



## Effects of Islamic Financial Services on Productivity of Oil and Gas Sector in Nigeria

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### ABSTRACT

*The desire to improve performance of financial institution in the country paved way for establishing Islamic financial services that provided resources used to finance oil and gas sector as only main source of income in a country. The study was conducted to examine effects of Islamic financial services on productivity of oil and gas sector in Nigeria. The survey research design was used for the study and primary data was generated through administering of questionnaires to NNPC personnel and Islamic experts. The findings showed 71.071 as chi-square result with 9 as a degree of freedom at 1% significant level, as there was adequate awareness on existence of Islamic financial service but strict conditions restricted oil and gas sector in assessing funds. The study concluded that insignificant relationship existed between Islamic financial services and productivity of oil and gas sector in Nigeria, and recommended that government to lower strict conditions attached to assessing Islamic financial services in Nigeria as more productivity would be ensured on gross domestic product.*

**Keywords:** Finance, Financial Crisis, Financial Economics, Financial Intermediation & Financial Markets

### Introduction

The oil and gas operation in Nigeria started far back 1937 through the operation of Shell Darcy when monopoly power was acquired for the production in large quantities (Amuda-Kannike, Abila, and Abila, 2020). It was also noted that Nigeria government held major share in oil and gas sector and this propelled channel of its financing where Islamic financial service was sought in the country. Many corporations were established for the operation of oil and gas sector such as Nigerian Petroleum Refining Company (NPRC) in 1972 and Nigerian National Petroleum Corporation (NNPC) in 1977 with various refineries that were established for ensuring smooth operation in Nigeria such as Warri, Kaduna and Port-Harcourt.

The Islamic financial service was created to provide necessary resources required to finance every establishment in the country and came into existence with the efforts of religious effects through joint venture financing, and it has helped to strengthen corporate governance in the country (Sa'adatu and Hadiza, 2023). The Islamic financial services were majorly located in Northern areas of Nigeria set up to promote economic situation in the country (CBN, 2020).

The sukuk serves as a better way of financing investment opportunities in oil industry for acquisition of advanced equipment and technology in Nigeria, and this produces multiplier effect on effectiveness and efficiency, (Muhammad and Haruna, 2022). Kabiru (2014) discussed that Islamic project financing was derived from Islamic law through various jurists for the purpose of expanding industrialization in the country which ensure more resources channeled to oil industry as applied in United States of America.

### Statement of the Problem

The oil and gas sector serves as a main source of revenue generation in Nigeria that required huge amount of capital intensive and this encouraged means of financing its operation in assessing new financial service introduced by Islamic religious in Nigeria; this encouraged current study to find out impact of Islamic financial service on financial performance of oil and gas sector in Nigeria. As said above by kabiru (2014)

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regarding Islamic financing in USA, there is a need for oil industry in Nigeria to assess availability of Islamic financing which prompted current study to assess its impact on the financial performance.

### **Objectives of the Study**

The broad aim of this research is to evaluate effects of Islamic financial services on productivity of oil industry in Nigeria. Its specific objectives are:

- i. To determine level of awareness of Islamic financial services for oil industry in Nigeria.
- ii. To evaluate impact of Islamic financial services on productivity of oil and gas sector in Nigeria.
- iii. To assess challenges oil and gas sector faced for assessing Islamic financial services in Nigeria.

### **Research Questions**

- i. What is the level of awareness of Islamic financial services for oil industry in Nigeria?
- ii. How has Islamic financial services impacted productivity of oil and gas companies in Nigeria?
- iii. What are challenges oil and gas sector faced for assessing Islamic financial services in Nigeria?

### **Research Hypothesis**

H<sub>01</sub>: There is no awareness of Islamic financial services for oil industry in Nigeria.

H<sub>02</sub>: Islamic financial services have no significant impact on productivity of oil and gas sector in Nigeria.

H<sub>03</sub>: Oil and gas sector face no challenges for assessing Islamic financial services in Nigeria.

### **Significance of the Study**

The research was conducted how Islamic financial service impacted oil industry's productivity by providing enable finance required for it activities. This serves as a new avenue to assess funds, likewise provide academic knowledge, practical decision for policymakers and serves a great benefit to investors in the country.

### **Literature Review**

The literature considered into conceptual, theoretical and empirical reviews.

#### **Conceptual Review**

**Islamic Financial Services**

This is the service rendered by banking industry by providing finance needs by investors with the help of Islamic religious in the country (Kabiru, 2014).

**Oil and Gas**

This is the sector involved in extraction of energy resources produced from hydrocarbons of crude oil and natural gas, and this serves as main revenue generation in the country (Muhammad and Haruna, 2022 & Solanke et al 2022).

**Productivity**

This is the assessment of effectiveness and smooth operation of firm in relation to output derived input resources (ICAN, 2020).

**Performance**

This is the assessment of firm's activities on monetary values through return on investment, ratio analysis, earnings per share, dividend per share and profit after tax. This measurement provides avenue for decision making and long term operation's projection through analysis of firm's strength and weakness (ICAN, 2020).

#### **Theoretical Review**

**Financial Theory:** The financial theory was propounded by Modigliani and Miller (1963) who discussed trade relationship between parties regarding firm financing through debt and equity with consideration of risk elements inherent in each financing. It is clearly stated that new firm should finance its operation through equity and later debt can be employed to promote its expansion. It is clearly stated that debt financing is the best for firm operation which ensures more earnings to shareholders.

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### **Empirical Review**

Sa'adatu and Hadiza (2023) examined Islamic corporate governance on financial performance of Islamic financial Institutions in Nigeria. The result produced significant relationship between variables with the utilization of contents analysis.

Muhammad and Haruna (2022) examined sukuk financing potential on oil industry in Nigeria, and structural equation model was used to analyse questionnaires collected from respondents. The findings disclosed that government should encourage various investors to limit restriction placed in assessing sukuk financing in the country.

Vovchenko et. al (2017) examined characteristic of debt-performance relationship in Nigeria, and this assisted various stakeholders in the firms to determine how their interests could be realized in a given period of time. It also provided avenue risks could be averted during firm operation by determining various ratios analyses for assessing financial performance.

Kuznetsov (2015) examined financial growth and performance of automobile firms in India which produced ideas and innovations for firm's expansion. The selected firms were gathered through systemic sampling and data analysis was done by using regression. It was gathered that availability of finance without restrictions would promote industrialization in the country.

### **Methodology**

The study used research design and primary data were obtained from Islamic finance experts and personnel from NNPC with a random sampling technique in gathering information from one hundred respondents through questionnaires distributed. Analysis was done with application of descriptive statistic, ANOVA and ordinary least square regression analysis.

### **Data Presentation, Analyses and Discussions**

This session explains presentation, analysis and interpretation of data retrieved from field survey through questionnaire distributed to respondents. Consequently, mathematical and statistical techniques were used for testing research hypotheses. The data were analysed using table, chart, frequency counts, and percentage, item and chi-square analyses.

### **Questionnaire administration and return rate**

A total number of one hundred (100) questionnaires were administered to respondents of financial service providers who possess knowledge in Islamic financial services. All administered questionnaires were returned and found useful for analysis by giving a response rate of percentage.

**Table 1: Questionnaire administration and return rate**

S/N	Selected Archives	Distribution	Returns	Percentage of return
1	Respondents	100	100	100
	<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>

*Source: Field Survey, 2024.*

### **Reliability Test**

The reliability of drafted instrument was established through test-re-test method and Cronbach test was used to correct data error, and a co-efficient reliability of 0.683 was obtained as shown in the table below.

**Table 2. Reliability Statistics**

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	No. of Items
.683	0.688	18

*Source: Authors computation 2024.*

In order to examine consistency and reliability of research instrument, Cronbach's alpha ( $\alpha$ ) reliability test tool was applied. Table 2 showed estimate of Cronbach alpha test for reliability of four-point Likert scale

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used in the study so as to avoid spurious and invalid analysis. The findings showed a sufficient high Cronbach value of 0.683 which displayed consistent result.

### Demographic and Frequency Characteristics of the Respondents

**Table 3: Sex of the Respondents**

Gender	Frequency	Percent
Male	48	48
Female	52	52
<b>Total</b>	<b>100</b>	<b>100</b>

*Source: Researcher's field survey 2024*

Table 3 revealed that 48% and 52% of the respondents representing male and female.

**Table 4: Age of the Respondents**

	Frequency	Percent
20-30	56	56.0
31-40	20	20.0
41-50	15	15.0
51 years and above	9	9.0
<b>Total</b>	<b>100</b>	<b>100.0</b>

*Source: Researcher's field survey 2024*

Table 4 above explained diagrammatic representation of respondents' age. This table revealed that 56% of respondents are 20-30 years, 20 respondents are 31-40 years. Also, 15 respondents are 41-50 years and 9 respondents are 51 years and above.

**Table 5: Marital status of the Respondents**

	Frequency	Percent
Single	54	54.0
Married	46	46.0
Divorced	0	0.0
<b>Total</b>	<b>100</b>	<b>100.0</b>

*Source: Researcher's field survey 2024*

Table 5 above explained diagrammatic representation of respondents' marital status. This table revealed that 54 respondents are single, 46 respondents are married and 0 respondent is Divorced.

### Years of Experience

**Table 6: Years of Experience of the Respondents**

Years	Frequency	Percent
Less than 5year	55	55.0
6-10	23	23.0
11-15	17	17.0
16-20	4	4.0
21 and above	1	1.0
<b>Total</b>	<b>100</b>	<b>100.0</b>

*Source: Researcher's field survey 2024*

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Table 6 showed that 55 respondents have experience of 5 years and below, 23 respondents have 6-10 years of experience, 17 respondents have between 11-15 years of experience while 4 respondents have between 16-20 years of experience and 1 respondent have 21 and above years of experience.

#### Other Demographic and Frequency Characteristics

**Table 7: Islamic financial services on the productivity of oil and gas sector in Nigeria**

<b>Awareness of Islamic financial services</b>			
<b>Questions</b>	<b>Value</b>	<b>Frequency</b>	<b>Percentage (%)</b>
I am aware of Islamic financial services in the oil and gas industry in Nigeria.	Strongly Agree	8	8.0
	Agree	34	34.0
	Undecided	20	20.0
	Disagree	29	29.0
	Strongly Disagree	10	10.0
	<b>Total</b>	<b>100</b>	<b>100.0</b>
I have knowledge about the principles and features of Islamic financial services	Strongly Agree	14	14.0
	Agree	31	31.0
	Undecided	14	14.0
	Disagree	33	33.0
	Strongly Disagree	9	9.0
	<b>Total</b>	<b>100</b>	<b>100.0</b>
<b>Impact of Islamic financial services</b>			
Islamic financial services have a significant impact on the performance of oil and gas companies in Nigeria	Strongly Agree	10	10.0
	Agree	31	31.0
	Undecided	17	17.0
	Disagree	32	32.0
	Strongly Disagree	10	10.0
	<b>Total</b>	<b>100</b>	<b>100.0</b>
Islamic financial services contribute to the growth and profitability of oil and gas companies in Nigeria	Strongly Agree	10	10.0
	Agree	30	30.0
	Undecided	18	15.0
	Disagree	30	30.0
	Strongly Disagree	12	12.0
	<b>Total</b>	<b>100</b>	<b>100.0</b>
Islamic financial services promote ethical and sustainable practices in the oil and gas industry in Nigeria	Strongly Agree	10	10.0
	Agree	29	29.0
	Undecided	16	16.0
	Disagree	36	36.0
	Strongly Disagree	10	10.0
	<b>Total</b>	<b>100</b>	<b>100.0</b>
<b>Challenges in Accessing Islamic financial services in Nigeria</b>			
Oil and gas companies face challenges in accessing Islamic financial services in Nigeria	Strongly Agree	19	19.0
	Agree	56	56.0
	Undecided	14	14.0
	Disagree	7	7.0

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	Strongly Disagree	4	4.0
	<b>Total</b>	100	100.0
Limited availability of Islamic financial institutions is a major challenge for oil and gas companies in accessing Islamic financial services in Nigeria	Strongly Agree	22	22.0
	Agree	52	52.0
	Undecided	18	18.0
	Disagree	4	4.0
	Strongly Disagree	4	4.0
	<b>Total</b>	100	100.0
Complex procedures and documentation requirements pose challenges in accessing Islamic financial services for oil and gas companies in Nigeria	Strongly Agree	24	24.0
	Agree	58	58.0
	Undecided	12	12.0
	Disagree	3	3.0
	Strongly Disagree	4	4.0
	<b>Total</b>	100	100.0
Lack of understanding and knowledge of Islamic financial products and services is a barrier for oil and gas companies in accessing Islamic financial services in Nigeria.	Strongly Agree	31	31.0
	Agree	51	51.0
	Undecided	9	9.0
	Disagree	3	3.0
	Strongly Disagree	6	6.0
	<b>Total</b>	<b>100</b>	<b>100.0</b>

*Source: Researcher's field survey 2024*

Table 7 showed summary responses of 100 respondents on effects of Islamic financial services and productivity of oil and gas sector in Nigeria. The determination on **awareness of Islamic financial services**, 34% showed positive. While 33 respondents that possess knowledge on principles and features of Islamic financial services. To determine **impact of Islamic financial services**, 33% respondents disagreed that Islamic financial services have a significant impact on the performance of oil industry in Nigeria. Whist there were missed reactions as respondents who agreed and disagreed on Islamic financial services contribute to growth and profitability of oil industry in Nigeria. It was noticed that 36% of respondents promote ethical and sustainable practices in oil and gas industry. Considering third objective on **Challenges in Assessing Islamic financial services in Nigeria**, 56% agreed that Oil and gas companies face challenges in assessing Islamic financial services in Nigeria. Even it was unanimously agreed that 51% of respondents lack understanding and knowledge of Islamic financial services. Thus, it is concluded that Islamic financial services have no effect on productivity of oil and gas sector in Nigeria.

### Testing of Hypothesis

#### Restatement of Hypothesis 1

H<sub>0</sub>: There is no awareness of Islamic financial services among oil and gas sector in Nigeria.

H<sub>1</sub>: There is enough awareness of Islamic financial services among oil and gas sector in Nigeria

#### Decision criterion

Reject H<sub>0</sub>: There is no awareness of Islamic financial services among oil and gas sector in Nigeria.

Accept H<sub>1</sub>: There is enough awareness of Islamic financial services among oil and gas sector in Nigeria.

#### Restatement of Hypothesis 2

H<sub>0</sub>: Islamic financial services have no significant impact on the performance of oil and gas sector in Nigeria

H<sub>1</sub>: Islamic financial services have significant impact on the performance of oil and gas sector in Nigeria.

#### Decision criterion

1. Accept H<sub>0</sub>: Islamic financial services have no significant impact on the performance of oil and gas sector in Nigeria.

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2. Reject  $H_1$ : Islamic financial services have significant impact on the performance of oil and gas sector in Nigeria.

### Restatement of Hypothesis 3

$H_0$ : Oil and gas sector face no challenges in accessing Islamic financial services in Nigeria.

$H_1$ : Oil and gas sector face challenges in accessing Islamic financial services in Nigeria.

### Decision criterion

1. Reject  $H_0$ : Oil and gas sector faces no challenges in accessing Islamic financial services in Nigeria.
2. Accept  $H_1$ : Oil and gas sector faces challenges in accessing Islamic financial services in Nigeria.

**Table 8: ANOVA with Friedman's Test**

	Sum of Squares	Df	Mean Square	Friedman's Chi-Square	Sig
Between People	452.875	99	4.574	71.071	.000
Within People					
Between Items	110.705 <sup>a</sup>	9	12.301		
Residual	1291.195	891	1.449		
Total	1401.900	900	1.558		
Total	1854.775	999	1.857		

*Source: Researcher's field survey 2024*

Grand Mean = 2.39

a. Kendall's coefficient of concordance  $W = .060$ .

The Friedman's Chi-Square results in table 8 showed that chi-square stat of 71.071 and a degree of freedom of 9 displayed 1% significant level since p-value is less than 0.000. This indicates that there are missed reactions as to the effect of Islamic financial service on productivity of oil industry in Nigeria. Based on responses collected, it was realized that there is enough awareness about Islamic financial services in oil industry. This result is consistent with result from frequency table of respondents. Therefore, this study accepts Alternate hypothesis 1 and 3 but reject alternate hypothesis 2 stated in this study.

### Discussion of Findings

The study determines effects of Islamic financial services on the productivity of oil industry in Nigeria. Table 8 showed that chi-square stat of 71.071 and a degree of freedom of 9 displayed 1% significant level since p-value is less than 0.000. This indicates that there are missed reactions as to the effect of Islamic financial service on productivity of oil industry in Nigeria. Based on responses collected, it was realized that there is enough awareness about Islamic financial services in oil industry. This result is consistent with result from frequency table of respondents. Therefore, this study accepts Alternate hypothesis 1 and 3 but reject alternate hypothesis 2 stated in this study.

This result is in line with Sa'adatu and Hadiza (2023) that investigated Islamic corporate governance on financial performance of Islamic financial Institutions in Nigeria, Muhammad and Haruna (2022) examined sukuk financing potential on oil industry in Nigeria.

Vovchenko et. al (2017) examined characteristic of debt-performance relationship in Nigeria, and this assisted various stakeholders to determine how their interests could be realized in a given period of time. It was also provided avenue where risks could be averted during firm operation by determining various ratios analyses in assessing financial performance.

### Summary of Findings

This study evaluates effects of Islamic financial services on productivity of oil and gas sector in Nigeria, used research design and primary data were obtained from Islamic finance experts, and personnel from NNPC with a random sampling technique in gathering information from one hundred respondents through

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questionnaires distributed. Analysis was done with application of descriptive statistic, ANOVA and ordinary least square regression analysis.

The results obtained, it was found that enough awareness was available on Islamic financial services in oil industry. The null hypothesis that stated that there is no awareness about Islamic financial services in oil industry was rejected. However, it was discovered that Islamic financial services have no significant impact on the performance of oil and gas sector in Nigeria. Thus, null hypothesis that implied there was no significant effect of Islamic financial services on oil industry was accepted. Lastly, it was found that oil and gas sector face no challenges in accessing Islamic financial services in Nigeria. This implies that the null hypothesis that stated that oil and gas sector face challenges in accessing financial services was rejected.

### Conclusion

The findings showed 71.071 as chi-square result with 9 as a degree of freedom at 1% significant level, as there was adequate awareness on existence of Islamic financial service but strict conditions restricted oil industry in assessing funds. The study concluded that there was no significant relationship between Islamic financial services and productivity of oil and gas sector in Nigeria.

### Recommendation

It is recommended that government should lower strict conditions attached in assessing Islamic financial services in Nigeria as more productivity would be ensured on gross domestic product.

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