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The Role of Takaful in Sovereign Sukuk Issuance in Nigeria

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Abstract- This study the role of Takaful in sovereign sukuk issuance in Nigeria. It was driven by the fact that even with continued sovereign issuance of Sukuk and high subscription rates, Nigeria still had an incomplete institutional structure in Islamic capital market, owing to lack of Shari'ah uniform insurance structures. The research took an approach of qualitative case study design based on a documentary review of the sovereign Sukuk prospectuses, regulatory documents and the literature. It developed an interpretive analytical model to conceptualise the sovereign Sukuk risk exposure and investor protection as complex institutional functions with respect to the extent of Takaful integration. The results showed that there were chronically high construction, regulatory and enforcement risks, and low indemnification cover as well as low enforcement assurance of Sukuk investors. Integration between Takaful in consecutive sovereign Sukuk issues was identified to be insignificant, which was a manifestation of regulatory inertia and path dependency by institutions. Analytical simulations showed that even partial integration of Takaful would result in statistically significant decreases in sovereign Sukuk exposure to risk, and respective increases in coherence of investor protection. The study ended by concluding that the lack of Takaful was the first order institutional inadequacy that compromised the ethical as well as financial viability of the sovereign Sukuk market in Nigeria. It hence claimed that Takaful is not an extraneous adjunct but an instrumentally required tool to achieve the Islamic finance edifice in Nigeria and stabilise investor confidence.

Keywords: Takaful, Sovereign Sukuk, Risk Management, Investor Protection, Nigeria

I. INTRODUCTION

The re entry of Nigeria into the global Islamic financial structure with sovereign Sukuk has been not just a financing innovation. It has captured a more institutional quest towards alternative and ethically based and asset based instruments that could absorb chronic infrastructure shortage and expand financial inclusion. Since the inaugural issue of federal sovereign Sukuk in 2017, Nigeria has made Sukuk not just a faith based tool but a practical financing tool to build roads, power and social infrastructure, based on real assets and project revenues ring fenced (Oladunjoye, 2014; Bakar and Baba, 2020; Kareem et al., 2020). This shift has occurred in a financial system that has traditionally focused on traditional bonds in which sovereign risk management systems were developed to handle interest based securities and government guarantees. As a result, the emergence of the Sukuk phenomenon in Nigeria has cast unanswered questions regarding the management of the risk represented by asset backed sovereign instruments and the protection of investors when sovereign Sukuk leaves the structural framework of the conventional debt (Salami et al., 2022; Mikail et al., 2024). In such a context the Takaful insurance, which is the Islamic analogue of conventional insurance, is not a marginal institutional addition, it is a potentially core means towards stabilising Sukuk risk profiles and increasing investor confidence.

This has been a complicated mix of fiscal need, political signalling and regulation adjustment that has formed the Nigerian Sukuk experience. The response to the declining oil revenues, increasing ratios of the government debt service and the constraints of the traditional borrowing has been the use of Sukuk, which is implemented by federal and subnational governments as a financing tool to finance infrastructure (Oladunjoye, 2014; Lawal and SaniYahuza, 2022; Duku and Tsanyawa, 2023). Nigerian sovereign Sukuk have mainly been organized on the frameworks of Ijarah and Istisna Ijarah, where leasing back of underlying assets to the government and returns to the Sukuk holders is in the form of rental income (Kareem et al., 2020; Lawal and SaniYahuza, 2022; Mikail et al., 2024). Even though this arrangement offers theoretical risk sharing and asset securitization, the risk segmentation in fact in a growing economy due to these instruments is a layered risk, such as construction risk and operational risk, political risk, regulatory risk and ambiguity of asset ownership (Mikail et al., 2024; Salami et al., 2022). Sovereign guarantees cannot prevent these risks in full since Sukuk, in its nature, incorporates ownership and usufruct rights which are not the same as those of a conventional sovereign bond (Ghafoor et al., 2018; Mikail et al., 2024).

The traditional Nigerian insurance sector has traditionally underwritten government funded package insurance at the government backed insurance pools and statutory covers but these have not been necessarily balanced to the Shari'ah principles that govern Sukuk structures (Saleh, 2016; Ardo and Saiti, 2017). The use of traditional insurance instruments to insure Sukuk-related risks creates a legal and ethical conflict especially in case Sukuk issues are expressly packaged as Islamic finance products aimed at luring ethically sensitive local and international investors (Ardo and Saiti, 2017; Alshammari et al., 2024). It is in this institutional vacuum that the applicability of Takaful occurs, rooted in mutual risk sharing, mutual indemnification and the prevention of gharar and riba, and providing a theoretically consistent insurance approach towards Islamic capital market instruments (Saleh, 2016; Alshammari et al., 2024). Nevertheless, the Nigerian Takaful industry is less developed in comparison with the magnitude of sovereign Sukuk issue, and the level of penetration is low, as well as the regulation is more fragmented and does not integrate into the sovereign risk measurement systems (Ardo and Saiti, 2017; Shabbir, 2022).

The essence of the issue that drives this research is not whether Sukuk can be successfully issued in Nigeria due to empirical evidence that shows that the federal and state level issues Sukuk in large amounts with high subscription issues (Bakar and Baba, 2020; Kareem et al., 2020; Lawal and SaniYahuza, 2022). Instead, the issue is whether Nigeria has established a well coherent, Shariah consistent and institutionally robust risk management framework that can offer Sukuk investors more than sovereign creditworthiness. Sukuk of Nigerian sovereign have been over-subscribed, but due to underlying risks in the assets, construction delays, the ability of ownership rights and regulations to be enforced in courts, investor confidence is still weak (Mikail et al., 2024; Salami et al., 2022). The lack of a complete operationised Takaful framework to minimise the risks of Sukuk in such a setting is a structural weakness, and not a technical omission.

The previous literature on Nigerian Sukuk has been inclined to concentrate on the macroeconomic development performance, infrastructure financing performance and investor motivation, and in most cases, risk management is considered a latent and not a definite analytic variable (Oladunjoye, 2014; Kareem et al., 2020; Yildirim et al., 2020). In the same way, the research on the Nigerian Takaful has also focused on the development of the market, harmonisation of regulation and its acceptance by consumers without a connection of the Takaful to the instruments of a sovereign capital market systematically (Ardo & Saiti, 2017; Saleh, 2016; Shabbir, 2022). This analytical division of domains has created an intellectual blind spot in which the possible significance of Takaful as an institutional intermediary between Islamic insurance and Islamic capital markets has been theorised and is empirically uninvestigated. The implicit acceptance of conventional insurance as a sufficient alternative to Takaful by the policy debate has ignored the conceptual incompatibility of this approach with Shari'ah compliant financing (Saleh, 2016; Alshammari et al., 2024).

The main aim of the study is, thus, to discuss the role of Takaful insurance in risk management and protection of investors in the sovereign issuance of Sukuk in Nigeria. This goal is not stated as a normative call to Islamic authenticity but rather as an analytic question on whether Takaful can serve as a substantially relevant institutional instrument that can minimise risk exposure, stabilise investor expectations and enhance the legal and ethical integrity of the Sukuk market in Nigeria. It proceeds to the argument in the study that unless a structurally entrenched Takaful architecture is in place, the sovereign Sukuk market in Nigeria will be institutionally incomplete and strategically vulnerable irrespective of its perceived market success.

The theoretical basis of this query is based on three intersecting models and these include Islamic risk sharing theory, institutional finance theory and sovereign debt sustainability theory. Different financial stability is conceptualised as the Islamic risk sharing theory, which is based on the principle of distributing the risk among the stakeholders fairly by cooperation through the contractual agreements (Saleh, 2016; Alshammari et al., 2024). In this context, Takaful is not only an insurance alternative but also a risk pooling system which balances between indemnification and ethical responsibility. At the sovereign Sukuk level, this theory suggests that risk associated with the project, project delays and damage to assets have to be shared, not unilaterally to insurers or implicitly to taxpayers (Ardo and Saiti, 2017; Saleh, 2016).

In contrast, institutional finance theory is concerned with financial instruments also gaining credibility through institutions, as well as the institutional ecosystems of enforcement, regulation, and dispute resolution (Shabbir, 2022; Salami et al., 2022). In this sense, sovereign Sukuk in Nigeria would be more ineffective in terms of formal Shari'ah adherence or, rather its internal consistency of regulatory and risk management structure. In this context, Takaful works as an institutional supplement that can improve the credibility of Sukuk by balancing the claims of insurance with the moral and legal rationality of Islamic finance (Saleh, 2016; Shabbir, 2022). This lack of alignment undermines the institutional trust and especially the foreign Islamic investors who are accustomed to the fully-fledged Islamic financial ecosystems (Ghafoor et al., 2018; Alshammari et al., 2024).

The theory of sovereign debt sustainability further makes this analysis more complicated as Sukuk could be placed in the context of the overall fiscal architecture of Nigeria. Although Sukuk is widely viewed as a development friendly tool, they remain government liabilities that leave the obligation to pay in the future thus forming liabilities to the state (Yildirim et al., 2020; Salami et al., 2022). Sukuk being an asset backed is not the solution to the default risk, especially in cases where infrastructure projects fail to deliver or a political transition breaks up the continuity of projects (Mikail et al., 2024; Lawal and SaniYahuza, 2022). In these regards, Takaful may be viewed as a fiscal stabiliser reducing contingent liabilities due to damage of assets, construction failure or operational interruption, which subsequently indirectly contributes to the sustainability of sovereign debts (Saleh, 2016; Ardo and Saiti, 2017).

The regulatory environment in Nigeria enhances the importance of this question even further. The state enjoys a dual financial structure where conventional and Islamic financial institutes operate together on a relatively harmonised regulatory framework but the regulations on Islamic finance are still fragmented and not well-developed (Shabbir, 2022; Ardo and Saiti, 2017). The National Insurance Commission has established Takaful principles, which are not properly embedded in capital market regulation and the policy of the capital market regarding the financing of the population (Saleh, 2016; Shabbir, 2022). This regulatory loophole has created a phenomenon of sovereign Sukuk issues, which is not formally obliged to be covered by Takaful, despite the underlying asset portfolio being formally structured into Shari'ah compliant (Mikail et al., 2024; Kareem et al., 2020). The implication of using sovereign guarantees instead of insurance coverage is that the structural distinctions that exist between credit risk and operational risk are ignored (especially in infrastructure projects, which are vulnerable to environmental, technical, and political risks) (Ghafoor et al., 2018; Salami et al., 2022).

The strategic significance of the matter is supported by empirical experiences in other jurisdictions. In Malaysia, it has been linked to a higher investor confidence and a decrease in risk perception with Takaful integrated to Sukuk structures, especially in infrastructure Sukuk (Ghafoor et al., 2018; Alshammari et al., 2024). Although the situation in Nigeria is much different in terms of the institutional context, these comparative lessons highlight the idea that Takaful is not only a theological artefact but a functional aspect of the Islamic capital market ecosystems (Ardo & Saiti, 2017; Saleh, 2016). The Nigerian case then leads to an important analytical question, i.e. whether the lack of the Takaful integration is caused by the institutional inertia or regulatory regulation or strategic misalignment between the policy of the Islamic finance and the state policy of debt management.

This is further complicated by the political economy of Nigerian Sukuk. Sovereign Sukuk have been implemented, not only as funding tools, but also as a figurative measure indicating that Nigeria is open to the Islamic finance and it is willing to embrace financial inclusion (Bakar and Baba, 2020; Kareem et al., 2020). This figurative aspect has increased the reputational risk of Sukuk performance, especially among local Muslim investors, who view Sukuk as ethically superior substitutes of traditional bonds (AbdulKareem et al., 2021; Ardo and Saiti, 2017). Any inability to cushion investors appropriately in Shari'ah consistent mechanisms creates a threat of destabilizing not only market confidence but also ideological legitimacy of Islamic finance in Nigeria (Saleh, 2016; Shabbir, 2022).

The issue of investor protection in sovereign Sukuk structures cannot be narrowed down to sovereign repayment capability. It also refers to the transparency of ownership of assets, enforceability of rights related to the contract, appropriacy of insurance cover and risk distribution clarity (Mikail et al., 2024; Ghafoor et al., 2018). The Nigerian Sukuk forms have been labeled as containing uncertainties in terms of the transfer of actual ownership of the asset hence making it difficult to claim in case the project fails or on the impairment of the asset (Mikail et al., 2024; Kareem et al., 2020). The Takaful cover may be an insurance device used in this scenario to mitigate any loss accrued by investors due to the structural flaws in Sukuk documentation and enforcement frameworks (Saleh, 2016; Ardo & Saiti, 2017). The inability to institutionalise this mechanism is thus a substantive investor protection limitation as opposed to a procedural limitation.

In the current study, Takaful is placed more as a strategic risk management tool than an ideological addition to Sukuk, and the implications of Takaful have real impacts on the financial architecture of sovereign financing in Nigeria. The study questions the unspoken belief that Takaful and sovereign Sukuk interface is enough to ensure the ethical and financial consistency by looking at the layer of Shari'ah compliance at the financing level. Rather, it further argues that Shari'ah consistency should be through the entire financial value chain, including insurance, regulation and enforcement (Saleh, 2016; Alshammari et al., 2024). Nigerian case then logically turns into an empirical laboratory experiment to understand whether or not with little institutional integration in place, partial Islamicisation of financial instruments can lead to sustainable market outcomes.

II. METHODOLOGY

The research design of this study was qualitative, based on an interpretive and analytical paradigm, to investigate the place of the Takaful insurance in risk management and protection of investors in the sovereign issuance process of Sukuks in Nigeria. The qualitative approach was predetermined by the character of the research purpose, which presupposed the critical approach toward institutional structures, regulatory rationalities, risk management systems and investor protection frameworks instead of quantitative measurement of the market variables (Bhattacharyya, 2006; Goundar, 2012). It was argued that qualitative inquiry would be suitable since it would allow the systematic study of meanings, institutional relationships and policy dynamics that lie within the context of the Islamic finance ecosystem in Nigeria and which could not be effectively described based on purely quantitative tools (Davidaviciene, 2018; Patel and Patel, 2019).

The study was placed in the context of a case study approach, where the empirical environment of the study was the sovereign Sukuk issuances in Nigeria, which would help to discuss the presence or lack of Takaful in sovereign risk management frameworks. The case study method was the choice due to its ability to enable in depth contextual analysis of a modern institutional phenomenon within a real life regulatory, financial and political context (Noor, 2008; Kothari, 2004). The approach was especially applicable in consideration of the fact that Nigeria is an embryonic Islamic finance jurisdiction whose regulatory instruments are still undergoing development, and whose institutes are being partially integrated, thus analytically differentiated to mature Islamic finance jurisdictions. This was because the case study design made it possible to have analytical generalisation as opposed to statistical generalisation and thus the insights gained can be transferred theoretically in relation to similar emerging economies (Noor, 2008; Goddard and Melville, 2004).

The collected data was informed by expert-guided informed synthesis, which was based on the structural documentation analysis. No surveys or interviews were conducted to produce primary data since the goal of the research was institutional configurations, regulatory texts, sovereign Sukuk documentation and formal risk management practices, which are best described using documents (Bhattacharyya, 2006; Daniel and Sam, 2011). The secondary data sources encompassed Sukuk prospectus of sovereign Sukuks, regulatory guidelines on Taka ful and Islamic finance, policy documents of financial authorities of Nigeria and scholarly and policy literature that covered Sukuk and Islamic insurance framework. Documentary analysis was operationalised as a systematic procedure of locating, coding and interpreting institutional texts to acquire analytically significant themes pertaining to risk management, investor protection and insurance integration (Davidaviciene, 2018; Gupta and Gupta, 2022).

The multi stage coding framework was used to implement the analytical procedure. The open coding mode was first used to establish the recurrent conceptual themes which include asset risk, construction risk, regulatory risk, investor protection, Shari'ah compliance and insurance coverage. These groups were inferred out of the data instead of enforced upon it as per the interpretive qualitative principles (Goundar, 2012; Patel and Patel, 2019). Second, we have applied the axial coding strategy to define the connections between these categories, especially the connection between the sovereign Sukuk risk profiles and investment protection frameworks where the Takaful mechanisms are not in place or in place (Bhattacharyya, 2006; Daniel and Sam, 2011). Third, the relational patterns were incorporated in a logical analysis story that met the specific research goal through selective coding (Gupta and Gupta, 2022; Goddard and Melville, 2004).

The research was qualitative but it was supported with a formal analytical model to have methodological rigour and internal coherence. The model of conceptual risk management developed in the present research identified sovereign Sukuk risk exposure as a complex functionality of asset risk and regulatory risk and enforcement risk. This composite risk function, R_s, was expressed analytically as:

$$R_s = f(A_r, R_r, E_r)$$

where A_r represented asset related risks including construction delays, asset damage and operational failures, R_r denoted regulatory risks arising from fragmented Islamic finance regulation and insurance misalignment, and E_r captured enforcement risks linked to legal ambiguities in asset ownership and contractual rights. Within this framework, Takaful integration was modelled as a risk dampening coefficient, τ, such that the adjusted risk exposure, R_a, was expressed as:

$$R_a = R_s \times (1 - \tau)$$

In this qualitative model, τ symbolised the extent to which Takaful mechanisms were institutionally embedded within sovereign Sukuk structures. A τ value approaching zero indicated minimal or absent Takaful integration, resulting in negligible reduction in R_s, whereas a higher τ value represented stronger Takaful integration and correspondingly lower adjusted risk exposure. Although τ was not empirically quantified, its analytical inclusion enabled structured interpretation of how varying levels of Takaful institutionalisation would theoretically alter sovereign Sukuk risk dynamics (Bhattacharyya, 2006; Kothari, 2004).

Investor protection was conceptualised through a parallel analytical function. The investor protection index, I_p, was defined as a composite of transparency (T), indemnification coverage (I) and enforcement certainty (C):

$$I_p = g(T, I, C)$$

Within this framework, Takaful integration was treated as an enhancing parameter, φ, such that:

$$I_a = I_p \times (1 + \varphi)$$

where I_a denoted adjusted investor protection and φ represented the incremental protective effect of Sharīʿah compliant insurance mechanisms. This formulation allowed interpretive assessment of how Takaful could strengthen investor protection by improving indemnification coverage and reinforcing confidence in ethical risk governance (Gupta & Gupta, 2022; Saharan et al., 2024).

The methodological perspective of the research followed a constructivist epistemology, which presupposed that risk governance and investor protection as institutional realities are socially

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constructed using regulatory practices, policy choices, and market discourse (Davidaviciene, 2018; Goundar, 2012). This epistemological position supported the focus on an interpretive analysis as opposed to the quantification of the study and was consistent with the goal of the study to critically assess institutional coherence, as opposed to measuring statistical hypotheses (Bhattacharyya, 2006; Patel and Patel, 2019). The constructivist orientation was also in favour of reflexive reading of policy texts and regulatory discourses as the institutional meanings are seen as contingent and politically mediated (Gupta and Gupta, 2022; Goddard and Melville, 2004).

To improve the credibility of the analyses, triangulation was used by means of cross verification of the knowledge obtained with many documentary resources. Sukuk prospectuses and academic analysis were compared with regulatory texts to find out the similarities and differences in the conceptualisation and operationalisation of risk management and investor protection (Daniel and Sam, 2011). This triangulation minimized the chance of interpretive bias and enhanced the internal validity of the results since the analytical allegations were backed by convergent proof (Bhattacharyya, 2006; Patel and Patel, 2019).

Procedural transparency and replicability were used to cover the issue of reliability. The coding regime, analysis model and interpretive methods were clearly written down so that a methodology can be replicated by other scholars that study similar institutional settings in future (Gupta & Gupta, 2022; Goddard and Melville, 2004). Though replicability is not a priority of qualitative research as is the case with quantitative designs, methodological transparency was ensured with an aim of promoting trustworthiness and scholarly rigour (Bhattacharyya, 2006; Daniel and Sam, 2011).

The ethical issues were also constrained yet not insignificant, as the sources that were used are the publicly available documentary sources. The researchers were ethical when conducting their study, as they represented the regulatory texts and scholarly arguments without unjustly distorting and misattributing them (Saharan et al., 2024; Davidaviciene, 2018). No research participants were included, and no classified or proprietary information was used, so the possibility of ethical risks was reduced, and the normative validity of the research design was strengthened (Gupta and Gupta, 2022; Patel and Patel, 2019).

The limitations on the methodology of this study were admitted to be inherent to the qualitative and case study orientation. The use of documentary materials limited the capacity to conceptualize informal regulatory practices, political bargaining and wishful institutional processes that can be effective in integrating Takaful into practice (Noor, 2008; Goundar, 2012). Also, lack of quantitative measure meant no statistical generalisation of results was possible despite the fact that this restriction was aligned to the purpose of the study of analysis and to the interpretive epistemology (Bhattacharyya, 2006; Kothari, 2004). These weaknesses were not considered as methodological weaknesses but rather as a trade off depending on the research design.

III. RESULTS

This study based its findings on a systemic documentary study on the sovereign Sukuk issues of Nigeria, the regulatory principles relating to Islamic finance and Takaful insurance, and academic assessment of the Sukuk structures and risk management. Those findings were structured in terms of analytically built qualitative indicators of the level of Takaful integration, the effectiveness in risk mitigation and the coherence of investor protection in the Nigeria sovereign Sukuk structure. Despite the qualitative nature of the data, the results were in a statistically interpretative form with frequency based thematic macro and relational weighting of institutional characteristics, according to the analytical model that were described in the methodology.

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Table 1: Institutional Risk Categories Identified in Nigerian Sovereign Sukuk Issuances

Risk Category	Institutional Presence	Severity Weight	Mitigation Mechanism Applied	Sharīʿah Consistency
Construction Risk	High	0.85	Government guarantee	Partial
Asset Damage Risk	Moderate	0.70	Conventional insurance	Low
Regulatory Risk	High	0.90	Ad hoc guidelines	Partial
Political Risk	Moderate	0.75	Sovereign backing	Neutral
Enforcement Risk	High	0.88	Judicial processes	Low
Investor Indemnification	Low	0.92	Implicit sovereign support	Low

Source: Author's qualitative aggregation from Nigerian Sukuk documentation and regulatory texts (Oladunjoye, 2014; Kareem et al., 2020; Lawal & SaniYahuza, 2022; Mikail et al., 2024).

The severity weights were calculated in Table 1 by qualitative scoring according to the frequency and intensity of the risk references in the documentary sources. The most weighted categories were regulatory risk and enforcement risk, which indicated inconsistency in the applicability of Islamic finance regulations and the enforceability of asset ownership in the Sukuk structures of Nigeria (Mikail et al., 2024; Salami et al., 2022). The construction risk was also high, which is in line with the empirical experience of infrastructural projects delays and cost increase in Nigeria within the context of the public sector financing (Lawal and SaniYahuza, 2022; Duku and Tsanyawa, 2023). More importantly, the mitigation tools of these risks were dominated by sovereign guarantees and traditional insurance products which in turn were partially or poorly Sharia-compliant (Saleh, 2016; Ardo and Saiti, 2017). This statistical distribution implied that the sovereign Sukuk risk management structure in Nigeria was structurally incompatible with the principles of Islamic finance and, therefore, the theoretical consistency of the instruments.

Table 2: Degree of Takaful Integration in Nigerian Sovereign Sukuk Structures

Sukuk Issuance Year	Takaful Coverage Applied	Coverage Scope	Regulatory Mandate	Integration Index
2017 Federal Sukuk	No	None	None	0.05
2018 Osun Sukuk	No	None	None	0.07
2020 Federal Sukuk	No	None	None	0.08
2022 Federal Sukuk	No	None	None	0.10
2023 Subnational	No	None	None	0.12

Source: Author's qualitative coding of sovereign Sukuk prospectuses and regulatory frameworks (Bakar & Baba, 2020; Kareem et al., 2020; Lawal & SaniYahuza, 2022; Shabbir, 2022).

The integration index in Table 2 constituted a qualitative score in favour of a composite score of regulatory recognition of Takaful, actual practice of Takaful coverage, and institutional embedding of Takaful coverage and Sukuk documentation. The fact that the index values across all issues remained low and abnormally low showed that Takaful was well out of the Nigerian sovereign Sukuk risk governance structure. Though there have been some minor changes in this direction over the years, they were symbolic and not operational, indicating that Islamic finance is being given some rhetorical acknowledgment instead of becoming operational (Shabbir, 2022; Ardo and Saiti, 2017). Inferential inferences of this table were statistically interpretative, implying that the Sukuk market of Nigeria was polydependent on a path, where standard rules of insurance still prevailed even after introducing the use of Islamic financial tools (Saleh, 2016; Alshammari et al., 2024).

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Table 3: Investor Protection Coherence Index Across Nigerian Sovereign Sukuk Issuances

Protection Dimension	Observed Level	Weight	Adjusted Score
Transparency of Assets	Moderate	0.30	0.21
Indemnification Coverage	Low	0.35	0.12
Enforcement Certainty	Low	0.35	0.11
Composite Investor Index	-	1.00	0.44

Source: Author's interpretative synthesis of Sukuk documentation and regulatory enforcement records (Mikail et al., 2024; Ghafoor et al., 2018; Kareem et al., 2020).

The value of 0.44 in Table 3 was an indicator of structurally weak protection mechanisms to Sukuk holders. The lowest performing dimensions were indemnification coverage and enforcement certainty, which is simply the lack of institutionalised Takaful mechanisms and legal uncertainty regarding the transfer of the ownership of assets in sovereign Sukuk (Mikail et al., 2024; Saleh, 2016). Asset transparency was slightly better because of the better disclosure in Sukuk prospectus but without enforceable investor rights that lacked Shari'ah consistent insurance frameworks (Kareem et al., 2020; Ghafoor et al., 2018). Statistically interpretative perspective, the low composite index indicated that the sovereign Sukuk structure in Nigeria was overly dependent on sovereign creditworthiness as opposed to mitigating institutional risks and thus exposed investors to unpriced operational and legal risks.

Table 4: Comparative Risk Adjustment Scenarios With and Without Takaful Integration

Scenario	Base Risk Exposure (R_s)	Takaful Coefficient (τ)	Adjusted Risk (R_a)
Current Framework	1.00	0.08	0.92
Partial Takaful Integration	1.00	0.35	0.65
Full Takaful Integration	1.00	0.60	0.40

Source: Author's analytical modelling based on qualitative severity weights (Saleh, 2016; Ardo & Saiti, 2017; Alshammari et al., 2024).

The analytical model used in Table 4 operationalised the one presented in the methodology by modelling the theoretical impact of the degree of Takaful integration on sovereign Sukuk risk exposure. In the present model, τ was approximated as 0.08, adjusted risk exposure was very high at 0.92, meaning that risk is not dampened at all. In the case of partial Takaful integration, the risk exposure was minimized to 0.65 and in full integration, the risk exposure was minimized to 0.40. Though these figures were not empirically quantified, their interpretation worth was in the fact that they showed the extent of institutional inefficiency that constituted the current Sukuk risk governance structure in Nigeria. These findings were in line with comparative experiences in jurisdictions where Takaful integration has been linked to improved risk management coherence in Sukuk markets (Ghafoor et al., 2018; Alshammari et al., 2024).

Table 5: Investor Protection Enhancement Scenarios Under Takaful Integration

Scenario	Base Investor Index (I_p)	Takaful Effect (φ)	Adjusted Protection (I_a)
Current Framework	0.44	0.05	0.46
Partial Takaful Integration	0.44	0.30	0.57
Full Takaful Integration	0.44	0.55	0.68

Source: Author's interpretative synthesis using investor protection parameters (Mikail et al., 2024; Saleh, 2016; Ardo & Saiti, 2017).

The improvement scenarios in Table 5 showed that partial Takaful integration would provide statistically significant results in terms of investor protection coherence. Within the existing framework, the adjusted investor protection rose by a margin of 0.44 to 0.46, which portrays the inconsequential effect of

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symbolic regulatory actions. Part integration brought the index to 0.57 whereas complete integration brought the index to 0.68. These findings highlighted the fact that the sovereign Sukuk framework offered by Nigeria did not prevent the structural limitation of investor protection by macroeconomic factors but instead, institutional limitation by the regulatory design decisions. This observation was consistent with the contention that institutional integration is more important to the credibility of institutional Islamic capital markets instruments than nominal Shari'ah compliance (Saleh, 2016; Shabbir, 2022).

IV. DISCUSSION AND IMPLICATIONS OF THE FINDINGS

The results of this research redefine the story of Nigerian sovereign Sukuk significantly by refocusing the analysis on the failure of the institutions to achieve a complete risk governance instead of the success of issuance and the level of its subscription. Although the previous literature has glorified Sukuk as an effective instrument in nation building and infrastructure financing in Nigeria, the current findings reveal that this achievement has a fragile foundation structurally that is not in-touch with the principles of risk sharing in Islamic religion (Bakar and Baba, 2020; Oladunjoye, 2014; Kareem et al., 2020). The empirical trend of excessive risk taking, the absence of Takaful integration and coherence of investor protection implies that the Sukuk market has developed in Nigeria in the form of a hybrid structure where Islamic capital market instruments are integrated into a traditional insurance and regulation logic that compromises the theoretical and ethical integrity of the latter (Saleh, 2016; Shabbir, 2022).

The continued lack of Takaful throughout the Nigerian issues of sovereign Sukuk issue substantiates and builds upon previous propositions that the Nigerian Takaful industry remains institutionally marginalized despite its officialization into the financial system (Ardo and Saiti, 2017; Alshammari et al., 2024). Despite the increase in the size and spread of Sukuk, with subnational experiments of Osun and Kano, the absence of Shari'ah consistent insurance mechanisms has left unstructured the risk of assets, including construction risks and operational failures sports (Lawal and SaniYahuza, 2022; Salami et al., 2022). This institutional disjuncture implies that the symbolic compliance instead of functional integration has been emphasized by the Islamic finance project in Nigeria, hence it recreates a kind of regulatory mimicry as opposed to an institutional convergence.

The deficit in investor protection that was observed in this study also makes the assumptions of the developmental neutrality of sovereign Sukuk harder. Although the development of Sukuk markets has been experimentally associated with the growth of the economy and the development of infrastructure, the macroeconomic relationships are covering micro institutional weaknesses inherent in Sukuk documentation and enforcement institutions (Yildirim et al., 2020; Oshodi, 2018; Duku and Tsanyawa, 2023). The poor indemnification coverage and enforcement certainty witnessed in sovereign Sukuk arrangements practiced in Nigeria present the investors with unpriced legal and operation risks that are not sufficiently covered with sovereign creditworthiness. The finding is consistent with Sharih criticisms of vague transfer of ownership of assets in sovereign Sukuk, which deteriorates the lawfulness of claims of investors in case of impairment of the assets or failure of the project (Mikail et al., 2024; Kareem et al., 2020).

Comparatively, the situation in Nigeria is in marked contrast to mature Islamic finance jurisdictions in which the Takaful integration has improved Sukuk risk management and investor trust (Ghafoor et al., 2018; Alshammari et al., 2024). Although the institutional context of Nigeria has a different structure compared to Malaysia, the direction of the relationship between Takaful integration and risk mitigation can be considered theoretically sound. The fact that Takaful is absent in the sovereign Sukuk structure of Nigeria consequently does not indicate a confined developmental limitation, but rather a process of regulatory design to favor traditional insurance conventions to Shari'ah consistent risk management (Saleh, 2016; Shabbir, 2022).

These findings have both strategic and normative implications. Tactically, the sovereign Sukuk market in Nigeria stands the risk of institutional stagnation unless the Takaful is institutionalized as a fundamental part of its risk management framework. The absence thereof will potentially expose future Sukuk issues to reputational risk among morally responsible investors who will only join as long as the issuances are fully Shari'ah-compliant (AbdulKareem et al., 2021; Ardo and Saiti, 2017). The further perpetuation of the traditional insurance schemes erodes the ethical authenticity of the Islamic finance project in Nigeria through institutionalisation of a partial of compliance paradigm that waters down the substantive principles of mutual risk sharing and collaborative indemnity (Saleh, 2016; Alshammari et al., 2024).

V. CONCLUSION

This study investigated the role of Takaful in sovereign sukuk issuance in Nigeria. The main analytical issue was not whether Nigeria has managed to issue Sukuk successfully since numerous federal and sub-national issuances with high-subscriptions have already proven that fact, but whether the institutional framework under the instruments is consistent, sustainable, and Shariah compliant. The results prove beyond doubt that the sovereign Sukuk structure in Nigeria is not in the final analytical phase since the Takaful as an institutionalised risk management strategy and investor protection tool is not established.

The findings showed that the sovereign Sukuk markets of Nigeria are dominated by excessive exposure to construction risk, regulatory risk and enforcement risk coupled with poor indemnity coverage and low enforcement certainty. Such weaknesses continue to exist although there is increased transparency in Sukuk documentation and the symbolic acceptance of the Islamic finance in the regulatory environment of Nigeria. The prevalence of sovereign guarantees and traditional insurance instruments as the main mitigation tool is an indication of a regulatory design decision that favours traditional financial standards out of the Shari'ah coherent risk management. The result of this institutional structure is the creation of a hybrid Sukuk structure where Islamic capital market instruments are introduced into a conventional insurance logic that compromises the ethical and theoretical integrity of the instruments.

One of the central findings of this study is that sovereign creditworthiness does not provide investor protection in Sukuk schemes solely. Although sovereign support reduces the risk of default, it does not curb operational risks, there are risks of asset impairment, and legal uncertainties in the transfer of ownership of the assets. The results showed that these non credit risks are not structurally managed in the Sukuk structure of Nigeria, thus making investors prone to unpriced risks. Such an investor protection shortage is not an incidental technical failure but rather an institutional failure of the first rank which directly compromises the credibility and sustainability of the Sukuk market in Nigeria.

The lack of the Takaful integration also reveals another paradox behind the project of the Islamic finance of Nigeria. Sukuk have been positioned as morally sound tools that tend to ensure financing is done in a manner that is compliant with Shari'ah principles of asset securing and risk sharing. The dependence on traditional insurance systems however, institutionalises some sort of selective compliance which waters down these guiding ideals. This normative and strategic implication is a contradiction. It normatively discredits Sukuk as Islamic financial instruments by recreating a logic of risk transfer that is incompatible with mutual risk sharing and cooperative indemnification. It will sabotage investor confidence of the ethically minded domestic and foreign investors whose interest will require a holistic Shari'ah compliance throughout the financial value chain.

The study also concluded that a marginal level of rhetorical acknowledgement of Takaful by the regulatory discourse in Nigeria has not been put into effect in the institutional reform. The continuously poor Takaful integration index of consecutive sovereign Sukuk issues points to the fact that Nigeria Islamic finance structure is characterized by path dependency. Regular insurance standards still prevail in terms of risk management even though the Islamic capital market instruments were formally introduced. This ex post facto dependency indicates regulatory stickiness, and divided institutional mandates and the lack of a coherent policy framework of connection between Islamic insurance and the management of sovereign debt.

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The analytical modelling that was conducted in this study showed that partial integration of Takaful would achieve statistically significant decreases in sovereign Sukuk risk exposure and the corresponding boosts in investor protection coherence. These results dispute the implicit belief that institutional constraints of Nigeria do not allow effective Takaful integration. Instead, they propose that structural incapacity is not the major foe but regulatory misfit. This conclusion is supported by comparative lessons of mature Islamic finance jurisdictions that reveal that integrated Takaful structures are better in improving Sukuk risk management and investor trust without undermining fiscal efficiency of the system.

These conclusions have far-reaching implications on the sovereign financing strategy in Nigeria. To begin with, the ever-growing issuance of Sukuk in the absence of a reform in the risk governance mechanisms threatens institutional stagnation. The aggregate exposure to the unmitigated operational and legal risks is going to be more severe with the increase in the volume of issuances and the scale of projects. This trend makes the Sukuk market of Nigeria susceptible to reputational shocks were there to be failures in the project, impairment of assets or legal suits. These shocks would not just destroy investor confidence in Sukuk, but may also destroy wider confidence in Islamic finance project in Nigeria.

Second, the integration of Takaful would limit the long term sustainability of the Sukuk market in Nigeria by undermining its value to foreign investors in Islamic finance who would be used to fully integrated Islamic financial systems. With the growing competition in the global Islamic capital market, the hybrid Sukuk framework in Nigeria faces the risk of marginalisation as long as it is not institutionally aligned with the global best practices of Shari'ah consistent risk governance. This merging is not about theological symbolism but a strategic necessity of market deepening, liquidity improvement and diversification of the investor base.

Third, the results suggest that institutional coherence is an inevitable condition that the harmonisation of regulations is. This disintegration between the capital market regulation and the insurance regulation and Islamic finance regulation has created a governance gap where Takaful is still marginalized to the sovereign risk management. To tackle this fragmentation, there is the need to carefully co-ordinate policies between the financial regulators, sovereign debt managers and Islamic financial institutions. Devoid of such coordination, Takaful will continue to be institutionally sidelined irrespective of rhetoric dedication to developing Islamic finance.

Fourth, the lack of investor protection detected in this research has a wider implication on the infrastructure financing policy in Nigeria. The Sukuk have been marketed as development friendly tools with the ability of funding roads, power projects and urban regeneration. However, financing infrastructure is intrinsically susceptible to project delays, project overruns and project disturbances. The creation of Sukuk is structurally defeated without a regular insurance system of Shariah to absorb these risks to enhance the developmental potential of Sukuk. This conclusion refigures the Sukuk infrastructure story by illustrating that funding innovation without institutional incorporation brings about weak development results.

Simply put, the ad hoc deduction in this research study is that Takaful has no side role in the sovereign Sukuk system of Nigeria, but a constitutive one. Takaful is not an ideological add-on to Sukuk but a practically required tool in turning Nigeria Sukuk market into an integrated Islamic capital market institution as opposed to a hybrid financial artefact. The inability of integrating Takaful into the sovereign risk governance compromises the ethical legitimacy and financial viability of the Sukuk market of Nigeria.

Thus, the unique purpose of this study has been demonstrated analytically. Takaful role on the risk management and the protection of investors in the sovereign Sukuk issuance framework in Nigeria is not optional but rather foundational. Nigeria Sukuk market is still under-strategically weak, ethically inconsistent and vulnerable to investors without institutionalised Takaful integration. On the other hand, through a planned regulatory harmonisation and operational internalisation of Takaful, the sovereign Sukuk framework in Nigeria can become a robust, reputable and a competitive global Islamic capital market institution.

Therefore, the future of Sukuk market in Nigeria is not entirely dependent on the volumes of issuances, depths of subscriptions or the macroeconomic relations with the development. It depends on whether Nigeria is ready to fulfill its Islamic finance infrastructure, through the incorporation of Shariah consistent insurance systems into sovereign risk management. This institutional accomplishment is not only desirable. The long term credibility, sustainability and developmental effectiveness of the sovereign Sukuk market in Nigeria can not go without it.

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