



Factors Influencing *Musharakah* financing among SMEs in Yola North Local Government Area, Adamawa State, Nigeria

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Abstract

This study examines the impact of entrepreneurial factors on the adoption of Musharakah (Islamic partnership financing) among Small and Medium Enterprises (SMEs) in Yola North, Adamawa State, Nigeria. Despite the potential of Musharakah as an alternative financing model, its adoption remains low due to various entrepreneurial and institutional challenges. Using a descriptive research method, data were collected through a structured questionnaire administered to SME owners and managers. The analysis reveals that, financial literacy, risk perception, religious beliefs, and regulatory awareness significantly influence the willingness of entrepreneurs to adopt Musharakah. Findings indicate that while many SMEs recognise the benefits of Islamic financing, limited awareness and misconceptions hinder its adoption. The study highlights the need for targeted financial education and supportive policies to promote Musharakah as a viable financing option for SMEs. The research provides valuable insights for policymakers, financial institutions, and entrepreneurs in fostering sustainable SME growth through Islamic financing.

Keywords: *Musharakah*, Islamic Finance, SMEs, Entrepreneurial factors, Financing Adoption

1. Introduction

Small and Medium Enterprises (SMEs) are essential to economic growth, contributing significantly to employment, poverty reduction, and wealth creation in Nigeria (World Bank, 2021). SMEs account for over 80% of businesses and contribute about 50% to the country's GDP in Nigeria (SMEDAN, 2020). However, limited access to finance among Muslims in Northern Nigeria remains a major challenge. The conventional banks impose high-interest rates and strict collateral requirements (Adebayo & Yusuf, 2019), often making it difficult for these businesses to secure the necessary capital for growth and expansion. This situation disproportionately affects Muslim-owned SMEs, who may be reluctant to engage with interest-based financing due to religious beliefs.

The reliance on conventional banking systems presents a significant barrier to financial inclusion for Muslim entrepreneurs in Northern Nigeria. Alternative financing models, such as Islamic finance, offer a potential solution by providing Sharia-compliant products that align with their religious values (Sanusi, 2018). However, the adoption of Islamic finance is hindered by factors such as a lack of awareness, limited financial literacy, and regulatory challenges (Bello, 2021). Addressing these barriers is crucial for unlocking the potential of SMEs in Northern Nigeria and promoting inclusive economic growth.

In recent years, there has been an increased interest in alternative financing models like Islamic banking and finance, which emphasises risk-sharing and ethical investments among the Muslims in the Northern States (Ahmed,



2022). The Jaiz Bank, Lotus Bank and Taj Bank have been forerunners in Islamic Banking and finance in Northern Nigeria and Yola North in particular.

Mushārah (Islamic partnership financing) is one of the Islamic partnership-financing models that offers a viable alternative to interest-based loans. It allows partners to contribute capital and expertise while sharing profits and losses (Usman & Abdullahi, 2021). Unlike conventional loans with fixed interest payments, *Mushārah* ensures equitable risk distribution (Obaidullah & Khan, 2019). However, its adoption among Nigerian SMEs remains low due to limited awareness, misconceptions, regulatory challenges, and risk perceptions (Abubakar, 2020). In Yola North, where Islamic finance principles are well understood, *Mushārah* could address SMEs' financing constraints. This study examines the entrepreneurial factors influencing its adoption, providing insights for policymakers and financial institutions to enhance financial inclusion and SME growth in Nigeria.

The persistently low adoption of *Mushārah* amongst Nigerian SMEs, particularly in regions like Yola North, highlights a critical gap in financial inclusion and SME development. While *Mushārah* offers a potentially suitable alternative to conventional financing, its limited uptake suggests that entrepreneurial factors play a significant role in shaping financing decisions. Understanding these factors is crucial for designing effective strategies to promote the adoption of *Mushārah* and unlock its potential to support SME growth and economic development in Nigeria.

The history of Small and Medium Enterprises (SMEs) in Yola, Nigeria, is intertwined with the region's agricultural roots and evolving economic landscape. Historically, Yola served as a prominent trading hub, facilitating the exchange of

agricultural produce and crafts within the Adamawa region and beyond. Early SMEs primarily consisted of family-owned businesses engaged in farming, livestock rearing, and artisanal activities (Adamu, 2010). Over time, these enterprises diversified into other sectors, including retail, transportation, and small-scale manufacturing, driven by increasing urbanisation and demand for goods and services (Ibrahim, 2015). However, the growth of SMEs in Yola has been constrained by factors such as limited access to finance, inadequate infrastructure, and a lack of formal business training (Yakubu, 2018).

Despite these challenges, SMEs play a crucial role in Yola's economy. They contribute significantly to employment generation, income distribution, and overall economic diversification (Mohammed, 2019). SMEs serve as a vital source of livelihood for many residents, particularly those in the informal sector, and contribute to the local tax base (Umar, 2020). Moreover, SMEs foster entrepreneurship and innovation, driving economic growth and enhancing the competitiveness of Yola's economy. Recognising the importance of SMEs, local and national governments have implemented various initiatives to support their development, including access to credit schemes, business development services, and infrastructure improvements (Central Bank of Nigeria, 2021).

The adoption of *Mushārah* (Islamic partnership financing) among Small and Medium Enterprises (SMEs) in Yola North, Adamawa State, remains significantly low despite its potential benefits. SMEs constitute a vital component of Nigeria's economy, yet access to financing remains a persistent challenge. Conventional financing interest-based options are not always suitable for SMEs due to high-interest rates and stringent collateral



requirements (Abdullahi & Chong, 2020). *Mushārah*, as an equity-based Islamic financing model, offers a more flexible and participatory alternative, yet its uptake remains limited.

Several factors contribute to this low adoption, including limited financial literacy, perceived risks, religious considerations, and the availability of Islamic financial institutions (Amin, 2019). Entrepreneurs may be hesitant to embrace *Mushārah* due to concerns about profit-and-loss sharing and risk exposure, which can influence their financing decisions (Usman & Khan, 2021). Furthermore, inadequate awareness and misconceptions about Islamic finance have created barriers to its implementation among SMEs (Ibrahim & Ahmad, 2022). This study seeks to explore the entrepreneurial factors influencing the adoption of *Mushārah* among SMEs in Yola North, providing insights into how financial literacy, risk perception, and religious beliefs shape financing decisions.

This study aims to examine the impact of entrepreneurial factors on the adoption of *Mushārah* (Islamic partnership financing) among Small and Medium Enterprises (SMEs) in Yola North, Adamawa State, Nigeria. The specific objectives of the study are to:

- i. Assess the level of awareness and understanding of *Mushārah* financing among SMEs in Yola North.
- ii. Identify the key entrepreneurial factors influencing the adoption of *Mushārah* by SMEs.
- iii. Examine the challenges faced by SMEs in accessing *Mushārah* financing.
- iv. Analyse the role of financial literacy and risk perception in SMEs' financing decisions.

This study is significant as it contributes to the growing body of knowledge on Islamic finance and SME development in Nigeria. By examining the impact of entrepreneurial

factors on the adoption of *Mushārah*, the research provides valuable insights into the challenges and opportunities associated with Islamic partnership financing. The findings will help bridge the knowledge gap on why SMEs in Yola North have been slow to adopt *Mushārah* despite its potential benefits. Additionally, the study will serve as a reference for scholars and researchers interested in Islamic finance and its role in economic development.

Furthermore, the study has practical implications for policymakers, financial institutions, and entrepreneurs. Policymakers can use the findings to develop policies that enhance access to *Mushārah* financing, while financial institutions can design more SME-friendly Islamic finance products. Entrepreneurs, particularly those in Yola North, can benefit from an improved understanding of *Mushārah* and how it can be leveraged for business growth. By promoting alternative financing options, this study contributes to financial inclusion, economic stability, and the overall growth of SMEs in Nigeria.

This study focuses on the impact of entrepreneurial factors on the adoption of *Mushārah* (Islamic partnership financing) among Small and Medium Enterprises (SMEs) in Yola North, Adamawa State, Nigeria. It examines key factors such as financial literacy, risk perception, business experience, and religious beliefs that influence SME owners' financing decisions. The study is limited to SMEs operating in Yola North and does not cover large enterprises or other forms of Islamic financing. Data will be collected from SME owners, financial institutions, and relevant stakeholders to provide comprehensive insights.



2. Literature Review

2.1 Concept of *Mushārah* in Islamic Finance

Mushārah is an Islamic financing model based on partnership, where two or more parties contribute capital to a business and share profits and losses according to a pre-agreed ratio (Obaidullah & Khan, 2019). Unlike conventional loans that impose fixed interest payments, *Mushārah* aligns with the principles of risk-sharing, ensuring that all partners bear financial responsibility (Ahmed, 2022). This financing model promotes ethical investments and discourages exploitative lending, making it a sustainable alternative for SMEs. Despite its advantages, its adoption remains low in Nigeria due to limited awareness, regulatory challenges, and inadequate Islamic financial institutions (Abubakar, 2020). Understanding how entrepreneurial factors influence its adoption is crucial for promoting its use among SMEs in Yola North.

2.2 SMEs and Access to Finance in Nigeria

Small and Medium Enterprises (SMEs) play a vital role in Nigeria's economic development, yet access to finance remains a major constraint (SMEDAN, 2020). Traditional banking systems impose high-interest rates and collateral requirements, making it difficult for SMEs to secure funding (Adebayo & Yusuf, 2019). Alternative financing models, including Islamic finance, offer viable solutions, but many SMEs lack awareness or perceive them as complex (Sanusi, 2018). This lack of access to appropriate financing significantly hinders the growth potential of SMEs, limiting their ability to contribute to job creation, innovation, and overall economic prosperity in Nigeria.

The challenges faced by SMEs in accessing finance are particularly acute in regions like Yola North, where cultural and religious factors may influence financing

preferences. While Islamic financing models such as *Mushārah* could offer a suitable alternative, their adoption is often hampered by regulatory hurdles, limited financial literacy among SMEs, and the dominance of conventional banking practices (Bello, 2021). Further research is needed to understand the specific barriers preventing SMEs in Yola North from accessing and utilizing Islamic finance, and to identify strategies for promoting greater awareness and adoption of these models. In predominantly Muslim regions like Yola North, Islamic financing models such as *Mushārah* could address these financial constraints. However, challenges such as regulatory gaps, limited financial literacy, and the dominance of conventional banking hinder widespread adoption (Bello, 2021). Addressing these challenges is essential for improving SME access to finance.

Furthermore, *Mushārah* operates under the foundational principles of equity and mutual cooperation, making it particularly relevant within Islamic commercial jurisprudence (*fiqh al-mu'āmalāt*). It is classified as a *Shirkah al-amwāl* (partnership of capital), where each partner contributes funds and may participate in the management of the enterprise (Usmani, 2002). In this arrangement, profits are distributed according to the ratio agreed upon at the time of contract, while losses are borne strictly in proportion to the capital contribution, thereby maintaining fairness and compliance with *Sharī'ah* principles (Kamali, 2008). The emphasis on ethical partnership and social justice embedded in *Mushārah* makes it a viable tool for financing development projects in Muslim-majority communities, especially where interest-based systems are culturally or religiously disfavoured (Haneef & Barakat, 2017). However, for *Mushārah* to be effectively implemented, it requires robust legal frameworks and the capacity of stakeholders to draft and enforce



transparent partnership agreements.

2.3 Islamic Banking and Finance in Nigeria

Islamic banking and finance in Nigeria have gained traction in recent years, driven by the need for Sharia-compliant financial products. Notable banks operating in this sector include Jaiz Bank, Nigeria's first fully-fledged Islamic bank, followed by Taj Bank and Lotus Bank, which have also been authorized to provide Islamic banking services. Additionally, several conventional banks have established Islamic windows to offer Sharia-compliant products, such as First Bank of Nigeria and Zenith Bank. These institutions provide various financial services, including *Murabahah*, *Ijarah*, and *Musharakah*, catering to the growing demand for ethical financing options among the Muslim population in Nigeria.

The Central Bank of Nigeria (CBN) has played a crucial role in fostering the growth of Islamic finance by issuing guidelines to regulate the sector, promoting financial inclusion, and supporting economic development (Mahmoud et al., 2025; Abduh & Chowdhury, 2012). These regulatory efforts aim to create a level playing field and ensure the stability and integrity of Islamic financial institutions. However, further development is needed to address challenges such as limited awareness of Islamic finance products, a shortage of skilled professionals in the field, and the need for greater standardization of Sharia-compliant practices across different institutions (Oseni, 2014). Overcoming these challenges is essential for realizing the full potential of Islamic finance to contribute to Nigeria's economic growth and development.

2.4 Entrepreneurial Factors Influencing Financing Decisions

Financial Literacy: Financial literacy is a critical factor in SME owners' financing decisions, as it determines their ability to assess funding options, manage risks, and

understand financial contracts (Khan & Ali, 2021). Entrepreneurs with high financial literacy are more likely to adopt alternative financing methods like *Musharakah*, as they can comprehend its benefits and operational mechanisms (Obaidullah & Khan, 2019). However, in Nigeria, many SME owners lack financial literacy, limiting their willingness to explore Islamic finance options (Sanusi, 2018). Improving financial education can enhance *Musharakah* adoption among SMEs.

Risk Perception: Risk perception significantly affects financing decisions, particularly for SMEs that seek stability in uncertain economic environments (Adebayo & Yusuf, 2019). Many entrepreneurs perceive *Musharakah* as a risky option due to its profit-and-loss-sharing nature, preferring conventional loans with fixed repayment structures (Ahmed, 2022). This aversion to risk prevents SME owners from considering Islamic financing, even when it aligns with their business ethics (Bello, 2021). Addressing misconceptions about risk in *Musharakah* through awareness campaigns could improve its adoption.

Religious Beliefs: Religious beliefs play a crucial role in SME owners' financing choices, especially in Muslim-majority areas like Yola North (Abubakar, 2020). Entrepreneurs who prioritise Shariah-compliant financial practices are more likely to seek Islamic financing options such as *Musharakah* (Ahmed, 2022). However, the lack of accessible Islamic financial institutions limits their ability to adopt these options (Sanusi, 2018). Strengthening the presence of Islamic finance in Nigeria could encourage more SME owners to choose *Musharakah* over conventional interest-based loans.

Business Experience: Entrepreneurs with extensive business experience tend to make informed financing decisions



based on past financial challenges and successes (Khan & Ali, 2021). Experienced SME owners may be more open to *Mushārah*, understanding its potential to foster long-term business sustainability (Obaidullah & Khan, 2019). Conversely, less experienced entrepreneurs may struggle with financial decision-making, often opting for conventional banking due to familiarity (Adebayo & Yusuf, 2019). Providing mentorship and training on Islamic finance can help bridge this gap.

Access to Islamic Financial Institutions

Limited access to Islamic financial institutions hinders the adoption of *Mushārah* among SMEs in Nigeria (Bello, 2021). Entrepreneurs often struggle to find banks or financial institutions offering Islamic financing products, leading them to rely on conventional loans (Abubakar, 2020). Expanding the reach of Islamic finance institutions and simplifying application processes can encourage more SMEs to adopt *Mushārah* (Sanusi, 2018). Policymakers and financial regulators must work towards improving financial inclusion to support SME growth.

2.5 Theoretical Framework

This study adopted the Entrepreneurial Theory of Finance. The theory explains how entrepreneurs make financial decisions based on risk, resource availability, and market conditions (Landström, 2017). Unlike traditional corporate finance theories, which focus on large firms with established financial structures, this theory emphasises the unique financial constraints and opportunities that small and medium enterprises (SMEs) face (Scholtens, 2020). Given that SMEs often struggle to access conventional financing, alternative models such as *Mushārah* become essential. This theory provides a useful lens for understanding the factors influencing SME owners' adoption of Islamic financing in Yola North.

Entrepreneurs often operate in highly uncertain environments where access to capital is limited, and financial risks are significant (Cassar, 2019). The Entrepreneurial Theory of Finance argues that SME owners make financing choices based on their risk perception and tolerance (Mason & Harrison, 2021). *Mushārah* financing requires a willingness to share both profits and losses, which may deter risk-averse entrepreneurs. However, those with higher risk tolerance and financial literacy may view *Mushārah* as a viable alternative to interest-based loans, especially in economies where conventional financing poses challenges.

According to this theory, entrepreneurs make financial decisions based on available resources, rather than relying solely on external capital (Landström, 2017). In many cases, SMEs in Nigeria struggle to secure traditional bank loans due to stringent collateral requirements and high-interest rates (Scholtens, 2020). *Mushārah* represents an opportunity for resource-constrained entrepreneurs to access funds without interest burdens. However, a lack of awareness and institutional support limits its adoption. The Entrepreneurial Theory of Finance helps explain how financial constraints influence SME owners' financing preferences.

The Entrepreneurial Theory of Finance suggests that financial institutions and policymakers must create an enabling environment for SME financing (Cassar, 2019). In the context of Yola North, raising awareness about *Mushārah*, reducing administrative barriers, and improving access to Islamic financial institutions could enhance adoption rates. Additionally, entrepreneurial education should focus on financial literacy and risk management, empowering SME owners to make informed decisions. By addressing these factors, the adoption of *Mushārah* can be



improved, supporting SME growth and economic development.

3. Methodology

This study employed a descriptive survey research design, a methodology well-suited for examining the relationship between entrepreneurial factors and the adoption of *Mushārah* among Small and Medium Enterprises (SMEs) in Yola North, Adamawa State. The descriptive survey design allows for a systematic collection of quantitative data from SME owners and managers, enabling the identification of patterns, relationships, and influencing factors related to their adoption of Islamic financing. This approach is particularly useful in providing a snapshot of the current situation and exploring the perceptions, attitudes, and behaviours of entrepreneurs regarding *Mushārah*. To gather the necessary data, structured questionnaires were administered as the primary data collection instrument, ensuring consistency and comparability of responses across the sample. In addition to the quantitative data, the study incorporated key informant interviews with Islamic finance experts and representatives from financial institutions. These interviews served to provide contextual insights, validate the quantitative findings, and offer a deeper understanding of the challenges and opportunities associated with *Mushārah* adoption in the region.

The target population for this study comprised all registered SMEs operating in

Yola North, encompassing businesses engaged in various sectors such as trade, services, and manufacturing. According to data from the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN, 2021), there are approximately 1,200 SMEs registered in Yola North. To ensure a representative sample, a stratified random sampling technique was employed. This involved dividing the population into distinct strata based on their respective business sectors (e.g., trade, services, manufacturing) and then randomly selecting participants from each stratum. The number of participants selected from each stratum was proportional to its size within the overall SME population, ensuring that the sample accurately reflects the composition of the population. A sample size of 180 entrepreneurs was deemed appropriate for this study, representing 15% of the total population of SMEs in Yola North. This sample size was chosen to provide sufficient statistical power for detecting meaningful relationships between the variables of interest while remaining feasible within the constraints of the research project. The collected quantitative data was analysed using the Statistical Package for Social Sciences (SPSS) software. Descriptive statistics, including frequency distributions, percentages, and mean scores, were used to summarise the responses and provide an overview of the key characteristics of the sample.

4. Results and Discussion

4.1 Demographic Information

Table 1: Gender of the Respondents

Sex	Percentage (%)
Male	77
Female	23
Total	100

Source: Fieldwork 2025



Table 1 illustrates the gender distribution of respondents in the study on the adoption of *Musharakah* financing among SMEs in Yola North, Adamawa State, Nigeria. Out of a total of 180 respondents, 77 are male, accounting for approximately 42.8% of the sample, while 23 are female,

representing about 12.8%. This data indicates a significant gender imbalance in the responses, with males comprising a substantial majority compared to females. Such a disparity may reflect broader societal or cultural trends regarding gender participation in entrepreneurship within the region.

Table 2: Age of the Respondents

Age of the Respondents	Percentage (%)
18-34	12
35- 44	21
45 -54	36
55 above	31
Total	100

Source: Fieldwork 2025

Table 2 presents the age distribution of respondents involved in the study on *Musharakah* financing among SMEs in Yola North. The data reveals that the largest age group is 45-54 years, comprising 36% of the respondents. This is followed by individuals aged 55 and above, who account for 31%. The 35-44 age group represents 21%, while the youngest group, aged 18-34,

constitutes only 12%. This distribution indicates that the majority of respondents are in the middle to older age brackets, suggesting that the adoption of *Musharakah* financing may be more prevalent among more experienced entrepreneurs, potentially reflecting their established presence in the business landscape.

Table 3: Occupation of the respondents

Type of Business	Percentages
Business/ Trader	54
Services	23
Manufacturing	14
Others	09
Total	100

Source: Fieldwork 2025

Table 3 outlines the occupational distribution of respondents in the study regarding *Musharakah* financing among SMEs in Yola North. The data indicates that the majority, 54%, are engaged in business or trading activities, highlighting the prominence of this sector among the respondents. Services account for 23%, while manufacturing comprises 14%. The "Others" category,

which likely includes various occupations not specified, makes up 9%. This distribution underscores the dominance of trading in the local economy and suggests that the adoption of *Musharakah* financing may be particularly relevant for traders, who may seek innovative financing solutions to enhance their business operations.

**Table 4: Level of Education**

Level of education	Percentage (%)
No formal Education	8
Primary Education	17
Secondary Education	48
Tertiary Education	27
Total	100

Source: Fieldwork 2025

Table 4 presents the educational attainment of respondents involved in the study on *Musharakah* financing among SMEs in Yola North. The data reveals that 48% of respondents have completed secondary education, making it the most common education level among the group. This is followed by those with tertiary education, who account for 27%. Primary education is represented by 17%, while 8% of respondents have no formal

education. This distribution indicates a relatively low level of higher education, with a significant proportion of respondents having only secondary education. Such educational backgrounds may influence their understanding and adoption of *Musharakah* financing, suggesting a potential area for educational initiatives to enhance financial literacy and entrepreneurial skills.

Table 5: Years of Business Experience

Level of education	Percentage (%)
Less than 1 year	13
1–5 years	32
6–10 years	33
More than 10 years	22
Total	100

Source: Fieldwork 2025

Table 5 outlines the years of business experience among respondents in the study on *Musharakah* financing in Yola North. The data shows that 33% of respondents have 6-10 years of business experience, closely followed by those with 1-5 years at 32%. Additionally, 22% have more than 10 years of experience, while 13% have been in business for less than 1 year. This distribution indicates that a significant portion of respondents

possess moderate to substantial business experience, which may positively influence their understanding and willingness to adopt *Musharakah* financing. The presence of experienced entrepreneurs suggests a potentially favourable environment for implementing such financing options, as they may be more adept at navigating the complexities of partnership financing.

**4.2. Financial Literacy, Awareness and adoption of *Mushārah* among SMEs****Table 6: Financial Literacy among SMEs and Adoption of *Mushārah***

Item	Yes	No	S.D
1 Have you heard about Islamic finance offer beforeby Banks?	89%	11 %	0.31
2 Do you understand the concept of <i>Mushārah</i> (Islamic partnership financing) that is offered by Banks?	38%	72 %	0.49
3 Have you used any form of Islamic financing offered by the Banks before?	18%	78%	0.38
4 More knowledge of <i>Mushārah</i> would increase my willingness to adopt it.	78%	22 %	0.41
5 I prefer conventional loans because I do not fully understand Islamic finance.	24%	76%	0.43
6 Government and financial institutions should provide more training on <i>Mushārah</i> .	88%	12%	0.33

Source: Fieldwork 2025

Table 6 presents insights into the financial literacy of SMEs regarding *Mushārah* financing. While a substantial 89% of respondents are aware of Islamic finance, only 38% understand the specific concept of *Mushārah*. The data shows that a mere 18% have actually utilized Islamic financing options, indicating a significant gap between awareness and practical use. However, 78% believe that increased knowledge about *Mushārah* would enhance their

willingness to adopt it, suggesting that education could be a key factor in overcoming barriers to adoption. Additionally, 24% of respondents express a preference for conventional loans due to their limited understanding of Islamic finance. The strong support (88%) for more training from government and financial institutions highlights a clear demand for educational initiatives to facilitate the adoption of *Mushārah* among SMEs.

4.3: Risk Perception and Willingness to Share Profit and Loss**Table 7: How SMEs Perceive the Risks Associated with *Mushārah* Financing**

S/N	Item	Yes	No	S.D
1.	I believe <i>Mushārah</i> is riskier than conventional bank loans.	37%	63 %	0.48
2.	The idea of profit-and-loss sharing would discourage me from using <i>Mushārah</i> .	87%	23%	0.34
3.	SMEs avoid <i>Mushārah</i> because they fear business failure.	51%	49 %	0.50
4.	More flexible risk-sharing terms would encourage SME adoption of <i>Mushārah</i> .	56%	44%	0.45
5.	I am willing to try <i>Mushārah</i> if I am educated on its benefits.	91%	09%	0.29

Source: Fieldwork 2025

Table 7 examines SMEs' perceptions of the risks associated with *Mushārah* financing. A minority (37%) perceive

Mushārah as riskier than conventional bank loans, indicating a relatively positive view of its risk profile. However,



a significant 87% express that the concept of profit-and-loss sharing might deter them from using *Mushārah*, highlighting a major psychological barrier to adoption. Additionally, 51% of respondents avoid *Mushārah* due to fears of business failure, while 56% believe that more flexible risk-sharing

terms could enhance adoption. Notably, a strong 91% of SMEs indicate a willingness to try *Mushārah* if provided with education about its benefits, underscoring the importance of knowledge and training in alleviating concerns and promoting acceptance of this financing model.

4.4: Influence of Religious Beliefs on Financing Decisions

Table 8: The Influence of Religious Beliefs on SME Financing Choices

S/N	Item	Yes	No	Standard Deviation
1.	My religious beliefs play a key role in my financial decisions.	84%	16 %	0.37
2.	I would prefer Islamic financing options if they were more accessible and more educative.	92%	8%	0.27
3.	I would avoid conventional interest-based loans due to religious reasons.	83%	17 %	0.38
4.	The lack of full knowledge of Islamic finance institutions' operations discourages SMEs from adopting <i>Mushārah</i> .	91%	09%	0.33
5.	Increasing awareness about <i>Mushārah</i> could help more SMEs adopt it.	87%	13 %	0.30

Source: Fieldwork 2025

Table 8 explores the influence of religious beliefs on the financing choices of SMEs. A significant majority (84%) indicate that their religious beliefs are crucial in their financial decision-making, reflecting the importance of faith in guiding their choices. Furthermore, 92% express a preference for Islamic financing options if they were more accessible and better understood, suggesting a strong demand for education and availability in this area. Additionally, 83% avoid conventional interest-based loans due to religious convictions, highlighting a clear alignment with Islamic financing principles. The data also reveals that 91% believe a lack of understanding of Islamic finance institutions discourages the adoption of *Mushārah*, while 87% feel that increasing awareness could facilitate greater uptake. Together, these findings underscore the significant role of religious beliefs and the need for

improved education and accessibility in promoting Islamic financing options among SMEs.

4.5: Business Experience and Decision-Making in Financing

Table 9: The Effect of Business Experience on Financing Decisions among SMEs

S/N	Item	Yes	No	Standard Deviation
1.	Business owners with more experience are more likely to adopt <i>Mushārah</i> .	76%	24 %	0.43
2.	I consider my experience level before making financing decisions.	88%	12%	0.27
3.	SMEs with financial stability prefer <i>Mushārah</i> to conventional loans.	66%	44 %	0.41
4.	More experienced SMEs are less afraid of profit-and-loss sharing in <i>Mushārah</i> .	73%	27%	0.39
5.	My past business experiences shape my willingness to adopt Islamic financing.	75%	25 %	0.35

Source: Fieldwork 2025

Table 9 examines the effect of business experience on financing decisions among SMEs. A notable 76% of respondents believe that more experienced business owners are more likely to adopt *Mushārah*, indicating a correlation between experience and willingness to engage with this financing model. Additionally, 88% consider their level of experience when making financing decisions, highlighting the importance of past experiences in guiding choices. The data further reveals that 66% of SMEs with financial stability prefer *Mushārah* over conventional loans, suggesting a positive association between financial health and the adoption of Islamic financing. Moreover, 73% of respondents feel that more experienced SMEs are less intimidated by profit-and-loss sharing, reflecting a greater comfort level with the risks involved. Finally, 75% agree that their past business experiences influence their willingness to adopt Islamic financing, reinforcing the idea that experience plays a critical role in shaping financial decisions within this context.

4.6 Discussion of Findings

The findings gleaned from the tables provide crucial insights into the perceptions and behaviours of SMEs in Yola North regarding Islamic financing, with a specific focus on *Mushārah*. These insights directly address the study's

objectives, particularly concerning awareness, influencing factors, challenges, and the role of financial literacy and risk perception in SMEs' financing decisions.

Awareness and Understanding

The data reveals a significant disparity between awareness and practical utilisation of *Mushārah* financing. While a substantial 89% of SMEs report familiarity with Islamic finance in general, only 38% demonstrate an understanding of *Mushārah*, and a mere 18% have actually employed it. This highlights a critical gap between superficial awareness and in-depth comprehension, suggesting that many SMEs may not fully grasp the principles, mechanisms, and potential benefits of *Mushārah*. This lack of comprehensive understanding could be a significant barrier to adoption, as entrepreneurs may be hesitant to embrace a financing model they do not fully comprehend. The encouraging willingness of 78% of respondents to learn more about *Mushārah* suggests that targeted educational initiatives could play a pivotal role in bridging this knowledge gap and promoting its wider adoption, directly addressing the first objective of the study. This finding aligns with previous research highlighting the importance of financial literacy in facilitating the uptake of Islamic financial products (e.g., Ibrahim & Ahmad, 2022).

Influencing Factors and Analysing Financial Literacy and Risk Perception

The study's findings shed light on the key entrepreneurial factors influencing the adoption of *Mushārah*, as well as the role of financial literacy and risk perception in SMEs' financing decisions. SMEs display varying perceptions of risk associated with *Mushārah*, with 37% viewing it as riskier than conventional loans. This perception is further compounded by the fact that a significant majority (87%) express concerns about the profit-and-loss sharing aspect inherent in *Mushārah*. This skepticism highlights the need for more flexible and adaptable risk-sharing arrangements to encourage adoption. It suggests that SMEs may be more receptive to *Mushārah* if the risk-sharing mechanisms are tailored to their specific business needs and risk profiles. Importantly, the finding that 91% of SMEs would consider using *Mushārah* if provided with adequate education underscores the potential for addressing these perceptions through targeted financial literacy programs. This directly addresses the fourth objective of the study by highlighting the crucial role of financial literacy in shaping SMEs' risk perceptions and influencing their financing decisions. Furthermore, the evident influence of religious beliefs on financing choices, with 84% indicating that their faith significantly impacts their financial decisions, underscores the importance of aligning financial offerings with the values of the target population. The preference for Islamic financing options, particularly if made more accessible and understandable, suggests that culturally sensitive financial products are more likely to be embraced by SMEs in Yola North.

Challenges Faced by SMEs

The strong belief (91%) that a lack of knowledge about Islamic finance institutions deters adoption points to a critical area for intervention, directly addressing the third objective of the study,

which aims to examine the challenges faced by SMEs in accessing *Mushārah* financing. This finding suggests that the limited availability of information and expertise regarding Islamic finance institutions and their products acts as a significant barrier for SMEs seeking to explore *Mushārah* financing. Moreover, the data indicates that experience plays a vital role in financing decisions. A substantial 76% of respondents believe that more experienced business owners are more likely to adopt *Mushārah*, suggesting that familiarity with business operations may reduce perceived risks associated with profit-and-loss sharing. This implies that SMEs with a longer track record and greater business acumen may be more confident in their ability to manage the uncertainties associated with *Mushārah*. Furthermore, the data shows that past business experiences significantly shape willingness to engage with Islamic financing, suggesting that education and exposure are key factors in fostering acceptance. This highlights the need for mentorship programs and knowledge-sharing initiatives that can connect experienced entrepreneurs with those who are less familiar with *Mushārah*, facilitating the transfer of knowledge and best practices.

In conclusion, the findings of this study emphasise the necessity for targeted educational programs, flexible financial products, and enhanced accessibility to Islamic financing options to bridge the gaps identified. Addressing these areas could not only increase the adoption of *Mushārah* among SMEs in Yola North but also contribute to the broader development of the Islamic finance sector in Nigeria. By addressing the identified challenges and leveraging the existing awareness and willingness to learn, policymakers and financial institutions can create a more conducive environment for the growth of Islamic finance and the empowerment of SMEs in the region.



5. Conclusion and Recommendations

In conclusion, this study highlights the significant potential for Islamic financing, particularly *Mushārah*, among SMEs in Nigeria. Despite a high level of awareness and a strong interest in Sharia-compliant financial products, barriers such as limited understanding, perceived risks, and a lack of accessible options hinder adoption. The findings underscore the importance of targeted educational initiatives and flexible financing arrangements to address these challenges. By fostering greater awareness and aligning offerings with the values and needs of SMEs, stakeholders can enhance the acceptance of Islamic finance, ultimately contributing to financial inclusion and economic growth in Nigeria. In view of the above, the following recommendations are made:

1. Government Financial Literacy Enhancement: The government should enhance financial literacy by developing targeted educational programs that increase understanding of Islamic finance principles and *Mushārah* among SMEs.
2. Bank Accessibility Improvement: Banks should improve accessibility to Islamic financing options by ensuring they are well-promoted and easily reachable within the SME community, fostering greater participation.
3. Cooperative Flexible Financing Structures: Cooperative societies should create flexible financing structures that accommodate varying risk appetites and business models of SMEs, allowing for customized solutions.
4. Institutional Collaboration for Education: Educational institutions and banks should collaborate to provide workshops and resources on Islamic finance, equipping SMEs with necessary knowledge and tools.
5. Government Success Story Promotion: The government should highlight successful case studies of

SMEs that have effectively utilized *Mushārah*, showcasing its benefits to inspire confidence in other businesses.

6. Bank Regulatory Advocacy: Banks should advocate for supportive regulations that facilitate the growth of Islamic finance in the Nigerian banking sector, ensuring a conducive environment for all users.
7. Cooperative Digital Platform Leverage: Cooperative societies should leverage digital platforms to provide resources and facilitate access to Islamic financing options for SMEs, making information readily available.

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