

Islamic Finance and Economic Growth: Empirical Evidence from Nigeria

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Abstract

Islamic finance is gradually gaining acceptance locally and internationally which Nigeria is not an exception. The emergence of Islamic finance in Nigeria can be traced back to 1991. The main objective of this paper is to assess the contribution of Islamic finance on the growth of the economy of Nigeria as well as its relationship and directions. Time series data from 2012 to 2015 was used on quarterly basis. Islamic banks' financing credited to private sector through modes of financing was used as a proxy for Islamic finance, Foreign Direct Investment (FDI) and TRADE as explanatory variable while Real Gross Domestic Product (RGDP) was used as a measure of real economic growth called the dependent variables. For the analysis, Ordinary Least Square (OLS), the unit root test, cointegration test and Granger Causality tests was used. Our empirical results show that there is a strong positive association between Islamic banks' financing and economic growth in Nigeria, which reinforces the idea that a well-functioning banking system promotes economic growth. Furthermore, the causal relationship happens only in one direction, i.e, from Islamic banks' financing to economic growth, which is in compliance with the Schumpeter's supply-leading theory

Keywords: Islamic finance, Economic growth, Causality, Nigeria, Shariah

1. Introduction

The global financial crisis of 2007 has created awareness of the ethical flaws of the conventional financial system. This in turn has the potential to make Islamic finance appeal beyond the Muslim World (Subhani, 2010) because countries have deemed it necessary to search for a financial system that can withstand the taste of time and as a result the debate about the mission, operations and viability of the Islamic financial system has not only grown but has considerably widened. Islamic finance refers to as structuring financial instruments and financial transactions to satisfy traditional Muslim structures against the payment of interest and engaging in gambling (Tabash and Dhankar, 2014a). It can also be defined as the provision of financial services in accordance with the *Shariah* (Kamar, Norat, Pinon, Prasad, Towe, and Zeidaine, and IMF Staff Team 2015) which is also known as *Fiqh Al-Mu'amalat* (Jurisprudence of Commercial transaction). The rules and practices of *Fiqh Al-Mu'amalat* emanated from the Quran, the Sunnah, and other secondary sources of Islamic law such as consensus of various school of thoughts (*ijma*), deductive reasoning (*qiyas*) and Personal reasoning (*ijtihad*). Shariah bans interest (Riba), products with excessive uncertainty (Gharar), gambling (Maysir) as well as financing of prohibited activities that are considered harmful to the society.

According to Iqbal (1997), more than 100 financial institution in over 45 countries practice some form of Islamic finance but as at 2013, it has grown to more than 500 Islamic institution in more than 75 countries (Ernest and Young, 2013) and the industry has been growing at a rate of more than 15% annually with an indication of consistent growth in the future. In addition, recent report revealed that the global Islamic financial industry has been in an upward trajectory, evidenced by its asset double digit Compound Annual Growth Rate (CAGR) of 17% between 2009 and 2013. The industry assets are estimated to be worth USD1.87 Trillion as at first half of 2014 having grown from USD1.79 Trillion as at the end of 2013 (Islamic Financial Services Industry Stability Report, 2015).

With this enormous growth size, it's still represent 1% of the total world asset (Economist, 2014) and it is heavily concentrated in the Middle East and Asia countries (Kammer *et al*, 2015). The Gulf Corporation Countries (GCC) region accounts for the largest proportion of Islamic financial asset as the sector set to gain mainstream relevance in most of its jurisdiction; the region represents 37.6% of the total global Islamic Financial asset. The Middle East and North (Excluding GCC's) rank a close second with a 34.4% share, buoyed by Iran's fully Shariah compliant banking sector. Asia rank third representing 22.4% share in the global total, largely spare headed by the Malaysian Islamic Finance market place (Islamic Financial Service Industry Stability Report, 2015) with about 38 Million customers globally (Ernest and Young, 2013). The contribution from other region, particularly Europe and Sub-Saharan Africa remain very low which raises issue of urgent attention particularly in Nigeria for instance with an estimated population of 182 Million (World Population Prospectus, 2015) out of which 49.3% are Muslims (Pew Survey, 2012), 74% of adult Nigerian representing about 64 million are unbanked (Enhancing Financial Innovation and Access Report, 2008a) and mainly in the northern region (Dogarawa, 2011) is yet to key properly into this Trillion Dollars venture so as to reap its benefits locally and also to contribute its quota globally. With the exclusion of large percentage of Muslims from the Islamic

financial services because they cannot operate the conventional system due to their religious belief, this has a run over effect on the growth of the Nigeria economy. It is against this background that this work was conducted.

2. Islamic Finance in Nigeria

Islamic finance in Nigeria is x-rayed based on its components; Islamic Banking, Islamic insurance (Takaful), sukuk (Islamic Bond) and Islamic Fund.

2.1 Islamic Banking

There is one full-fledged Islamic bank in Nigeria known as Jaiz bank Plc, and three Islamic windows namely, Keystone Bank, Stanbic IBTC, Standard Chartered Bank and Sterling Bank. . The sector has witnessed tremendous growth over time because as at the end of 2012 its total asset stood at N15, 807.4M which it grew to N33, 472.4M as at the end of 2013 which is about 111% (CBN Statistical Bulletin Report, 2013).It later grew to N44, 883.6M as at the end of 2014 (CBN Statistical Bulletin Report, 2014) and currently as at the end of first quarter 2015 its asset is now N46,828.2M (CBN Statistical Bulletin Report, 2015)

2.2 Takaful (Islamic Insurance)

The African Alliance Insurance Company Limited introduced Islamic Insurance (Takaful) into the market in 2003. Since then other two conventional insurance companies have joined the fray. These are Niger Insurance Plc and Cornerstone Insurance plc. As a composite Insurance Company, Niger Insurance Plc transacts all classes of insurance business and offers a wide range of innovative products and customer-oriented services to its growing clientele. In addition, they support their products with one of the most efficient and constantly improving claims settlement procedures in the insurance market.

Cornerstone is an ethical, dynamic and innovative custom products for the large Muslim population in Nigeria and decided to establish Halal Takaful Nigeria for the purpose. Of all the three existing Takaful underwriting companies, only Cornerstone offers a separate Takaful office; being run by one of its subsidiaries – Halal Takaful Nigeria -- where assets of Takaful are not merged with the conventional insurance funds (Yusuf,2012)

2.3 Sukuk (Islamic Bond)

Sukuk was first launched by the Government of Osun State (“OSG”) through a wholly owned Special Purpose Company, Osun Sukuk Company Plc issued on the 8th of October, 2013 the first sukuk in Sub-Saharan Africa worth N11.4 billion (\$70.6 million) under the Osun State N60 Billion Debt Issuance Programme to fund the development of 20 High Schools, 2 Middle Schools and 2 Elementary Schools in Osun State. The sukuk was issued at a rate of 14.75% per annum at N 1,000 per unit and matures on 08 October, 2020 (Oladunjoye,2014).

2.4 Islamic Fund

The Lotus Capital is a full-fledged Islamic fund management company that was founded in June, 2004. It has a total asset size of N1.953B as at 2012 and N2.164B as the end of 2013 (Lotus Capital Financial Report, 2013).

3. Research Problem, Objectives and Questions

There is no misgiving that the development of Islamic financial system plays an important role in an economy as many writers have maintained that the development and the efficiency of such financial system is closely linked to economic growth. They have pointed out various channels through which Islamic financial system affects economic growth. Popular amongst such studies are; Goaned (2008); Furqan and Mulyany (2009); Iqbal and Murakhir (2013); Iqbal (1997); Tabash and Dhankar (2014); Abuh and Chowdury (2012) etc but their works are mainly narrowed to Gulf Corporation Countries (GCC) and Asian Countries. However, the available literatures to Islamic Finance in Nigeria are limited to theoretical components and only few studies to some extent linked growth with Islamic financial system. Thus, creates a vacuum in the literature. To help in filling this gap, necessitate the need for this study. This paper will provides answer to the following pertinent questions.

- a. Does Islamic Finance have a significant relationship on Nigeria’s economic growth in the long-term?
- b. What is the direction of the relationship between Islamic Finance and Nigeria’s economic growth?
- c. Does Islamic Finance lead to economic growth in Nigeria or vice versa?

4. Literature Review

There are many studies that examined the relationship between Islamic finance and economic growth. Amongst which are as thus; Tabash and Dhankar (2014a) assessed the contribution of Islamic finance in the growth of the economy of UAE using time series data from 1990 to 2010. They adopted the following variables; Islamic banks’ financing credited to private sector through modes of financing as a proxy for the development of Islamic finance system and Gross Domestic Product (GDP), Gross Fixed Capital Formation (GFCF) and Foreign Direct

Investment inflow (FDI) as proxies for real economic growth. Unit root test, co integration test and Granger Causality tests analysis were used in the analysis. The study shows that there is a strong positive association between Islamic banks' financing and economic growth in the UAE, which reinforces the idea that a well-functioning banking system promotes economic growth. However, their results indicate that a causal relationship happens only in one direction, i.e., from Islamic banks' financing to economic growth, which supports Schumpeter's supply-leading theory. In this case, the development in the Islamic financial sector acts as supply leading to transfer of resources from the traditional, low-growth sectors to the modern high-growth sectors, and to promote and stimulate an entrepreneurial response in these modern sectors.

Farahani, Sadr and Hossein (2012) examined the short-run and the long-run relationships between Islamic banking development and economic growth in the case of Iran and Indonesia based on Quarterly data (2000:1-2010:4). They utilized the bound testing approach of co integration and error correction models, developed within an autoregressive distributed lag (ARDL) framework. Their results showed a significant relationship in short-run and long-run periods between Islamic financial development and economic growth. The relationship appears to be bi-directional relationship. It is clear for these countries in general that in short run Islamic banks' financing is an important ingredient for economic development. The results generally show that in the long run, Islamic bank's financing is positive and significantly correlated with economic growth and capital accumulation of these countries. In this regard, Islamic banking has effectively played its main role as financial intermediaries that facilitate the transmission of saving from surplus households to deficit households. Furthermore, results show the reliability and contribution of Islamic banking to the real economic sectors of these countries specifically economic growth and capital accumulation. These results reveal that improvement of the Islamic financial system in these countries may benefit economic development and it is important in the long run for economic welfare.

Furqani and Mulyany (2009) examined the dynamic interactions between Islamic banking and economic growth of Malaysia by employing the cointegration test and Vector Error Correction Model (VECM) to see whether the operation of the financial systems influences growth and growth transforms the operation of the financial system in the longrun. They use time series data of total Islamic bank financing (IBFinancing) and real GDP per capita, Gross Fixed Capital Formation (GFCF) and trade activities (TRADE) to represent real economic Sectors. They found that in the short-run, only Gross Fixed Capital Formation that granger cause Islamic bank to develop for 1997:1-2005:4. Where as in the long-run, there is evidence of a bidirectional relationship between Islamic bank and Gross Fixed Capital Formation and there is evidence to support demand - following hypothesis of GDP and Islamic bank, where increase in GDP causes Islamic banking to develop and not vice versa. In the case of trade, the result suggests that in the long run there is no co integration of Islamic bank financing and international trade activities. This might be due to the share of Islamic Bank financing to international trade activities is relatively small and not significant to boast international trade.

Dhankar and Tabash (2014a) attempt to assess the contribution of Islamic finance in the growth of the economy of United Arab Emirates (UAE) and also specifically to empirically ascertain the relationship between the development of Islamic finance system and growth of the economy in the United Arab Emirates (UAE). Time series data from 1990 to 2010 was used. They used Islamic banks' financing credited to private sector through modes of financing as a proxy for the development of Islamic finance system and Gross Domestic Product (GDP), Gross Fixed Capital Formation (GFCF) and Foreign Direct Investment inflow (FDI) as proxies for real economic growth. Unit root test, cointegration test and Granger Causality tests were done. Their empirical results showed that there is a strong positive association between Islamic banks' financing and economic growth in the UAE, which reinforces the idea that a well-functioning banking system promotes economic growth. However, their results indicate that a causal relationship happens only in one direction, i.e., from Islamic banks' financing to economic growth, which supports Schumpeter's supply-leading theory. In this case, the development in the Islamic financial sector acts as supply leading to transfer of resources from the traditional, low-growth sectors to the modern high-growth sectors, and to promote and stimulate an entrepreneurial response in these modern sectors. Furthermore, the results showed that Islamic banks' financing has contributed to the increase of investment and in attracting Foreign Direct Investment inflow (FDI) in the long term and in a positive way in UAE.

Tabash and Dhankar (2014b) examine empirically the relationship between the development of Islamic finance system and economic growth in Qatar. Using econometric analysis, annually time-series data of economic growth and Islamic banks' financing from 1990 to 2008 was used. They use Islamic banks' financing funds given by Islamic banks to private sector through modes of financing as a proxy for the development of Islamic finance system and Gross Domestic Product, Gross Fixed Capital Formation and Foreign Direct Investment inflow as proxies for real economic growth. For the analysis, the unit root test, cointegration test and Granger causality tests were done. Their empirical results generally signify that in the long run, Islamic banks' financing is positive and significantly correlated with economic growth in Qatar. This reinforces the idea that a well-functioning banking system promotes economic growth. Furthermore, the results show that Islamic banks'

financing has contributed to the increase of investment and in attracting FDI in the long term and in a positive way. The results obtained from Granger causality test reveals a positive and statistically significant relationship between economic growth and Islamic bank's financing in the long run. The relationship, however, is neither Schumpeter's supply-leading nor Robinson's demand-following. It appears to be a bi-directional relationship. However, the results indicate that a causal relationship happens only in one direction, i.e. from Islamic banks' financing to Foreign Direct Investment and Gross Fixed Capital Formation. It means Islamic banking attracts Foreign Direct Investment into the country.

Tabash and Dhankar (2014c) explore empirically the contribution of the development of Islamic finance to the economic growth of certain countries in the Middle East. Three of the most important countries for Islamic finance growth from Middle East, namely Qatar, Bahrain, and United Arab Emirates (UAE), are selected for the study using annually time-series data from 1990 to 2008 and 1990 to 2010. They used Islamic banks' financing credited to private sector through modes of financing as a proxy for the development of Islamic finance system and Gross Domestic Product (GDP), as a proxy for economic growth. To aid their analysis, unit root test, cointegration test and Granger causality tests were done. Their empirical results generally signify that in the long run Islamic banks' financing is positive and significantly correlated with economic growth in the select countries which reinforces the idea that a well-functioning banking system promotes economic growth. The results obtained from Granger causality test reveals a causal relationship between Islamic finance and economic growth in these countries. It is neither Schumpeter's supply-leading nor Robinson's demand-following. It appears to be a bi-directional relationship from Islamic banks' financing to economic growth and vice versa for Bahrain and Qatar. The results obtained from Granger causality test for UAE indicates that a causal relationship happens only in one direction, i.e., from Islamic banks' financing to economic growth, which supports Schumpeter's supply-leading theory. Their results also indicate that improvement of the Islamic financial institutions in the Middle East countries will benefit from economic development, and it is important in the long run for the economic welfare, and also for poverty reduction. Furthermore, the results of study are quite significant as it is one of the pioneering studies of Islamic finance.

Dhankar and Tabash (2014d) examines the relationship between the development of Islamic finance system and economic growth in the Kingdom of Saudi Arabia which was carried out via the use of econometric analysis such as unit root, cointegration test and granger casualty test and time series data from 2010 to 2010. In their analysis they use Islamic banks' financing credited to private sector through modes of financing as a proxy for the development of Islamic finance system and Gross Domestic Product (GDP), Gross Fixed Capital Formation (GFCF) and Foreign Direct Investment inflow (FDI) as proxies for real economic growth. The outcome of their analysis reveals that all the variables are stationary at their first difference. The co integration results provide an evidence of a unique co integrating vector. In other words, there is a Long term stable relationship between Islamic banks' financing and economic growth in the Kingdom of Saudi Arabia. That means, Islamic banks' financing and economic growth is moving together in the long run. The results from the causality test shows that causality relation exists from Islamic banks financing to investment and Foreign Direct Investment (FDI) of Kingdom of Saudi Arabia. The results indicate that Islamic finance is a suitable environment for attracting FDI and FDI reinforces economic growth.

Tabash and Dhankar (2013e) explores empirically the contribution of the development of Islamic finance system and economic growth in kingdom of Bahrain. Using econometric analysis, annually time-series data of economic growth and Islamic banks' financing from 1990 to 2008 were used. They used Islamic banks' financing credited to private sector through modes of financing as a proxy for the development of Islamic finance system and Gross Domestic Product (GDP), as a proxy for economic growth. For the analysis, the unit root test, cointegration test and Granger causality tests were done. Thier empirical results generally signify that in the long run Islamic banks' financing is positive and significantly correlated with economic growth in Bahrain which reinforces the idea that a well functioning banking system promotes economic growth. The results obtained from Granger causality test reveals a positive and statistically significant relationship between economic growth and Islamic banks' financing in the long-term.

Abusabha and Masoud (2014) investigate empirically into the acclaimed role played financial market leading growth with evidence from the MENA Islamic finance. Utilizing, several econometric techniques models such as unit root test, co-integration test and formal tests of ARDL framework developed by the Granger causality and quarterly MENA data for the period 2000:1-2014:2. Empirical findings revealed that both Engle-Granger and Johansen co-integration test support the view that there is a short and long term relationship between financial Islamic banking development and economic growth in MENA. Other the other hand, there was no evidence to support the view that financial Islamic banking development is a leading sector in the process of the country's economic development. In particular, the causality relationship between RGDP growth and finance of Islamic banks in MENA is a bi-directional long run granger causality, which reflects positively growth contribution of financial Islamic banking development in the economic development. Higher development in the financial Islamic banking causes higher real economic growth. Higher economic growth in turn promotes

development in the financial Islamic banking.

Abduh and Chowdhury (2012) investigated the long run and dynamic relationship between Islamic banking development and economic growth in the case of Bangladesh. The quarterly time-series data of economic growth, total financing and total deposit of Islamic banking from Q1:2004 to Q2:2011 are used in their study. Using co-integration and Granger's causality method, Islamic banks' financing is found to have a positive and significant relationship with economic growth both in the long and short run. It implies that the development of Islamic banking is one of the policies, which should be considered by the government to improve their income.

All these studies are limited to Gulf Corporation Countries (GCC) and Asian countries as existing literature to Islamic Finance in Nigeria is limited to theoretical components and that few studies to some extent linked growth with Islamic Financial system. Islamic Finance in Nigeria it is still at the seminal level necessitating the need to more in depth analysis on the subject matter.

5. Research Methodology

The study adopted both qualitative and quantitative methods. The former approach is used to review the existing literature from all relevant resources of Islamic finance such as Islamic finance textbooks, journals, newspapers and magazine etc whereas latter approach is used to test the impact of Islamic finance and Nigeria's economic growth. The data set was extracted from the Central Bank of Nigeria (CBN), and National Bureau of Statistics (NBS) data base.

However, Time series data has been adopted from 2012-2015 on quarterly basis due the fact that data relating to Islamic finance in Nigeria are limited taking into cognizance when such system was adopted in 2002. Deducing from the literature review, most especially from the works of Dhankar and Tabash (2014) and Furqani and Mulyany (2009), the variables adopted for this study are as follows; Islamic bank financing to private sector will be used as a proxy to Islamic Finance, and real GDP will also be used to measure Economic growth. Other variables to be included in the model are FDI and Net Trade. Thus, the model will be specify as thus;

5.1 Model Specification

Model I:

$$RGDP = f(\text{IBFinancing}, \text{FDI}, \text{TRADE}) \dots \dots \dots (1)$$

$$RGDP = \beta_0 + \beta_1 \text{IBF} + \beta_2 \text{FDI} + \beta_3 \text{TRADE} + \mu_1$$

Where:

RGDP: Real Gross Domestic Product (it's a macroeconomic measure of the value of economic output adjusted for price changes (Inflation or Deflation))

IBF: Non Interest banks' (NIB) financing credited to private sector through its modes of financing (Mudarabah, Musharakah, Murabaha, Istisna and Ijarah etc).

FDI: Foreign Direct Investment: Investment made by one company or entity based in one country into a company or entity based in another country.

TRADE: Net Trade

The *apriori* expectation on the coefficient in equation (1) is that ($\beta_1, \beta_2, \beta_3 > 0$), should be positive to indicate that Non interest banks' (NIB) financing credited to private sector through its modes of financing, Foreign Direct Investment and Trade will contribute positively to economic growth.

Descriptive statistics is used to presents a summary statistics about the variables used in the econometric analysis for Nigeria. This takes into cognizance the sample means, maximums, minimums, standard deviations etc. The first step of this study is to apply the Least Square method via the multiple regressions so as to determine the relationship between the dependent and independent variables in the model. Unit root is also conducted via the use of Augmented Dickey Fuller (ADF) Test to determine the stationarity of variables i.e. establishing the order of integration of variables. The Johansen Co integrating test is adopted to ascertain the long run relationship amongst the variables. This test procedure focuses on the rank of matrix $\beta_0, \beta_1, \beta_2$ and β_3 which determines the number of distinct co integrating vectors. Lastly, the Granger causality test will be used to determine whether one time series is useful in forecasting another. In other words, it is used to test the causality between Islamic Finance and economic growth. To achieve this, the E-view software will be used to analyze the result.

6. Analysis and Results:

6.1 Descriptive Statistics

Table 1 below represent the summary statistics about the variables (GDP, IBF, FDI, TRADE) used in the econometric analysis for Nigeria.

Table 1: Summary Statistics

Statistics	GDP	IBFinancing	FDI	TRADE
Mean	16,207,844	12,107.21	74,413.78	241,633.2
Median	16,067,612	10,413.41	77,389.01	297,792.2
Minimum	13915506	0.0000000	19,375.47	-287,481.4
Maximum	18533752	26,262.25	141,390.8	699,825.4
Std. Dev	1,383,727.0	9,411.438	38,889.72	316,124.9
Observation	16	16	16	16

From the above table, it was observed that the maximum value for IBFinancing in 2015 reached to (26,262.25) from (0.0000000) with a standard deviation of (9,411.438). This depicts a high growth level of Islamic finance industry in Nigeria despite its infant stage. The statistics show that the median for GDP and IBFinancing is less than the mean, which indicates that the values are positively skewed where as the median of FDI and TRADE, is greater than their mean values, which reveals that their values are negatively skewed.

6.2 Regression Output.

The regression output is presented shown below;

$$RGDP = 13551213 + 170.96 * IBF + 1.06 * FDI + 2.099 * TRADE$$

$$S(\beta_i) = (793306.7)(36.51) \quad (5.52) \quad (1.08)$$

$$T(\beta_i) = (17.08) \quad (4.68) \quad (0.19) \quad (1.93)$$

$$R^2 = 0.71 \quad \check{R}^2(\text{Adjusted}) = 0.64 \quad F\text{-Ratio} = 10.06 \quad DW = 1.85$$

The regression result shows that there is a strong relationship between the regressand and the regressors with about 71 percent of coefficient of determination. This indicates that 71% variation in RGDP is explained by the model during the period under review. The remaining 29% could be explained by other variables not included in the model.

The regression coefficient of IBF appeared with the correct sign; this is in line with our apriori expectation that IBF is positively related to GDP. For every N1 increase in IBF will lead to an increase of 170.96 in RGDP and with a t-ratio of 4.68, thus, IBF is statistically significant in explaining variation in GDP. FDI has a positive relationship with GDP because the regression coefficient appeared with a positive sign (1.069), but with a t-value of 0.194 shows that the coefficient of FDI variable is not statistically significant under the period under review.

The regression coefficient of TRADE with a positive sign (2.099) which implies that N1 increase in Trade will lead to 2.099 increases in GDP but with t-ratio of 1.93 implies that it is not statistically significant as it requires the support of other variables to have impact on RGDP. However, F-ratio is 10.06 which is highly significant and implies that the model is adequate in explaining variation in RGDP under the period under review which is further confirmed by p-value < 0.05. The Durbin Watson statistic is 1.85 depicts the presence of a positive serial correlation (Autocorrelation)

6.3 Unit Root Test

The unit test via the Augmented Dicker Fuller (ADF) test is shown below

Table 2: Unit Root Test

		Augmented Dicker Fuller(ADF) TEST		
		Level	1st Diff	2 nd Diff
Country	Variable	t-Statistic P value	t-Statistic P value	t-Statistic P value
Nigeria	RGDP	-1.6094 0.4479	0.3243 0.9675	-38.8442* 0.0001
	IBFinancing	0.4206 0.9766	-2.8918 0.0714	-4.0334* 0.0007
	FDI	-3.7062 0.0160	-3.3285* 0.0034	-2.6548 0.1146
	TRADE	-0.7876 0.7934	-3.2945* 0.0030	-5.1314 0.002
* Significant at 1% level respectively				

Based on the ADF test decision criteria that the absolute value of the ADF must > than the critical values at 1%, 5% & 10% level of significance which will confirmed by the P-value < 0.05. We therefore reject Null Hypothesis (There is Unit root-Non stationary of the time series) & accept alternate Hypothesis (There is no unit root- Stationary of the time series). From table 2 all the series are not stationary at levels and to ensure stationary of the series first and second differences were taken. This shows that two of the series (FDI, TRADE)

is stationary at first difference while the others series (RGDP, IBFinancing) are stationary at second difference, all at 1% level of significance. For RGDP variable, if p value is less than α , then H_0 is rejected and the series is stationary. The first row in table 2 shows that the p-value (0.0001) is less than α (0.05) in ADF test. Similarly, for IBFinancing, the result in the second row depicts that the p-value (0.0007) is less than α (0.05) and for FDI and TRADE, the p-value is also less than α . This suggests that the null hypothesis is rejected for all variables, thus lead to the acceptance of the alternate hypothesis which indicates that the series are stationary.

6.4 Johansen Co-integration Test

Johansen integration test determines whether the long-term relationship occurs in variables or not. The trace test rejects the null hypothesis if the trace statistics exceeds the critical value and vice versa

Table 3: Johansen Test (Trace Test)

Hypothesized No. of CE(s)	EigenValue	Trace Statistic	0.05 Critical Value	Prob**	Remarks
None*	0.983023	92.33803	47.85613	0.0000	Reject H_0
At Most 1*	0.850558	35.27527	29.79707	0.0106	Reject H_0
At most 2	0.436631	8.663435	15.49471	0.3974	Accept H_0
At most 3	0.043999	0.629942	3.841466	0.4274	Accept H_0

From table 4, under first row the Null hypothesis is rejected at 5percent level of significance because the trace statistic (92.33803) is greater than the corresponding critical value (47.85613) which is confirmed by a p-value of less than 0.05. In row two, the Null hypothesis is rejected at 5percent level of significance because the trace statistic (35.27527) is greater than the corresponding critical value (29.79707) which is confirmed by a p-value of less than 0.05 whereas in row three, the Null hypothesis is rejected at 5percent level of significance because the trace statistic (8.663435) is less than the corresponding critical value (15.49471) which is confirmed by a p-value of greater than 0.05, thus we therefore conclude that Trace test indicates 2 co integrating eqn (s) at the 0.05 level, which means that there is a long run relationship among the variables.

Table 4: Johansen Test (Max-Eigen Test)

Hypothesized No. of CE(s)	EigenValue	Max-Eigen Statistic	0.05 Critical Value	Prob**	Remarks
None*	0.983023	57.06276	27.58434	0.0000	Reject H_0
At Most 1*	0.850558	26.61183	21.13162	0.0076	Reject H_0
At most 2	0.436631	8.033493	14.26460	0.3753	Accept H_0
At most 3	0.043999	0.629942	3.841466	0.4274	Accept H_0

From table 4, Maxi-Eigen test indicates 2 co integrating eqn (s) at the 0.05 level, which means that there is a long run relationship among some of the variables. However, reading table 3 and 4 together shows that the null hypothesis of non co integration is rejected at 5 percent level of significance whereas the null hypothesis is accepted at same level of significance which depicts that there are 2 co integration equations. This suggests that there is a stable long run relationship amongst variable under study.

Table 5: Pair wise Granger Causality Test

Null Hypothesis	F-Statistic	Prob
IBF does not Granger Cause RGDP	14.2241	0.0016**
IBF does not Granger Cause RGDP	0.21582	0.8099
FDI does not Granger Cause RGDP	0.27575	0.7652
RGDP does not Granger Cause FDI	0.05461	0.9472
TRADE does not Granger Cause RGDP	2.75880	0.1163
RGDP does not Granger Cause TRADE	8.59365	0.0082**
FDI does not Granger Cause IBF	0.40622	0.6778
IBF does not Granger Cause FDI	0.20280	0.8201
TRADE does not Granger Cause IBF	0.71564	0.5147
IBF does not Granger Cause TRADE	28.7187	0.0001**
TRADE does not Granger Cause FDI	1.09187	0.3762
FDI does not Granger Cause TRADE	1.32101	0.3140

** Significant at 5% level.

From table 5, it depicts that there is a one way causality that exist from IBFinancing to RGDP, since the P-value (0.0016) is less than (0.05). thus, the null hypothesis is rejected and it can be concluded that the higher flow of IBFinancing has lead to the growth (RGDP) of the economy. Furthermore, the results show that there is one way causality between RGDP and TRADE since it is significant at 5% with statistic of (0.0082) which is less than 0.05, which means that the Null hypothesis is rejected. Likewise the relationship between IBFinancing and TRADE has one way causality because the P-value (0.0001) is less than (0.05). Thus, the null hypothesis is

rejected. To this end, the causal relationship between Islamic bank financing and Nigeria economic growth occurs in one direction which supports the Schumpeter's supply leading theory.

7.0 Conclusion

Islamic Finance is still a growing industry in Nigeria and despite its emergence in the financial landscape of Nigeria it is gradually gaining momentum in competing tremendously with other financial institutions that has been in existence. This has led to the establishment of certain Islamic financial institution windows by conventional Financial system in order to withstand the competition in the nearest future. This is a system of finance is consistent with the principles of Islamic law and it is guided with certain principles such as prohibition of interest, Gambling and Speculation (Maysir), Gharar, investment in prohibited commodities such as alcohol, pork etc and also it is based on profit & loss Sharing etc. The introduction of this system of finance in Nigeria has triggered economic growth and development in the following ways; access to cheap funds by various economic units, integrate the unbanked individuals, redistribute income, create employment, increased foreign Direct Investment (FDI), Contribute to Macro Economic and Financial Stability etc, all this is achieved via its modes of finance such as Murabaha – Sales Contract, Mudaraba- Part financing, Musharika- Partnership, Ijara – Rent/Lease, Tawarruq-Overdraft facilities, Istisna'a, Bai Salam, Bai' al' inah – Sales & Buy-back agreement), Bai'bithaman (Deferred payment Sale), Bai' Mujjal (Credit Sale) , Sukuk etc.

However, the growth achieved by adopting this form of finance is evidenced empirically from the fact that 64% variation of the Real Gross Domestic Product (RGDP) is explained by Islamic Bank financing. The variables under considerations such as TRADE, FDI and GDP, Islamic Bank Financing are stationary at their first and second difference respectively based on the unit root test. Also, the Johansen's co-integration technique reveals that there is a long-term stable relationship between Islamic banks' financing and economic growth. Furthermore, the casualty test revealed that there is one way directional causality between Islamic Bank Financing and Economic Growth ie. Islamic banks' financing plays a supply leading role. This means that Islamic banking has effectively played its main role as financial intermediaries couple with the fact that it has a direct link to the real sector of the economy and is based on physical transactions (Asset based). Thus, we can say that the current policies of the Central Bank of Nigeria to develop a comprehensive Islamic financial system is considered as a welcome idea since the development of an Islamic financial system and economic growth are closely linked. We can conclude that Islamic bank financing influence Nigeria's economic growth by increasing her RGDP and with the current plans by the Government to issue sovereign Sukuk so as to finance the deficit in the 2016 budget, it will attract significant amounts of affordable capital from the Gulf Countries and other established Islamic markets around the world into Nigeria which will further boast the her economic growth.

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