks, I know of Maybank Islamic, and CIMB Islamic, all have their offshore investments. I think yes, as they grow, they go to offshore investments. Despite the potential in Islamic banks; Islamic banks rather go to safe zone rather than go to areas they could make more returns. For example, the shipping investment, which is the backbone of economic growth and development (PT: 1).*

Similarly, another participant reveals that:

*Many of our Islamic banks moved to the neighbouring countries (Offshore). Therefore, whether our Indonesian initiative as well, is the initiative of multi-nations, multi-countries, but Malaysia has a heavy centre in terms of Islamic banking and finance. In addition, with the help of the regulatory bodies, especially Central bank, we established and created a robust framework, and enabling environment for the banking system to prosper in the country and offshore. Hence, you always see that the system is specifically fine to improve the status quo they came out with, especially the China framework, you know, they have a good China framework. They established their standard rules, I mean, people are very critical of how to measure practices of the Islamic bank especially in offshore. With this new initiative and new ideas of business value, the evidence is implying the fact that the Central Bank of Malaysia and other regulatory bodies are willing to adopt changes and support the industry to diversify its business in the offshore investment for more contributions to the Malaysian economy (PT: 3).*

The data that emerged from the responses of the participants above indicates that Malaysian Islamic banks engaged in property and offshore investments. Some Islamic banks that went offshore comprise Maybank Islamic and CIMB Islamic, and more others have their own offshore investments. The data that emerged from the interview responses reveals that there is an Indonesian initiative of offshore investment, and an initiative of multi-nations, which is due to Malaysian heavy centre of Islamic banking and finance. Many Malaysian Islamic banks moved to the neighbouring countries. These achievements are credited to the Malaysian regulatory bodies, especially Central bank; which created a robust framework and enabling environment for the banking system to prosper in the country and offshore. Thus, Malaysia has fresh initiatives and novel ideas of business value, the evidence is denoting the fact that the Central Bank of Malaysia and other regulatory bodies are keen to embrace changes and support the Islamic banking industry to expand its business to offshore.

### **Shipping Investment**

The data that emerged from the responses of the participants reveals that Malaysian Islamic banks are yet to venture into shipping investment. In this respect, one of the participants lamented that Islamic banking and finance in Malaysia is still yet to venture into shipping and some equity investments:

*To be truthful with you, Islamic banking and finance in Malaysia are not comfortable to venture into shipping investment. In fact, they are scared of going into the shipping investment. They rather choose to go to the safe zone to do their businesses refusing to take risk to offer the shipping business. Similarly, there are many other equity investments, which Islamic finance is not a party to it. It is good to start moving in that direction if Islamic finance is to have headway in the new century. In G20, we are not yet there, Islamic financial institutions have to fill in that vacuum (PT: 12).*

The data that emerged from the interview response above indicates that, Malaysian Islamic banks resort to varieties of investments, such as offshore investment, incorporation of foreign banks, property investment, and Islamic capital market investment. However, the data that occurred from the interview responses of the participant above designates that, Malaysian Islamic banks are not keen to engage in certain equity investments and shipping investment. Thus, Islamic banks in Malaysia abandoned some areas like shipping investment that could make more returns and a backbone for economic growth and development.

### **Agricultural Investment**

Regarding the investment in agriculture, Islamic banks in Malaysia have the potential to help and develop the economic sector through agricultural investment to improve the green production smoothly. In this regard, one of the participants noted that:

*With the coming of Islamic banks, here in Malaysia it helps us widen our thought and albeit developed in the economic sector through investment in agriculture. We took the advantage of Islamic banking ecosystem to support our agricultural sector and improve our green production level. Islamic banks in Malaysia established a strong agricultural business relationship with their local clients and agro related companies. In the last few years, we established agrobank Shari'ah compliance model, we heavily invested in it to support the local agricultural production by the local small and medium scale farmers, young farmers, and graduate agri entrepreneurs. We do believe that this effort could assist in boosting the agricultural sector, market performance in terms of profitability, efficiency, and agricultural investment. We are keen to improving creativities, we have confidence in our ideas, and we do develop our ideas and convert them into practical sense. We sometimes look for good ideas from others, yes; we do borrow a leaf for our rapid expansion. Besides that, we try to connect with the outside world to harvest experience from the successful and emerging IFIs whose operations are guided by Islamic finance principles. Therefore, we do everything possible to provide the brains for human development and infrastructures; agriculture and offshore; to cut it short, we established several centres relating to investment, be it agricultural or otherwise. Thus, we offer the green lights and we are happily receiving the greenlights (laughter) (PT: 1).*

From the above report that emerged from the one of the participants, the outcome of the study reveals that Malaysia established agro bank Shari'ah compliance model that heavily invested in agricultural sector to support domestic agricultural production, small and medium scale farmers, young farmers, and graduate agri entrepreneurs. Malaysia also has commitment in boosting the agricultural sector, agricultural investment, improving creativities, and ideas, and sometimes borrow a leaf of good ideas from others for rapid agricultural development.

### **Islamic Micro-investment and Business Investment Accounts**

Concerning Islamic micro-investment and business investment the results that emerged from the responses of the participants reveals that there is an investment account and business investment account in Islamic banking operations. In this view, one of the participants claims that:

*Just recently, I read that, five banks collaborated in order to meet the financing needs for entrepreneurs. For example, if you are an SME, you have a very good business proposal, you can approach these banks, and you will get financing. They have one common thing; they combine in order to make the financing available. The reason is that, when Malaysia established a new act that is Islamic Financial*

*Service Act IFSA, they went to the bank to segregate the investment account and business investment account. Therefore, concerning investment account, if you want to invest, you are investing under the investment account, and you are guaranteed by a bank and the return of what you are going to obtain is different and the risk is there. Therefore, because of the biggest practice, the bank will structure it in such a way that you will still be secured in one way or the other. Thus, in order to promote investment, that is why five banks in Malaysia set up new initiatives, so that if you want to invest, you can invest, and those who wish to collaborate can collaborate. Entrepreneurs who have a good proposal can present it, once they are approved; they can get the necessary financing in form of Mudarabah or Wakalah. Hence, this is the new initiatives here in Malaysia, because it is a push forward to the related investors and investments. This is related to investment, they call it an Islamic investment flat-form. So, if anyone wanted to invest and he needs financing for SMEs or business investment, you can just write a proposal, they have certain criteria that you must fulfil, and it has to be for Shari'ah compliance purposes, you cannot get anything that is not Shari'ah compliance. With that, investment purposes are meant only for Islamic compliance purposes. This new investment is not available in the conventional system (PT: 6).*

**Another participant reveals that:**

*Islamic banking practices in Malaysia have available products and facilities that are partnership based with the Shari'ah potentials to advance enterprising values and Islamic micro-investment in our society. Islamic banks through Islamic micro-investment have possible ways to achieve Islamic financial objectives; creating wealth through businesses and other lawful transactions. Our banks (Shari'ah banks) operate profit-loss sharing investment accounts (PSIAs) as an alternative to interest-bearing deposit accounts using unrestricted Mudarabah contract or using Musharakah partnership investment based contracts precisely for low-income earners and SMEs. In fact, our model is beyond profit and loss sharing investment accounts (PSIAs); we have Islamic gold investment accounts, we do have a designed model for Islamic microfinance in Malaysia for the benefit of micro-entrepreneurs and economic empowerment among the populace. Thus, Islamic microfinance has the possibilities to deal with the vulnerable needs of micro-entrepreneurs and micro and small-scale farmers and SMEs. Categorically, free-interest financing system in Malaysia has the potential to attract investment and nurture inclusive economic development (PT: 8).*

From the above reports the results that emerged from the responses of the participants shows that Islamic banks in Malaysia are beyond profit and loss sharing investment accounts (PSIAs). The system has Islamic micro-investment, business investment accounts, Islamic gold investment accounts, and Islamic microfinance model for the benefit of micro-entrepreneurs and small-scale farmers and SMEs for economic development.

**Investments in Human Capital Development**

Regarding human capital investment, Islamic banks and Central bank of Malaysia invest heavily on human capital development. In this regard, one of the participants noted that:

*Here in Malaysia, we do invests in human capital development, we have significantly influence human capital development, we established departments of Islamic economics, banking and finance in several Malaysian universities. We create new knowledge and educate it to our teeming youth.*

*We engage in training and development, we prepare our youth and employ them in the relevant sectors, our effort is yielding fruits because; it has positive effect to our financial market value and build a kind of professionalism and expertise in the Islamic finance sector. Therefore, we adopted a strategic investment in human capital, we do believe in relying on long term human capital accumulation and problem-solving of knowledge capital. Our aim is to have expertise in the market measures, professionalism in the boards of our financial institutions to influence the size of our advisory boards and positive market value. This could have an important important contribution to our real economy by effectively booming out the financial intermediation role in combining and controlling funds to the development of overall investment activities. Thus, human capital investment is one of the best investment that always pay. Yes, investment in human capital development expand our Islamic finance industry, expertise is one of the factors that enable our healthier growth and strength of the industry (PT: 9).*

From the above results, the data that emerged from the responses of the participants reveals that Malaysia invests in human capital development through the establishment of departments of Islamic economics, banking and finance in a large number of Malaysian universities. Creating new knowledge and in Islamic banking and finance education to prepare the teeming youth and employ them in the relevant sectors. This has positive effect on financial market value, professionalism and expertise in the Islamic finance sector, and strategic investment in human capital for accumulation and problem-solving of knowledge capital. The data that emerged from the responses of the participants further reveals that the Malaysian objective is to have expertise in the market measures, professionalism in the boards of financial institutions with the view to influence the size of its advisory boards and positive market value.

### **Discussion of Major Findings**

The outcome of the study revealed that Malaysia incorporated foreign banks and foreign investors and offered licences to them. These foreign institutions mostly from the middle east include Al-Rajhi Bank & Investment Corporation Berhad, Asian Finance Bank Berhad, HSBC Amanah Malaysia Berhad, Kuwait Finance House, OCBC Al-Amin Bank Berhad, and Standard Chartered Saadiq Berhad. The year 2005 saw the entrance of Kuwait Finance House, Al-Rajhi, and Asian Finance (a consortium of Qatar Islamic Bank, RUSD Investment Bank Inc. and Global Investment House). This view is supported by the fact that in the year 2004 Malaysia started to grants new licenses to foreign institutions by Bank Negara Malaysia (BNM, 2007, 2010; Zin, Ishak, Kadir, & Latif, 2011).

Aside from the foreign banks and foreign investors presence in Malaysia, the results disclose that Malaysia introduced Shari'ah approved securities that score a part in Kuala Lumpur Stock Exchange KLSE. Malaysia also established Islamic Financial Capital Market (IFCM) and Shari'ah Advisory Council under the supervision of the Security Commission Malaysia and BNM. This view is supported by the available findings in (Lo & Leow, 2014; Shinkafi et al., 2021). The findings further show that Malaysian Islamic banks have potential impact on Islamic capital market investment. This outcome coincided with the existing findings of Ibrahim (2015) that specific focus on Islamic capital market investment can promote the viability of Islamic finance; demonstrates its bearings on economic wellbeing; policies (especially economic stability, economic development, financial inclusion) and the stability of the policies.

On the other hand, the outcome of the study shows that Malaysian Maybank Islamic and CIMB Islamic, and several others have went to offshore investments. Thus, several Malaysian Islamic banks engaged in offshore investments in neighbouring countries such as Indonesia and

Thailand, there is also an initiative of multi-nations, which is due to Malaysian heavy centre of Islamic banking and finance. The results indicates that these recorded successes and achievements are attributed to the Malaysian regulatory and supervisory bodies, especially BNM; which created a robust framework and enabling environment for the banking system to prosper. This findings is supported in by the (BNM, 2007; Kunhibava, 2015). This means that Malaysia has fresh initiatives and novel ideas of business value, effective BNM support to expand the business value, and the ability of the Islamic banking industry to grow its business to offshore.

Regarding the shipping investment, the result indicates that, Malaysian Islamic banks are not profound to engage in shipping investment. This means that Islamic banks in Malaysia rather choose to go to the safe zone than to engage in shipping investment that could boost extra returns and serve as a spine for economic growth and development. Conversely, the outcome of the study reveals that Malaysia established agro bank Shari'ah compliance model that heavily invested in agricultural sector to support domestic agricultural production, small and medium scale farmers, young farmers, and graduate agri entrepreneurs. This outcome is supported by the view of Ridhwan (2011); and Shinkafi, Yahaya, and Gusau (2020) that Islamic banks and agro bank in Malaysia has influence and commitment in boosting the agricultural sector and agricultural investment. In addition to that, Kacar et al. (2017) supported that Islamic banks can finance the economy and agricultural investment in particular. It can make some comparative advantage in respect to other domestic banks; establish a strong business relationship with the client in the Muslim nations for the local companies to perform in their markets in terms of profitability, efficiency, and performance. Further still, the result shows that Islamic banks in Malaysia are beyond profit and loss sharing investment accounts (PSIAs). The system has the potential to support Islamic micro-investment, business investment accounts, Islamic gold investment accounts, and Islamic microfinance model for the benefit of micro-entrepreneurs and small-scale farmers and SMEs for economic development. The existing findings of AbdulRahman et al. (2016) supported that Islamic micro-investment through Islamic microfinance banks can serve as a model that could connect to fund the micro-entrepreneurs and economic empowerment of the populace. The study of (Rahman et al., 2013; Suandi, 2017) also supported this emerging outcome.

Lastly, the result reveals that Islamic banks and BNM in Malaysia invests in human capital development through the establishment of institutions and departments of Islamic economics, banking, and finance in a large number of Malaysian universities. These institutions create new knowledge, which prepare the teeming youth; and employed them in the relevant sectors. This human capital investment has positive effect on financial market value, professionalism, and expertise in the Islamic finance sector, and strategic investment in human capital for accumulation and problem solving of knowledge capital. This outcome is supported by the views of Shinkafi et al. (2021); and (Mustafa & Solarin, 2014; Zin et al., 2011) that Islamic finance and banking creates new knowledge and promotes human capital development, and establishes educational institutions that offer various courses for expertise and professional purposes. Still, the outcome of the study corroborate with the finding of Nawaz (2017) that investments in human capital development have a significant positive effect on the market value of Islamic banks. From the above discussion, one can infer that Malaysia achieved professionalism and expertise in the market and capital market measures, professionalism in the boards of financial institutions, influence of the size of its advisory boards and human capital investment that direct positive market value.

### **Pathways for Nigeria**

This study anticipates several pathways from Malaysian Islamic banks regarding investment for economic development in Nigeria:

- i. For instance, in the area of foreign direct investment (FDI) Malaysia incorporates foreign banks to operate Islamic banking system, such as Asian Finance Bank Berhad

(a consortium of Qatar Islamic Bank); RUSD Investment Bank Incorporation; and Global Investment House; Al-Rajhi Bank & Investment Corporation Berhad; HSBC Amanah Malaysia Berhad; and Kuwait Finance House. It also collaborates with the countries like China, Indonesia, Thailand, Singapore and others. Thus, Nigerian Islamic banks need to learn from Malaysia to incorporate foreign banks, foreign collaboration on Islamic market value for the foreign direct investment (FDI). The incorporation of these foreign banks in the Nigerian economy will provide employment especially for the teeming youth, it will attract investment, and savings, influence growth of the economy, and promote national and international Islamic financial market development. This means that Malaysia attracted countries like China on foreign investment due to its huge banking structure, services, and export of products, which promotes more attraction to a large number of investors. Many investors from the Middle East and some foreign branches put their money in Malaysian Islamic banks. This is important for Nigeria to take heed.

- ii. Islamic banking and finance in Malaysia support the cause of capital markets; the establishment of law on Islamic capital markets where many Shari'ah securities have been enlisted in the Kuala Lumpur Stock Exchange. It helps in terms of creating needs for investments and coming up with finance schemes and mega projects in the country including Islamic property investment, public transport like LRT, airports, highways, and ports, especially through the use of green Sukuk investment etc. In this regard, Nigeria can learn to create several chances for economic development from the Malaysian Islamic banking sector experience. For instance, introducing Shari'ah approved securities, and foreign collaboration on Islamic market value and human capital development.
- iii. It support deposits and savings, the money deposited from the Islamic banking market have a surplus of money, deposit growth, and excess funds. Therefore, the money deposited in the Islamic banking market has its own contribution to a number of groups, business, companies, and SMEs, which in turn boosts economic growth and development in the country.
- iv. Likewise, Islamic banking in Malaysia contributes to the overall financial development and grows to engage in offshore investment in the Malaysian neighbouring countries such as Indonesia, Thailand, and beyond the region. Other investments in Malaysia include real estate investment, the Capital Market investment, and that Sukuk investment supports the infrastructural development in Malaysia. The Malaysian government is also very keen to invest in Green Sukuk for infrastructural development. Thus, Nigeria can learn to take advantage in this regard.
- v. Similarly, Malaysian Islamic banks engaged in offshore investment in neighbouring countries such as Indonesia, Thailand, etc. Nigeria can also learn from Malaysia to explore and diversify its chances of Islamic banking investment to offshore investments as mentioned above to take advantage of these lessons.
- vi. Hence, the Islamic banking system in Malaysia contributes to several aspects of investment that involve domestic investment, and incorporation foreign banks, offshore investment, private and public investment, capital market investment, investment and savings accounts, real estate investment, and equity investment. Nigeria can also learn from Malaysian Islamic banking sector numerous aspects of investments to take advantage for economic development.

### **Recommendations for Nigeria**

The study provides the following recommendations for Nigeria:

- i) Islamic banking system in Nigeria should consider venturing into offshore investment, property investment, real estate investment, Islamic capital market investment, shipping investment, and green Sukuk investment. Therefore, Nigeria needs to grow and venture to realise the overall investment, financial development, and economic growth and development in the country.

- ii) Nigeria government and the CBN should provide licences to aspiring Islamic micro financing and allow the influx of foreign banks to operate in the country. This will definitely help the investment to grow and business to flourish, employment generation to teeming youth, ability to support entrepreneurs, entrepreneurship development, and enterprises in both rural and urban Nigeria.
- iii) The Nigerian government (ministries, parastatal, and agencies) should keep investing and patronising the Islamic banks, hold accounts with them to enable the system to sustain its investment growth, and re-strengthen itself to achieve the African hub and onward economic development.
- iv) Nigeria should thoroughly collaborate with foreign interested countries for investment; Nigeria like Malaysia should encourage deposits and savings for money surplus, deposit growth, and excess funds through Islamic banks. These deposits and savings in the Islamic banking system have the potential to contribute to a large number of groups, business, companies, and SMEs.

### **Suggestion for Future Studies**

The future research should be entrusted on specific aspects of investment such as offshore, Sukuk, and real estate investments for achieving economic development separately. This is because separate studies on each of the above aspect of investment for economic development will provide more details and expose other possibilities on the subjects. More aspects of economic development that did not score the subject of this research should be employed by future researchers for effective attainment of Islamic banking success, additional opportunities, economic benefits, and pathways for economic development through Islamic banks in Nigeria and beyond. The study is mainly qualitative in nature, more studies relating to the title of this study should be carried out using quantitative or mixed method with the view to expose extra results. This study has strength due to its concern for promoting investment and realising economic development through Islamic banks. This is especially considering the worldwide effort to incorporate Islamic banking business by many countries for the realisation of economic development, which is the dream of both developed, developing and third countries. It has an impression and benefit to Nigerian Islamic banks, the Nigerian economy, and the entire public.

### **Conclusion of the Study**

This study looked at the contribution of Islamic banking on investment in Malaysia and derieved lessons for Nigeria. The study shapes that Islamic banking system contributes a lot in realising kinds of investments for economic development in Malaysia. The study concludes that Islamic banking in Malaysia contributes to investment for economic development. The study concludes that Nigeria need commitments and support to be comparable to Malaysia, which require potential collaboration between the Islamic banking industry and the Nigerian government, foreign collaborations, and incorporation of foreign banks thereby providing relevant services, infrastructures, employment, establishments of relevant boards, centres, institutions, use of financial technology, which in turn pave way for a robust investment environment and industry. These commitments should not leave behind any relevant Islamic banking strategy that could suit the investment and economic development for Nigeria.

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