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HUMANITIES EDUCATION, FINANCIAL ETHICS AND SUSTAINABLE SME DEVELOPMENT IN NIGERIA

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Abstract
Nigeria, despite its oil wealth and prominent position in Africa, continues to face challenges of unemployment and limited economic diversification. Small and Medium Enterprises (SMEs), which constitute about 96% of businesses in Nigeria, play a crucial role in economic growth, innovation, and employment generation. However, their contribution to Gross Domestic Product (GDP) remains low due to inadequate access to finance. Access to appropriate financing greatly influences the growth and sustainability of SMEs. Conventional Banks, although regarded as major sources of business finance, often impose high interest, stringent collateral requirements, and limited access to credit, thereby constraining SME growth. In contrast, Islamic finance has gained global recognition as a stable and sustainable alternative for SME financing. Its profit and loss sharing (PLS) mechanism promotes equitable risk-sharing between lenders and borrowers, making it attractive to SME operators. This study examined the business and financial culture surrounding SME financing in Nigeria, identified challenges affecting its growth, assessed SME operators' financing preferences between Conventional and Islamic finance and compared the role of both financial systems in SME financing. Using a qualitative approach, primary data were collected electronically from 412 respondents out of the 600 structured questionnaires distributed across the six geopolitical zones of Nigeria. The findings reveal that there was a strong preference among SME operators for Islamic financial institutions' Profit and Loss Sharing (PLS) mechanism due to its promotion of a balanced risk distribution between the lender and the borrower. The study recommends that efforts should be made to strengthen the infrastructure supporting Islamic finance in order to meet the growing demand for Islamic financing products.

Keywords: Islamic Financing; SME; Conventional Bank; Risk Sharing; Financial Ethics

1.0 Introduction

Nigeria, Africa's most populous nation and an economy historically dependent on crude oil, continues to face persistent challenges of unemployment, poverty, income inequality, and economic diversification. Despite its abundant natural and Human resources, the country has struggled to achieve sustainable and inclusive economic growth. In response to these challenges, attention has increasingly shifted towards the development of Small and Medium Enterprises (SMEs) as a strategic driver of economic transformation. SMEs account for about 96% of Nigerian businesses and are globally recognised as critical drivers of employment, innovation, and sustainable development. However, their overall contribution to Nigeria's Gross Domestic Product (GDP) remains disproportionately low, raising concerns about the structural impediments facing this sector.

Among the multiple barriers to SME growth, access to finance remains the most critical. Conventional financial institutions, while theoretically positioned as primary providers of capital, often impose prohibitive collateral requirements, charge high interest rates, and enforce restrictive lending conditions. These factors severely limit SME access to financing and, by extension, restrict their growth potential. In contrast, Islamic finance has gained global recognition for its stability and ethical orientation. Built on principles of risk-sharing, prohibition of interest (*ribā*), and the promotion of fairness, Islamic finance has emerged as a viable alternative financing option for SMEs, particularly through mechanisms such as Profit and Loss Sharing (PLS).

Beyond the structural and financial debates, there is an urgent need to foreground the role of humanities education in shaping the ethical frameworks that underpin financial and entrepreneurial practices. Humanities education cultivates ethical reasoning, critical thinking, and social responsibility, equipping business actors with the values necessary for sustainable enterprise. Integrating these values into SME development is particularly vital in Nigeria, where corruption, financial misconduct, and weak ethical standards have long undermined business sustainability.

This article examines the intersection of humanities education, financial ethics, and SME development in Nigeria. Specifically, it investigates SME operators' experiences with conventional and Islamic financing models, assesses their financing preferences, and situates these findings within the broader framework of humanities-informed financial ethics.

Literature Review

SMEs and Economic Development in Nigeria

Globally, SMEs are recognised as engines of economic growth and innovation. In Nigeria, SMEs dominate the business landscape numerically but contribute far less to GDP compared to their potential. Key challenges include limited access to finance, infrastructural deficits, and policy inconsistencies. Studies have consistently highlighted funding as the most persistent barrier to SME growth. (Kolawole, 2023; Ariyo, 2008; Adebisi & Gbegi, 2013)

Financing Challenges and Opportunities

Conventional banks remain the most accessible formal institutions for financing, yet their lending practices largely exclude small businesses. High interest rates, collateral demands, and bureaucratic barriers discourage SMEs from seeking conventional loans (Okpara, 2011). SMEs also face significant financing obstacles globally, including high cost of capital, inflationary8 pressures, limited access to long-term funding and burdensome taxation. These challenges, compounded8 by collateral requirements and high interest rates, restrict their growth and competitiveness, particularly in Nigeria. (Kolawole, 2023)

Financial Ethics and Humanities Education

Financial ethics refers to the principles of fairness, transparency, and responsibility that guide financial transactions. In societies where unethical practices such as fraud, corruption, and exploitation are rampant, the integration of ethics becomes indispensable for sustainable development. Humanities education - encompassing philosophy, history, religious studies, and cultural studies - nurtures critical thinking and ethical reasoning. By embedding these principles into entrepreneurship and financial systems, humanities education serves as a foundation for cultivating responsible financial behaviour (Nussbaum, 2010).

The Nexus of Humanities, Ethics, and SME Sustainability

The sustainability of SMEs in Nigeria cannot be understood solely through the lens of financial access and capital mobilisation; it is equally dependent on the ethical orientation that guides both entrepreneurs and financial institutions. Finance, when divorced from ethics, risks fostering exploitative practices such as excessive interest charges, rigid collateral demands, and a short-term profit mentality that undermines business growth and societal welfare. By contrast, ethical financing models cultivate trust between lenders and borrowers, encourage transparency, and promote accountability in financial dealings. This trust is a critical resource for SMEs, enabling them to build lasting relationships with financiers, customers, and the wider community, thereby enhancing both their economic resilience and social legitimacy. (Beredugo, 2025)

Within this context, humanities education emerges as a powerful catalyst in embedding ethical principles into entrepreneurial and financial practices. The humanities—through disciplines such as philosophy, history, religion, and cultural studies - provide frameworks for understanding justice, fairness, and human dignity. When these values are infused into business training and8 financial systems, they shape entrepreneurs who are not only profit-driven but also socially responsible. In Nigeria, where SMEs are central to employment creation and poverty alleviation, integrating humanities-informed ethics into financing and entrepreneurial practices can mitigate exploitative tendencies, encourage inclusive growth, and align business operations with long-term societal goals. (Michaelson, 2017)

Therefore, the nexus between humanities, ethics, and SME sustainability lies in their mutual reinforcement: humanities education nurtures ethical reasoning, ethical financing fosters equitable access and trust, and together they create a more resilient foundation for sustainable SME development. This tripartite relationship suggests that efforts to reform SME financing in Nigeria should not focus solely on economic mechanisms but also on embedding ethical and humanistic values that ensure development benefits are widely shared across society.

Financial Exclusion, Ethical Financing, and Sustainable SME Development

The study reaffirms that access to finance remains the most critical obstacle confronting SMEs in Nigeria. Conventional banking practices, characterised by high borrowing costs, rigid collateral requirements, and bureaucratic procedures, have created systemic exclusion for small businesses. These barriers are further compounded by widespread gaps in financial literacy, leaving many SMEs unable to navigate the complexities of loan applications. Such exclusionary tendencies highlight not only structural inefficiencies but also the absence of ethical considerations within conventional lending systems - undermining entrepreneurial capacity and slowing economic diversification.

As a result, many SMEs resort to personal savings or contributions from family and friends as their primary sources of financing. While such informal channels provide short-term relief, they rarely generate sufficient capital for ambitious growth and often place social and emotional strains on personal relationships. This dependence underscores the urgent need for institutionalised financial mechanisms that are fair, sustainable, and inclusive, rather than exploitative or burdensome.

Interestingly, despite these challenges, SMEs continue to view banks as essential for business growth. Their frustrations with exploitative practices do not diminish their perception of banks as indispensable providers of structured financing. Instead, SMEs call for ethical reforms that would ensure fairness, transparency, and accountability in financial dealings. This demand reflects a growing recognition that sustainable economic development depends not only on access to finance but also on the ethical culture underpinning financial systems.

A particularly striking finding is the preference expressed for Islamic finance, especially the profit-and-loss sharing (PLS) model. Even among SMEs with no prior access to Islamic banking services, the principles of fairness, equity, and shared responsibility resonated strongly. This preference highlights the appeal of ethical alternatives and underscores the potential of values-based financing systems to create a more inclusive financial environment for entrepreneurs. It also suggests that ethical orientations, as cultivated through humanities education, play an important role in shaping SME operators' financial preferences and expectations.

Despite this latent demand, however, the study revealed a widespread lack of awareness and understanding of Islamic financial products. Weak marketing strategies, poor public communication, and limited financial literacy have combined to create confusion and low uptake among SMEs. This gap points to an urgent need for deliberate awareness campaigns and targeted educational interventions. Embedding such efforts within humanities-informed educational frameworks could promote ethical financial practices, expand access to inclusive alternatives, and ultimately strengthen the link between financial ethics and sustainable SME development in Nigeria.

Challenges and Limitations of Islamic Finance in Nigeria

Despite the promising growth of Islamic finance in Nigeria, several limitations and criticisms continue to challenge its effective implementation.

Regulatory and Legal Gaps:

Although the Central Bank of Nigeria (CBN) has introduced guidelines to govern Islamic banking, the broader legal framework—such as the Banks and Other Financial Institutions Act (BOFIA) and the Companies and Allied Matters Act (CAMA)—remains largely oriented toward conventional banking. This mismatch creates regulatory inconsistencies and enforcement challenges, as Islamic banks must operate within laws that do not fully account for Shariah-compliant principles (HR Mars, 2021; IMF, 2020). Consequently, gaps exist in areas such as dispute resolution, tax treatment of Islamic financial contracts, and regulatory harmonisation, which may undermine investor confidence and limit sectoral growth.

Shariah Governance Weaknesses:

Another concern relates to the strength and rigor of Shariah governance structures. The Shariah Advisory Committees set up within banks often lack sufficient diversity and depth of expertise, which may affect the credibility and consistency of their rulings. Weak Shariah oversight can also lead to gaps in enforceability and compliance with international best practices in Islamic finance governance (IslamicMarkets, 2022). Without robust and independent Shariah supervisory frameworks, Islamic banks risk both reputational damage and diminished trust among stakeholders.

Misrepresentation Risks:

Finally, there is the risk of misrepresentation or "superficial compliance," particularly in cases where conventional banks operate Islamic windows. Scholars and customers alike have expressed concerns about the potential commingling of Shariah-compliant and non-compliant funds, which can blur ethical distinctions and create doubts about the authenticity of Islamic products. Such practices may undermine customer confidence and, if unchecked, erode the foundational ethical value of Islamic finance (IslamicMarkets, 2022).

Recommendations

The findings of this study highlight that achieving sustainable SME development in Nigeria requires more than financial reforms - it equally demands embedding ethics, values, and human-centered education into financial systems. Stakeholders in the SME ecosystem - including entrepreneurs, financiers, policymakers, banks, and government agencies - must therefore adopt policies that integrate ethical financing with inclusive educational strategies to foster long-term growth. In line with the role of humanities education in strengthening financial ethics, the following recommendations are proposed:

Simplifying Financing Procedures:

The federal government, through the Central Bank of Nigeria, should introduce policies that simplify loan application and approval processes for SMEs. Reducing administrative bottlenecks, processing delays, and excessive documentation will ensure faster access to credit. From an ethical perspective, fairness and accessibility in financing reflect the values of justice and inclusiveness emphasised in humanities education, making the system more people-centered.

Collaboration with Government Initiatives:

Financial institutions should collaborate more closely with government agencies to align with existing SME-support programs such as credit guarantees and subsidised loans. Such partnerships can ease the perceived risks of SME financing while also reflecting the humanities principle of collective responsibility for social development.

Strengthening Islamic Finance Infrastructure:

To respond to the growing preference for Islamic finance, infrastructure must be expanded to ensure the availability of diverse Shariah-compliant products beyond *Murābaḥah*, such as *Mushārakah, Muḍārabah*, and *Salām*. These instruments embody risk-sharing and fairness, thereby aligning financial practice with ethical principles central to humanities education. By encouraging equity-based partnerships, Islamic finance can contribute more significantly to sustainable entrepreneurship in Nigeria.

Creating Awareness and Enhancing Financial Literacy:

A major gap identified in this study is the low level of awareness of Islamic financial products. Banks and regulators should therefore engage in sustained public enlightenment campaigns, while agencies such as SMEDAN and LSETF should promote financial literacy. This education should go beyond technical skills to include ethical decision-making, fairness, and trust-building, ensuring that entrepreneurs develop both financial competence and value-based reasoning for sustainable practice.

Encouraging Collaboration and Partnerships:
The future of SME development depends on stronger partnerships among banks, SME support organisations, and public-private stakeholders. Pooling resources, expertise, and networks not only enhances financial access but also embodies the humanities' principle of solidarity—working together for collective societal progress.

Training and Capacity Building:
SMEDAN, LSETF, and other institutions should prioritise training SME owners in comprehensive financial literacy, ethics in entrepreneurship, and the principles of Islamic finance. Such programs can help SMEs understand equity-based products, such as *Muḍārabah* and *Mushārakah*, and boost their confidence in adopting ethical financing models.

Rebalancing Islamic Finance Practices:
Finally, Islamic banks must actively promote equity-based products (*Muḍārabah* and *Mushārakah*) to correct the over-reliance on *Murābaḥah*. While *Murābaḥah* has its place, its focus on mark-up pricing risks portraying Islamic banking as merely profit-driven. In contrast, risk-sharing contracts reflect a humanistic and ethical orientation, embodying the values of fairness, trust, and partnership that are essential for SME sustainability and national economic growth. By aligning humanities education, financial ethics, and SME development, Nigeria can build a more inclusive and sustainable economic future.

Conclusion

This study has shown that humanities education promotes financial ethics and sustainable SME development in Nigeria by fostering values of justice, fairness, and social responsibility. The findings indicate that conventional financing, characterised by high costs and stringent collateral requirements, remains inadequate for many SMEs. In contrast, Islamic finance offers a more ethical and sustainable alternative through risk-sharing and equitable financial practices. The study further demonstrates that humanities education strengthens ethical decision-making by encouraging entrepreneurs and financiers to adopt responsible financial practices that support long-term sustainability. Therefore, embedding financial ethics into educational curricula and entrepreneurial training, while strengthening Islamic finance institutions, simplifying financing procedures, and promoting ethical financial literacy, will enhance SME access to finance and contribute to financial inclusion, ethical governance, economic diversification, and sustainable national development in Nigeria.

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