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# Shadow banking as a veritable platform for macroeconomic stability and economic growth in Nigeria

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**JANUARY 2022**

**SCHOOL OF ECONOMICS, ADMINISTRATION AND COMPUTER SCIENCE**

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**This thesis was submitted as part of the postgraduate degree in Banking, Investment and Finance at Neapolis University**

**CHARIS ADAUGO OGBONNAYA**

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This Master's Thesis was prepared during the studies for the master's degree at Neapolis University and was approved on……………………………… [date of approval] by the members of the Examination Committee.

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**Thesis Dedication**

This achievement is heartily dedicated to my beloved parents, Mr and Mrs Ogbonnaya for being the inspiration and motivation to completing my studies, who also provided moral, spiritual and financial aid. To my brother, Benjamin Ogbonnaya for the love and assistance. Lastly, most importantly to God Almighty for wisdom, guidance, strength, and grace. All these I dedicate to him.

**Abstract**

This study intended to investigate the role of *'Shadow Banking as a Veritable Platform for Macroeconomic Stability and Economic Growth in Nigeria'*. To serve the purpose, the research objectives were so structured emphasising the positive aspects associated with shadow banking including monetary development. Additionally, the legislative facet concerning the implementation of shadow banking is also analysed. While reviewing the literature, it is analysed that the prior shreds of research contain contradicting elaboration about shadow banking. However, the advantages of implementing shadow banking ascertained that it could result in economic stability. To commence the research, the philosophical grounds of interpretivism were selected to analyse the subject area. However, mixed qualitative research was carried out by obtaining data from 25 managers associated with both operating as commercial and shadow banks in Nigeria including Zenith Bank Plc., United Bank for Africa Plc. and Access Bank Plc. The instrument used for data collection included a semi-structured interview questionnaire that assisted in analysing the contemporary practices of commercial banks and thus enabled the researcher in analysing the potential pros that can be derived through shadow banking. Additionally, for the conceptualisation of the subject area and to withstand the arguments of the current study, secondary sources were also used. Moreover, based on the potency of shadow banking, the study also referred to the infrastructural disparity of financial institutions in rural and urban settings and recommended that government should ensure the provision of such services and access to shadow banking by the unbanked population so as to bring economic stability in Nigeria.

# 1. Introduction

## 1.1. Aim and Objectives:

The current study has been aiming to analyze shadow banking as a veritable platform for macroeconomic stability and economic growth specifically in the context of Nigeria. To conduct the current research, the following are the research objectives, which are to be analyzed.

- To identify and analyze the role of shadow banking in strengthening economic stability and growth of the Nigerian Economy.
- To assess the legislative dynamics that restrict the enactment of shadow banking in enhancing economic growth and stabilizing the economic condition of Nigeria.
- To analyze the Shadow Banking role in enhancing local and foreign investment opportunities in Nigeria.

## 1.2. Basic Research Questions:

The current study emphasizes the sector of shadow banking specifically in the context of Nigeria to add to the developing research on the relevant topic in recent years. Thus, to conduct the research effectively, the following are the research questions, which are necessary to be answered.

Q1- What is shadow banking's role in strengthening the economic stability and growth of the Nigerian Economy?

Q2- What is the role of Shadow Banking in enhancing local and foreign investment opportunities in Nigeria?

## 1.3. Importance of the research:

Shadow banking refers to as an alternative credit and financing source to support and facilitate economic accomplishments and upsurge the liquidity of financial sectors. It plays a vital role to support economic development and growth and serves as a veritable platform for macroeconomic stability in Nigeria. It assists in economic development and macroeconomic stability by widening and deepening the prevailing pool of capital for the companies, diversifying sources of finance and decreasing the funding costs for banks and corporates (Ordonez, 2018). As per the study of Ilesanmi and Tewari (2019), borrowers and lenders can effectively make transactions with the help of the shadow banking system by utilizing all kinds of banking assets. However, shadow banking is considered beneficial as it serves with a veritable channel that supports and contributes to spur economic growth as well as financing of the economy by generating services regarding finance that is inexpensive and more comprehensively available. However, the implications of developing a system of shadow banking on the economic growth and financial sector stability especially macroeconomic stability are considered as relevant and pertinent to support the management oversight regarding the relevant sector (Ilesanmi and Tewari, 2019).

Furthermore, it has been stated by the government of Nigeria that the Basel III regulation is going to be implemented in November 2022, which guarantees the incorporation of banks into the activities and endeavors of shadow banking. All the aspects and features such as risk-sensitive supplies for the investments made by banks in equity funds, greater risk weights for unregulated financial mediators and standards for controlling greater capital exposures, increase the requirements of the capital for banks whose undertakings are associated with shadow banking intermediaries. Thus, as in most of the African countries, credit societies and informal thrift have executed the role of credit transformation for years in semi-urban as well as in the rural area in Nigeria, where there is less and unavailability of the banking sector (Tule and Onipede, 2017).

# 2. Literature Review

## 2.1. Introduction to Chapter

In this chapter, a review of different shreds of literature have been analysed, relevant to shadow banking which is rapidly becoming a veritable platform for macroeconomic stability and economic growth all over the world. In this section, a comparison of Nigeria with other countries is also presented as it is necessary to evaluate different auxiliaries of macroeconomic stability. To serve the purpose, several journal articles and other authentic sources are used to bring forth significant arguments.

## 2.2. Theoretical Conceptualisation

### *2.2.1. Concept of Shadow Banking*

Shadow banking refers to the appearance of new actors in the financial disintermediation process, through which the agents of the economy stop using the services of bank intermediaries to carry out the movements of their financial accounts (Tule and Onipede, 2017). According to the Financial Stability Board (FSB), shadow banking is beneficial to bring national or international authorities closer to each other, as they are responsible for the financial stability of institutions; likewise, expert committees of central banks and the European Central Bank (ECB). According to Ilesanmi and Tewari (2019), shadow banking consists of credit intermediation with entities and activities outside the regulated banking system.

In a broad sense, the concept of shadow banking is related to all non-bank financial institutions, other than insurance companies and pension funds (Nijs, 2020). The main characteristic of these collective investment institutions is that their shares are perceived by investors as substitutes for a deposit, with high diversification and almost instantaneous liquidity. Zhou and Dev (2020) stated that one of the limitations of the American investment banks was the deposits of the clients in the money markets (Q regulation). Shadow banking has offered a clear regulatory arbitration process; since these funds ended up financing the bank, only without the protection of the client by the deposit guarantee fund (Chan et al., 2019).

Specifically, it includes money market investment funds, investment funds other than money market funds, instrumental companies engaged in asset securitization operations and other financial institutions. The ECB acknowledges in its Annual Report for the year 2015, shadow banking is becoming an increasingly important provider of financing within the Euro area (Nwidobie, 2019). For this supervisory body, it represents a significant source of potential risk for the stability of the financial system in the euro zone that is why it requires careful monitoring.

In the Context of Nigeria, the financial sector has been subjected to a long process of reorganization in recent years. The CBN's supervisory mission was strengthened by Decree No. 40 on shadow banks and Other Financial Institutions promulgated in 1999 (Adetiloye, Taiwo and Adegboye, 2018). This Decree empowers the Governor of the CBN to revoke operating licenses to banks. Additionally, the Failed Banks and Malpractices Decree allows prosecuting the actions of the managers and partners of a bank through civil and criminal means. The financial system of Nigeria also includes three life insurance companies, 89 non-life insurance companies and 53 different types of insurance (Aku, 2018). The country is a major importer of insurance services, as most exports are made on a free on Board (FOB) based on Cost, Insurance and Freight (CIF) basis (Alhaji, 2020).

#### *2.2.2. The Effect of Shadow Banking*

The fall of banking regulation has had the collateral effect of the higher growth of shadow banking. This activity has been favoured by more lax regulation and supervision there are no uniform international standards, nor a transparent and exhaustive macro-prudential framework. Therefore, the risks of the financial system could be transferred from the banking sector to the shadow sector (Omojolaibi, Okudo and Shojobi, 2019). In the general context, shadow banking is considered any financing or credit intermediation carried out by financial entities, infrastructures or platforms that are totally or partially outside the usual banking system. This activity came to represent in 2014 close to 40% of the total assets of the global financial system, according to the Financial Stability Council (Alhaji, 2020). Fragmentation and heterogeneity are attributes of this non-banking universe, which is also characterized by high leverage and a strong dependence on short-term financing.

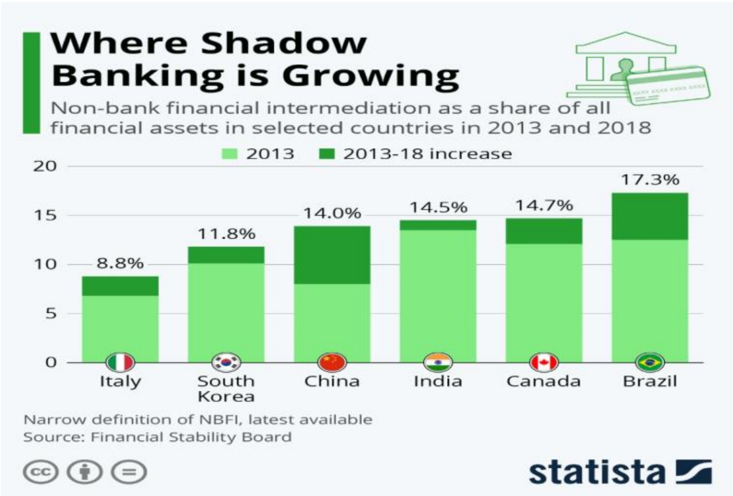


*Figure 1: Growth of Shadow Banking*

Source: Statista (2020)

The above figure is showing the progress of shadow banks in different countries to compare the data with other countries. This statistical information was published in 2020 by Statista that reveals, from 2013-2018; continuous growth has been seen in shadow banking in Italy, China, South Korea, India, Brazil and Canada (Ozili, 2021). Some examples of shadow banking are the management of collective investment vehicles, securitization vehicles, hedge funds, financial leasing companies and consumer credit. Furthermore, crowd funding activities and peer-to-peer loans have been gaining relevance for some time.

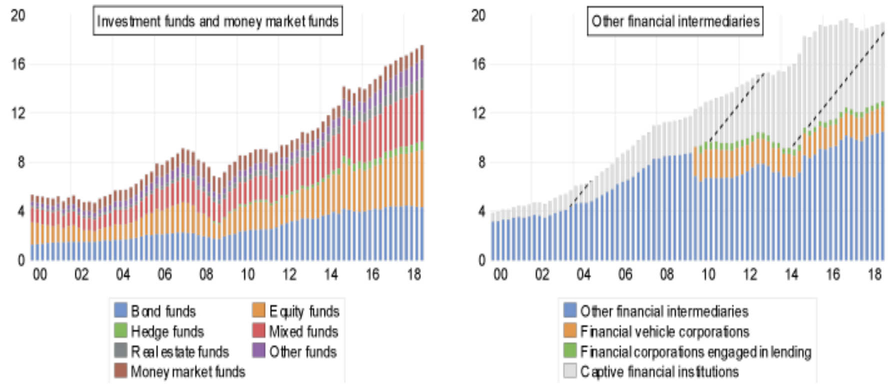


*Figure 2: The state of Shadow Banking in the European Economy*

Source: *Idris and Gatawa (2018)*

The above figure 2 is analysing the state of shadow banking in the European economy; according to which shadow banking is contributed to the growth of the European economy; however, there are some factors behind this phenomenon that are the increase in bond funds. Real estate funds, financial market funds, equity funds and other mutual funds are involved. The figure is displaying the data from the year 2000-2018 (Idris and Gatawa, 2018).

### 2.3. The Role of Shadow Banking in the Global Financial Crisis

From the perspective of Enemona (2021), shadow banking is a term that plays a vital role in those financial activities that are outside the scope of the controls and supervision that the banking system faces. It encompasses vehicles such as investment funds, pensions, venture capital and other series of financial products and derivatives. They supply the financing market without complying with the same rules as banks. The European Central Bank (ECB) and the International Monetary Funds (IMF) have put on the table in recent weeks the need for greater control over this phenomenon, which accounts for 40% of the financial sector in the EU (Samson, 2021).

The case of subprime mortgages raised after the Lehman Brothers crash is one of those that is put as an example of what shadow-banking role in the financial crisis (Igwe and Toby, 2021). A product, doubtful mortgages, that banks sell to third parties to remove risks from their balance sheets and thus be able to comply with the capital and solvency requirements to which they are obliged. However, this risk does not disappear, but it is no longer under the umbrella of banking supervision. Therefore, it is with another series of products and operations that occur in financial markets. In recent days, the IMF (International Monetary Fund) in its annual congress has put this issue as one of the main risks for the global economy, along with trade wars or excessive indebtedness of companies and states.

According to data from the European-banking supervisor, 40% of the entire European financial system is in the hands of shadow banking, although last year there was a slight decline in this trend (Augustine, Chinwe and Ukpere, 2018). However, practically it has not stopped growing since the beginning of the century when it was around a quarter of its current size. Tule et al. (2019) argued the arrival of the crisis and the banks' restrictions on granting credit has been a catalyst for the search for other means of financing for companies. Not everything done by these funds is considered shadow banking, but it is when they carry out banking operations. The ECB points out that there is a positive effect on the growth of these vehicles. Companies and states are provided with alternative financing channels. However, in parallel, the fact that banking activities are carried out without the same obligations as traditional banking can add more risks to the sector in the event of a new market crisis (Adetiloye et al., 2021).

Although it may seem that traditional banking and these alternative forms of financing are separate vehicles, the truth is that the ECB places their interconnection as the main risk for the system. Specifically, shadow banking is an important source of financing for the banking system and has grown in recent years to a level of 2.2 trillion euros, according to the banking supervisor (Aro-Gordon, 2017).

### 2.4. Macroeconomic Situation of Nigeria

In March 2005, the Central Bank approved a directive raising the minimum share capital from 2 million nairas ($ 185,000) to 25,000 million nairas (10 M US $), with the deadline of December 2005 (Ijaiya, 2021). This resulted in a notable consolidation of the sector; the number of banks has been reduced from 89 to the current 21 according to the CBN, at the beginning of 2018, through mergers and acquisitions. Due to this, three things have been greatly affected during the current pandemic crisis of Covid'19. It includes unemployment rate, GDP growth and inflation rates (Abada et al., 2021).

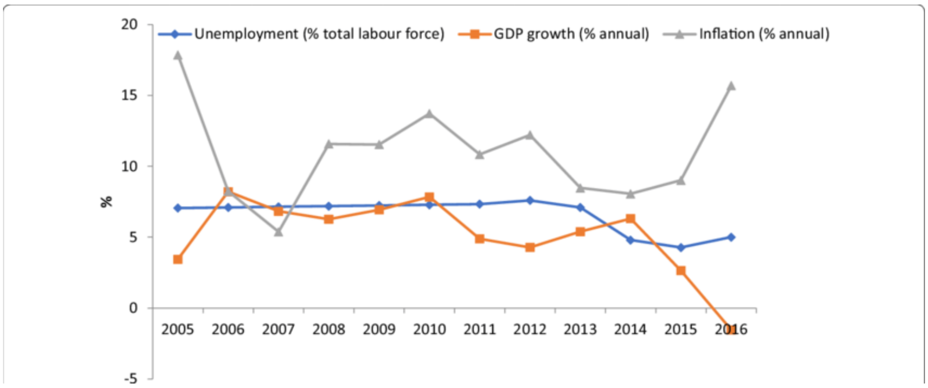


*Figure 3: Macroeconomic Situation of Nigeria*

Source: Moses (2019)

The above figure is presenting the macroeconomic situation of Nigeria from 2005 to 2016. In this figure, the unemployment rate was reduced after 2013 up to 5-10%, whereas; the GDP growth of Nigeria is falling to -1.6% (Moses, 2019). The global developments influenced the macroeconomic in Nigeria and the decline in oil prices in the international market resulted in the decrease in the GDP of Nigeria for the year 2014-2016. On the other hand, the impact of COVID-19 has raised the inflation rates on everything, due to which the financial market of Nigeria is expecting to grow in the context of shadow banking.

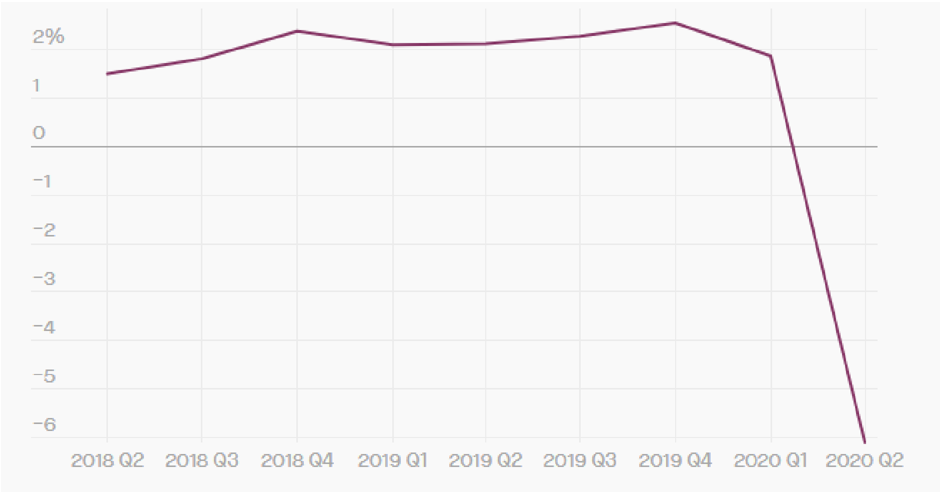


*Figure 4: Impact of COVID-19 on GDP of Nigeria*

Source: Kazeem (2020)

In figure 4, the influence of the COVID-19 has been presented. The pandemic of COVID-19 has badly affected the GDP of Nigeria, which results in a sharp decline in terms of GDP growth during the first quarter (Q1) of 2020. The decline in the GDP affected the macroeconomic stability of the country.

#### *2.4.1. Regulatory Authorities of Nigeria*

The Nigerian financial system consists of banking and non-bank financial institutions, which are regulated by the Federal Ministry of Finance (FMF), the Nigerian Deposit Insurance Corporation (NDIC), the Central Bank of Nigeria (CBN), the Securities Exchange Commission (SEC), and the Federal Mortgage Bank of Nigeria (FMBN) (Grey, 2017).

#### *2.4.2. Financial Market of Nigeria*

In Nigeria, the financial market consists of short-term debt instruments. The main feature of this market is the provision of short-term money investment to the deficit sectors of the Nigerian economy (Fasakin, 2021). The shadow banks in the financial market give support to both public and private institutions; therefore, deficit sectors can easily obtain funds from the market to fulfil their financial gap by performing trades and to clear pending dues such as treasury bills, treasury bills, cash loans, certificates of deposit (CD) and commercial paper (CP).

#### *2.4.3. Commercial Banks*

Recently, the financial or banking sector in Nigeria and West Africa undergoes an extensive process of reforms in the context of infrastructure. This reform is in line with the national economic reform program under the obligations of the Government (Jones and Knaack, 2019). Traditionally, the banking sector of Nigeria is comprised of small inefficient financial institutions where huge credit problems existed. Nonetheless, to provide financial service to its citizens, the government of Nigeria expanded the network of commercial banks and some of the names are; Access Bank, Globus Bank, Fidelity Bank, EcoBank, Key Stone Bank etc. (Central Bank of Nigeria, 2022). However, these banks were not functioning properly and operating in loss therefore, these banks were nationalised in August 2011 and came under the control of the Nigerian Deposit Corporation of Nigeria (NDIC). Consequently, the banks like EcoBank, Globus Bank and Afribank have been combined in one entity named Keystone Bank that was dependent on AMCON (Asset Management Corporation of Nigeria) (Koufopoulou et al., 2019). The rationale behind considering these banks under NDIC included that the entity would play the role of a regulatory body so that the operations of these banks can be monitored and subsequent policies can be developed to avoid economic instability (NDIC, 2022).

### 2.5. Evidence from the Studies on Shadow Banking

This section is showing empirical evidence regarding the key drivers of shadow banking and the impacts of shadow banking on the economic situation.

### *2.5.1. Key Drivers of Change for Shadow Banking*

The most common key drivers that bring change in the financial market are financial intermediation carried out by credit, leverage and maturity mismatch in which long-term assets are matched with liabilities due in the short period (Erten, 2019). It is evident from the study of Ishioro (2020), the shadow financial system played a prominent and even determining role in the gestation of the global financial crisis of 2007-2008. This article reviews, from a critical point of view of Morganti and Garofalo (2019), the efforts made to control the risks that emanate from it. The bottom line is that, despite efforts, nothing guarantees that these risks are controlled. The causes of this disaster lie in the infrastructure of financial regulations.

In the context of Nigeria, it seems obvious that the leverage of the banking sector is not enough to control all the risks coming from the financial system. Therefore, before continuing to talk about regulation, more regulation or better regulation in Nigeria; it is necessary to immediately address the problem of shadow banking that includes in the regulatory perimeter all financial agents that generate systemic risks (Lantz, 2021). The regulation must treat all agents according to the risks that their activity represents, regardless of whether they are banks, asset managers or other types of funds. The same activity and the same risks, the same regulations must be followed by shadow banks as followed in the Central Bank of Nigeria. This also applies to new financial entrants from the digital world, particularly big techs, large technology operators, which can generate systemic risks due to their size, as well as collusion problems that limit competition and consumer protection (Samuel, 2019).

Another study by Aduba (2021) has focused on the driver of change and stated that inappropriate developments around the primary model must be avoided. This has been, among others, one of the objectives of the regulation put in place after the crisis. However, Lantz (2021) argued, it is paradoxical that the new regulation is introducing incentives to regulatory arbitrage, that is, to the displacement of activity from banks to the shadow financial system, directing the new regulations to entities (banks and insurance companies) and not a type of operations (attracting short-term liabilities that finance long-term credit risk).

Therefore, with the regulatory reform just completed and still in the implementation phase, it is still too early to answer, but it is contradictory that we are making banks much safer at the cost of shifting risks to parts of the financial system that we neither see nor control. In addition, big-techs present an even greater challenge due to their universal (not national) character, because of their enormous capacity for innovation (which no one doubts) (Egbulonu and Okani, 2019). However, also because of their talent to avoid the restrictions with which other sectors operate (for instance, in terms of data protection). Ultimately, the issue of the regulatory and supervisory treatment of the shadow banking system in Nigeria is far from being resolved, as mentioned in the study of Jones and Knaack (2017).

Taking into account the role that the shadow banking system has it has been stated that it occupies a prominent place in the considerations of those responsible for financial stability at global and local levels in Nigeria (Lagoarde-Segot, 2020).

### *2.5.2. The Impact of Shadow Banking*

Several empirical studies discuss the impact of shadow banking with a positive attitude and high-level impact on financial markets of different countries including Nigeria. Mamudu (2021) studied that shadow-banking systems (SBS) have made banks safer, as they become more solvent in managing liquidity issues from a risk viewpoint. Brychko et al. (2021) support that they have better corporate governance and are more intensively supervised. However, Mustaq (2021) argued that SBS is transferring risks to a part of the financial system where this improvement in many emerging markets and developing countries has not occurred.

Another study by Nabilou and André (2019) evident that banks only represent 40% of the global financial system and, since 2011, it has been the institutional group that has grown the least. However, Hodula, Melecky and Machacek (2020) provided supporting context that there will be more and more quasi-bank financial institutions (not regulated as banks), shadow banks that are susceptible to generating bank panics.

In the study of Apostoaie and Bilan (2020), it is revealed that Big-techs are entering this shadow financial world. Today, fintech and big-techs that provide financial services are in limbo when it comes to the rules of conduct that affect them. In general, none of the sectorial standards applies to them, as they are outside the sectorial regulatory perimeter. Therefore, it is necessary to immediately address the problem of shadow banking, that is, to include in the regulatory perimeter all financial agents that generate systemic risks.

In the coming years, the fintech companies may join the large investment funds and other more complex financial vehicles in the follow-up to shadow banking carried out by organisations such as the ECB, CBN or the FSB. Both organizations point out in their respective reports that their rapid growth may have an impact in this field. They are technology companies that provide financial services without being fully included in banking regulation, this can lead to an increase in the risks of the system, Hodula, Melecky and Machacek (2020) pointed out. Ultimately, shadow banking is a fully legal investment or financial services instrument and none of the organizations poses prohibitions. Their fear is based on the need for financial sector supervision to consider these vehicles and avoid taking excessive risks for the system.

## 2.6. Core Activities of Shadow Banking Worldwide

It is sometimes said that the shadow banking services include entities such as hedge funds, funds and capital markets, investment instruments structured and investment funds, credit and funds traded on the stock exchange, hedge funds credit, private equity funds and finance companies. Central banks and other government institutions regulate and supervise the basic activities of investment banks, but investment banks tend to conduct many of their transactions in ways that are not seen in traditional balance sheet accounts and are therefore invisible to inexperienced regulators or investors. Before the financial crisis of 2008, the major investment banks were less regulated than the custodial banks (Apostoaie and Bilan, 2019).

The volume of transactions in the shadow banking system increased significantly after 2000. The crisis of 2008 affected its growth and the volume decreased for a short time, both in the US and worldwide. In 2007, the Financial Stability Board (FSB) estimated the size of SBS in the United States at about $ 25 trillion; by 2011, however, estimates had fallen to $ 24 trillion (Zéman, 2018). Overall, the global SBS amounted to approximately $ 60 trillion at the end of 2011. In November 2012, Bloomberg reported in a report from the Financial Stability Board that the SBS had risen to approximately $ 67 trillion (Samuel, 2019). Banks are by far the largest issuers of commercial paper in the United States, as compared to Europe, West Africa (Nigeria) and other developing countries.

### 2.7. Component Entities of the Shadow Banking System

Along with asset securitization, this type of activity also represents the old core of the regulator's concerns, as the expansion of a repo market with very low regulation and its subsequent collapse at the height of the crisis accelerated the panic. Nabilou and André (2019), have seen in the case of monetary funds, the Repo market has its origins in the fact that the regulations on deposit guarantee funds covered only clients with relatively low amounts, leaving depositors of higher amounts with greater risks concerning the entity. Apostoaie and Bilan (2020) said, clients began to demand collateral for their deposits, in the form of bonds for nominal amounts, which could be sold in the market in the event of bankruptcy of the entity, placing their guarantees outside the perimeter of this in that case (no stay rule). Another way of seeing the Repo is as a way to finance the acquisition of long-term financial assets, through short-term loans specified in the short-term assignment of the asset to be acquired. From the Hodula, Melecky and Machacek (2020) viewpoint, the “depositary/transferor” takes advantage of the term structure of interest rates, and appropriates the differential between the interest paid for the security and the repo rate, at which it has obtained financing.

In this case, the commission sets its sights on the business of assurance (reinsurance) of credit issued in the market (Zéman, 2018). This description corresponds to the monocline insurers, which played a central role in the crisis. This structured issue underwriting activity is part of the transformation of credit, although not through the mechanism of diversification of the underlying assets but an explicit guarantee. Once again, it is one of the activities that had the most public exposure, as a result of the underwriting of large volumes of structured issues before and during the crisis (essentially CDO's), which already triggered bankruptcy and/or the rescue of various insurance companies specialized in the sector.

According to the study of Lantz (2021), the financial sector was valued at $60 trillion in 2010, compared to an advanced FSB estimate of $27 trillion in 2002. While the sector's assets declined during the global financial crisis, it has since returned to its pre-crisis peak except for the United States, where it fell dramatically. A 2019 paper from Morganti and Garofalo (2019) used a statistical analysis based on the deviation from the distribution of the bank sizes of the world's largest financial entities to conclude that the size of the shadow banking system was probably more than $100 trillion in 2012 (Jones and Knaack, 2019). Lagoarde-Segot (2020) viewed that there are concerns that more businesses may move into the shadow banking system as regulators seek to strengthen the financial system by making banking rules stricter.

### 2.8. Functions of Shadow Banking in Financial Markets

Ijaiya (2020) studied the way of working of the shadow banking system with another financial system. Essentially, shadow banking carries out credit intermediation activities between surplus units and financing deficit units. The main difference is that this intermediation is not carried out by a single entity; as in conventional banks. However, by a plurality of specialized intermediaries (chain system) that carry out a whole series of transformations, through which said intermediation is structured instead of a deposit base as a counterpart in the balance, there is a constant appeal to financial markets. Aduba (2021) said, the shadow banking system carries out identical transformations, not through deposits (only credit institutions can accept them); however, through the issuance of financial assets in the market.

Maturity transformation derives from the fact that there is a time difference between the maturities of the financial assets and the liabilities with which they are financed. Shadow banking intermediaries are capable of replicating the structure by lending for long terms and financing themselves in the short term in the markets through the issuance of deposit-like assets - “deposit like liabilities”. This phenomenon subjects the intermediary to market risks related to the need to periodically renew financing when said instruments expire. Further, shadow banking is a phenomenon that has proven to be very dangerous in times of market stress (Mamudu, 2021).

Credit transformation: It implies the synthetic improvement of the quality of the assets issued in the market and the public as “similar to deposits” perceives that. This quality improvement can be carried out through the “trenching” of the underlying risks or the inclusion of insurance or similar instruments, such as guarantees from conventional financial institutions (Fasakin, 2021).

The liquidity transformation: It consists essentially of the perception that these “deposit-like” assets have in the market-by-market participants, even though they are being used to finance highly illiquid assets (high-yield bonds, direct mortgages and project bonds). In this regard, the existence of liquidity lines by the conventional banking system is of great importance concerning the perception of said assets as "liquid" (Abada et al., 2021).

Having seen what its operation and function are, we can begin to identify various activities and entities (FSB, 2011) that agree with this way of intermediating and/or transforming credit. Some of them (such as securitization, which was the origin of the financial crisis in the US) have lost prominence compared to other shadow banking activities, such as fixed-income investment funds and monetary funds, which present the highest growth in aggregate (Adetiloye et al., 2021). Therefore, it should be noted that there are no numerous clauses in terms of activities and entities, and there are numerous grey areas in which the FSB speaks of "another credit intermediation with risks similar to banking." Such activities, such as peer-to-peer loans, certain facets of venture capital, crowd funding are gaining importance in the risk scale measured by the FSB (and through it by national supervisors).

OFI subsectors

26 jurisdictions — Exhibit 26

| | MMFs | Finance Compa-nies | SFVs | Hedge Funds[1] | Invest-ment Funds | Broker-Dealers | REITs | Trust Compa-nies |
|---|---|---|---|---|---|---|---|---|
| **Size in 2014** ($ trillion) | 4.3 | 3.6 | 4.9 | 0.4 | 27.4 | 9.6 | 2.1 | 2.7 |
| **Growth in 2014** (year-over-year, %) | 19.8 | 2.5 | -2.0 | 104.6 | 12.2 | 10.5 | 12.1 | 26.2 |
| **Average annual growth** (2011-2014, %) | 4.7 | -1.1 | -5.0 | 34.3 | 11.6 | 5.5 | 13.9 | 39.6 |

Note: Growth rates adjusted for exchange rate effects. SFVs = Structured Finance Vehicles, REITs = Real Estate Investment Funds and Trusts.

[1]: Hedge funds are significantly underestimated in this report, and their growth rate may therefore not be representative.

Sources: National financial accounts data; other national sources; FSB calculations.

*Figure 5: Growth Rates of Shadow Banking Services*

Source: Adetiloye et al. (2021)

### 2.9. Risks in the Shadow Banking System

After the 2008 financial crisis, one of the elements of the international financial system that has received more attention from the specialized media is the so-called shadow banking system (SBS). As its name indicates, this term describes a series of institutions and practices based on the use of financial derivatives, which have remained in the shadows of regulation and public attention throughout the last decade. It is precisely the lack of regulation that facilitated the rapid expansion of this segment of the global credit markets, which went from representing just over 20 million dollars in assets in 2002, to 60 million dollars at its peak end of 2011 (Mushtaq (2021).

Despite handling such significant amounts of resources, the SBS continues to be scrutinized marginally due in large part to the complexity and opacity of the operations it encompasses. To better understand such a system, it is useful to make a comparison with commercial banking. In the case of a traditional bank, financing is obtained through the capture of deposits from savers that are subsequently loaned to corporations and individuals. Meanwhile, a shadow bank raises resources through the issuance of short-term securities and commercial paper (with a duration that varies from 1 to 30 days) that are subsequently invested in long-term structured financial products such as asset-backed securities. (ABS) or collateral debt obligations (CDO). Ilesanmi and Tewari (2019) depicted, the profit margin in this banking model is derived directly from the difference between the cost of financing in short-term credit markets and the (higher) yield of structured financial products.

The key difference between the activities of traditional banking and the SBS is the lack of regulation regarding the latter. Restrictions in terms of capital reserves, which oblige a bank to maintain a small reserve of resources for each loan made, do not operate in the case of short-term credit markets where SBS transactions take place. In their quest to increase advantage levels, intending to increase profits, main West African, North American and European banks entered into strong competition with hedge funds and private equity funds.in attracting financing in these markets (Nijs, 2020). In this way, banks such as BNP were able to significantly expand their balance sheets without being restricted by the ability to attract commercial deposits.

The problem lies in the fact that banks do not include these types of transactions in their balance sheets. To attract resources in the short-term credit markets through the issuance of commercial paper, banks resorted to the establishment of parallel legal entities such as Special Investment Vehicles (SIV) or Conduits. Although the benefits obtained by the SIVs do end up being recorded in the banks' balance sheets, the assets and liabilities, and therefore the financing risk faced by such special entities, are accounted for independently (Nwidobie, 2019).

From the point of view of the markets, the existence of this implicit relationship between banks and their special entities has two concrete implications. First, it reduces the financing costs of the IMS since the markets recognize that in case of facing liquidity or solvency problems, the banks responsible for the special entities take charge of these through credits or direct integration in their worksheets balance. Second, SIVs help inflate banks' accounting profits while reducing the officially reported risk profile. In an environment characterized by low-interest rates, a general reduction in volatility and lax regulation, these elements allow us to explain how the SBS went from becoming an alternative financing mechanism for North American and European banks in the very essence of their business models.

The illusion of unlimited advantage and ever-increasing profits came to an abrupt end with increased volatility in the structured financial product markets in 2007. The first known SBS element to experience problems was the High-Grade Structured Credit Strategies hedge fund. In March 2007, the HGSCS held positions in ABS in the subprime market for a total value of 13.7 billion dollars, with an equity capital of 925 million dollars (Nwidobie, 2019). The announcement of losses for the equivalent of 3.7% of the hedge fund's portfolio in the said month led to the withdrawal of 100 million dollars by investors (Chan et al., 2019). The loss of confidence in the fund, in turn, generated a chain effect, since it lost access to the short-term credit financing markets and forced a sale at depressed prices (60 cents on the dollar) of its assets (Omojolaibi, Okudo and Shojobi, 2019).

The same pattern of loss announcements, freezing of access to short-term financing markets, and integration in the balance sheets of the responsible bank with the consequent significant losses was repeated in the cases of BNP Paribas in August 2007, Bearn Sterns and Lehman Brothers in March and September 2008, respectively. As is well known, in the last two cases the collapse of the operations that were taking place outside the balance sheets of these institutions effectively led to their disappearance. Eventually, the uncertainty ended up affecting one of the main sources of financing of the SBS, the Money Market Funds (MMF). In the week after Lehman's crash, MMFs experienced investor withdrawals of the equivalent of 14% of their assets, about $ 193 billion. By the end of October 2008, this figure had expanded to $ 400 billion (Alhaji, 2020).

After a period of decline in the months after the financial crisis associated with the events described above, the SBS has been regaining its preponderance in the financing strategies of the banking sector. That is why it is important to understand the behaviour of this segment of the financial markets since it continues to represent one of the weakest links in the system. A clear example of this situation is the recent collapse of the MF Global Funds in November 2011. A Primary Dealer based in New York, under the leadership of John Corzine (former director of Goldman Sachs), MMF Global Funds was brought to bankruptcy due to the progressive reluctance of MMFs to finance entities with exposure to portfolios of sovereign debt in Europe. In the previous months, the fund built an important position in these portfolios using short-term financing obtained through the commercial paper in the MMF, obtaining significant gains derived from the high-interest rates of the debt bonds of countries such as Ireland and Spain. However, once the rumour about the risky position assumed by MMF began to spread, investors began to withdraw their money and the fund lost access to short-term financing. With no liquidity to refinance its positions, MF collapsed leaving an estimated $ 2 billion in losses (Nwidobie, 2019).

This recent history highlights one of the most significant risks that an expanding SBS poses to the stability of financial markets. Thanks in large part to the lack of regulation, entities that operate in this segment can achieve significant levels of advantage which allow obtaining benefits that would not be possible to achieve otherwise. The problem is that advantage is associated with a high vulnerability to changes in financing conditions in short-term markets since in most cases it is invested in complex, low-liquidity and long-term positions that cannot be undone quickly.

In addition to the excessive fragility of the SBS, from the public point of view, it is also necessary to take into account other risks associated with this system. In the first place, allowing commercial banks with insured deposits to establish special entities violates the very principles that led to the establishment of deposit insurance. Their purpose is to protect the deposits of savers and as a counterpart, they require stable and safe handling of these by the banks. However, as noted above, the financing risk incurred by special entities is ultimately linked to the balance sheet, and therefore to public guarantees, which commercial banks enjoy (Nwidobie, 2019).

Second is the exposure of the Pension Funds to the transactions that take place in the SBS. By definition, these funds are required to manage a minimum investment risk profile. At the same time, for operational reasons, they must maintain a small percentage of the investment portfolio of short-term liquid assets that facilitate dealing with withdrawals and cash demands in the short term. However, given the large number of assets they manage, this "small" percentage represents around 400 to 500 billion dollars annually (Fasakin, 2021). Traditionally, such resources were invested directly in short-term public debt bonds. However, with the expansion of the SBS, and in the search for higher profitability margins, securities and other types of liquid resources in the hands of pension funds end up being loaned to hedge funds, MMFs and other entities operating in the shadows. In this way, the savings that have been placed under the administration of the pension funds are put at risk without the public being aware of this fact.

A third risk is associated with the problems that the SBS implies for the effective regulation of financial entities. To the extent that recent regulatory measures have been aimed at consolidating banks 'capital bases and reducing banks' leverage levels, the result has been to push riskier activities off balance sheets and into banks end of the official records. This explains the strong recovery of the SBS over the last year. It is then possible that the recent reduction in the advantage levels of European and North American banks does not reflect a real reduction in systemic risk, since the only difference is that the riskiest and most unstable activities now take place far from the attention of investors or regulators (Mamudu, 2021).

Precisely, the above series of risks associated with the SBS paints an extremely worrying picture of the implications of an uncontrolled expansion of the sector. The 2008 crisis highlighted the fact that in times of instability, operations that take place in the shadows end up being assumed in most cases by financial institutions considered too big to fail, which by this fact are rescued in turn with public money (Adetiloye et al., 2021). To the extent that the stability of a financial system is ultimately underpinned by the public guarantees offered by the State, it is the responsibility of the State to ensure the conditions so that these should not be used. As long as the regulatory authorities continue to expressly ignore the SBS, they are not only failing to do so. They are paving the way, in an accelerated way, to new and increasingly large financial bailouts with recourse to public money.

## 2.10. Chapter Conclusion

The chapter concludes that the shadow banking system has been raising rapidly worldwide. In West Africa, Nigeria is also doing their trades and major financial activities depending on the shadow banking system instead of the traditional banking system. In other words, in the current context, deposit guarantees protect first the counterparties involved in SBS transactions than the deposits to which they originally owe their existence. A practical example of this situation is the recent move by the Central Bank of Nigeria to integrate its derivatives and commercial banking operations, to lessen the financial problems in the former. The above academic literature has provided a great contribution to knowledge and filled the research gap because, in previous studies, there is controversy about the importance and scope of the shadow banking system. However, the present research is showing that shadow banking has great significance in the financial markets of different countries of the world, not just in Nigeria. The focus of this study is that how the macroeconomic situation can be improved by applying the shadow banking system in Nigeria.

## 3. Research Methodology

### 3.1. Chapter Introduction

The methodology section is very significant throughout the research process. Since the stages followed in this research are the ones that guide any academic project. In this chapter, I have used the Saunders' Research Onion Model to identify the appropriate research method, research approach, strategy and research instrument that I have used for the data collection process. After this, the data analysis technique is discussed which is appropriate for this research. At the end of this chapter, ethical considerations and a chapter summary are also given.

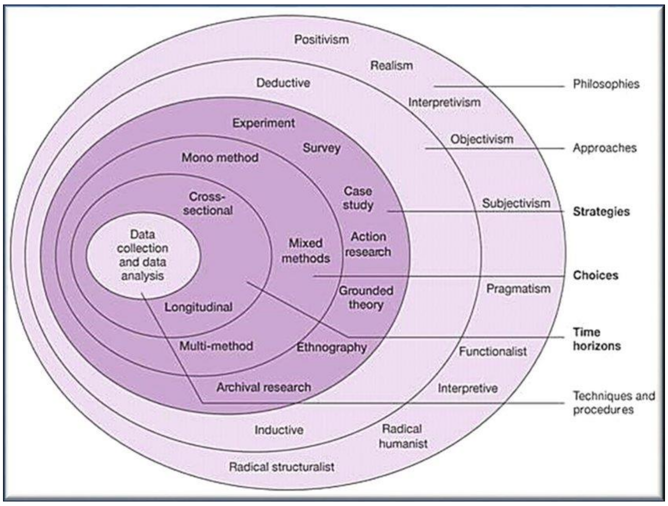


*Figure 6: Saunders research onion*

Source: Opok u, Ahmed and Akotia (2016)

### 3.2. Research Method

Two common research methods can be used appropriately for researching quantitative and qualitative methods. The quantitative method has used when there are specific dimensions to analyse the data from empirical shreds of evidence (Melnikovas, 2018). However, the qualitative method has been used to narrow down the broad concept of quality dimensions (Al-Ababneh, 2020). Therefore, for the current study, the qualitative method was incurred as a mono-method research choice, for analysing the role of shadow banking as a veritable stage for macroeconomic stability as well as economic progress in Nigeria.

### 3.3. Research Philosophy

The research philosophy generally sheds light on the significant assumptions made by the author. However, the research philosophy has a wide range of disciplines, some of which are; pragmatism, realism, positivism and interpretivism. In the research philosophy of positivism, the researcher collects limited data and interprets the data in an objective style. According to Khar et al. (2019), the studies that followed positivism are usually based on quantitative observation and statistical analysis. In contrast, the focus of the pragmatism research paradigm is to identify the research problem and view the research in broader contexts. According to Clarke and Visser (2019), pragmatism philosophy has worked appropriately for both qualitative and quantitative studies. Moreover, the pragmatic study seeks to resolve the problem with better understanding. While observing the realism philosophy, it relies on the reality concept generated from the human mind along with the scientific approach for knowledge development (Clarke and Visser, 2019). The interpretivism philosophy has shown more appropriateness with qualitative research. Henceforth, for the current research, the interpretivism research paradigm has been employed which allows the researcher to make observations regarding the social setting while performing the particular role and task (Ryan, 2018).

### 3.4. Research Approach

The research approach usually consists of two major research methods, i.e., deductive and inductive (Soiferman, 2010). The deductive approach is appropriately used with the quantitative research method. The deductive approach is considered as a part of a general premise to obtain the conclusions of a particular case. According to Haydam and Steenkamp (2020), the deductive approach stresses clarification, theory, theoretical models, and abstraction, before the collection of empirical data, making observations, or else employing experimentations. On the other hand, the inductive approach is best suitable for the qualitative research method because it analyses a problematic situation with logical reasoning (Malalgoda, Amaratunga and Haigh, 2018). Brown and Dueñas (2020) argued that the inductive research approach focuses only on the specific cases that are analysed, the outcomes of which are used to make common conclusions. The inductive methodology starts from the systematic observations of actuality, which leads to the generalisation of facts and the discovery of the theory. The use of observation and experiment is to reach generalisations of occasions that are repetitive (Brown and Dueñas, 2020). Therefore, the current research has followed the inductive research approach to make observations from a specific level to a general and broad level of focus regarding the shadow-banking sector in Nigeria.

## 3.5. 3.5 Research Strategy

During the whole research process, the research strategy is vital to decide the research design for the current study. In the qualitative research method, several research strategies could be used such as case studies, observations, survey-based focus groups and interviews (Kumar, 2018).

### *3.5.1. Case Studies*

According to Snyder (2019), a case study is a research strategy that focuses on a specific topic. The common use of case studies is in clinical, social, academic and business research. Nayak and Singh (2021) argued that mainly qualitative methods are included in the research pattern of a case study. However, sometimes case studies are also used by quantitative methods as a research strategy to analyse the statistical data of organisations. Therefore, it could be said that case studies are used to describe, compare, evaluate, and understand different aspects of a research problem.

### *3.5.2. Observations*

The importance of participant's observation in research strategy is described to generate and promote participation, research processes and construct the knowledge-based learning context from a methodological approach (Mohajan, 2018).

### *3.5.3. Focus Group*

The focus group is a research instrument used to collect useful qualitative information. It has become a widely used research instrument of qualitative data collection in various areas of knowledge in the last decades (Zangirolami-Raimundo, Echeimberg and Leone, 2018). In this strategy, participants are asked questions about their perceptions, attitudes and opinions, in the form of a group regarding the concept of shadow banking effect on macroeconomic stability in Nigeria.

### *3.5.4. Grounded Theory*

Qualitative research is associated with the idea of generating grounded theory or theory supported by data. Following Ragab and Arisha (2018), the term grounded theory is a supple research technique and its major objective is to establish generalised theories directly from the data analysis. The grounded theory provides sequential guidelines to conduct a qualitative analysis, that's why it carries great importance. (Clarke and Visser, 2019).

### *3.5.5. Interviews*

It is a durable research instrument, which is widely used by the authors while conducting qualitative research (Melnikovas, 2018). It is highly dependent on the open-ended questions and record answers based on their experiences in the banking sector of Nigeria. Action research was used as a research strategy for this study as well as qualitative data was gathered through survey-based interviews. About 25 to 30 managers who are working in the banking sector of Nigeria are interviewed to identify how shadow banking is a veritable platform for macroeconomic stability and economic growth.

## 3.6. Research Instrument

Research instruments are important for data collection. The four types of common research instruments could be used in a qualitative method, which includes observations, interviews and focus group discussion (Khar et al., 2019). Among these instruments, qualitative interviews are appropriate to collect the primary data from the managers of Nigerian banks to know the effect of shadow banking on macroeconomic stability and economic growth. According to Snyder (2019), qualitative interviews allow participants to elaborate their concept in such a way that could not be possible with survey-based research.

### *3.6.1. Interviews*

There are different types of interviews and various classifications. For example, job interviews or personnel selection, journalistic and investigative interviews. The latter is the one we are interested in delving into in this post since as a data collection instrument, it provides relevant qualitative information to address a problem and to meet the objectives of a study (Ragab and Arisha, 2018). Regarding their classifications, the author must be understood flexibly, taking into account that for many investigations a combination of them is appropriate. The most common classification is the following:

### *3.6.2. Structured Interview*

They are structured when there is a rigid, scheduled or standardised questionnaire; they are also known as programmed standardized. According to Mohajan (2018), structured interviews come under the classification that corresponds to the most rigid level. All the questions must be comparable; therefore, when variations appear between the interviewees, they can be attributed to real differences in response and not to the questionnaire.

### *3.6.3. Unstructured Interviews*

This kind of interview is non-directive in which the questions are not prearranged. Ragab and Arisha (2018) studied, this kind of interview allows to development of spontaneous questions during the conversation with participants.

### *3.6.4. Semi-Structured Interviews*

Interviews that are developed from a script of open-ended questions that are asked to the interviewees but leave a link for free expression are known as semi-structured interviews. According to Nayak and Singh (2021), it is important to have the question script, for an orientation of relevant topics that must necessarily be covered. For the present, open-ended questions are conducted with semi-structured interviews. The questions are related to the economic stability and banking sector. In addition, the questions are relevant to how shadow banking affected the government-banking sector in Nigeria.

### 3.7. Time Horizon

To identify the distinction between a longitudinal and a cross-sectional study, it is important to remember the characteristics of each of them. The observational study in which the data is gathered to study a population at one point in time is called a cross-sectional study. The recent study is based on a cross-sectional time horizon. The major focus of a cross-sectional time horizon is the collection of at a particular period from a specific population (Opoku, Ahmed and Akotia, 2016). The current study emphasised gathering qualitative data from the Nigerian population regarding the banking sector. A cross-sectional study also has a drawback, i.e., the study of this type is not proficient in providing researchers with a definitive relationship between the cause and effect relationship.

### 3.8. Data Collection Method

The data collection can be done through primary resources and secondary resources. The data collected through primary resources are completely new information; whereas, the secondary resources are the already existing researches published previously in Journals and online databases (Khar et al., 2019). For the current research, primary data collection was done through interviews and the secondary resources was also used to conceptualise the literature review chapter. The sample size of participants was 25 – 30 and the target population for this research are the managers who have working experience in the banking sector of Nigeria. The interview was based on 8-10 questions and all are related to the shadow banking, macroeconomic stability and economic growth of Nigeria.

### 3.9. Data Analysis

Data analysis is the most important section among all research processes. Qualitative data analysis is a process by which meanings and conclusions are drawn from unstructured and heterogeneous data that are not expressed numerically or quantifiable (Kumar, 2018). In the study of Brown and Dueñas (2020), the process of qualitative data analysis is very dynamic and creative as it permits us to extract textual or narrative knowledge from a large amount of diverse data. For the recent study, thematic analysis was used to analyse data because the primary data was gathered through interviews. As a result, themes emerged from the responses of participants to analyses their concepts and provide back to back support of references. According to Haydam and Steenkamp (2020), the thematic analysis sheds light on the concept of respondents and distributed the data into themes that provide different data sets. The thematic analysis can easily analyse the large data without any distraction.

### 3.10. Ethical Considerations

The ethical aspects are important to consider before conducting the research. For the qualitative research, the author should take about academic integrity, as misconduct of previously published data is highly restricted (Clarke and Visser, 2019). The current study has used primary data collection; therefore, the author should be considered the aspects of anonymity, confidentiality and must sign the informed consent by both parties. According to Malalgoda, Amaratunga and Haigh (2018), it is ethically wrong to disclose the private information of participants to any third party.

### 3.11. Chapter Summary

The chapter summary is here to summarise the research processes in a brief description. The research was based on a qualitative method with interpretivism research philosophy. The researcher used the research philosophy of interpretivism to interpret the data regarding macroeconomic stability through deep observation. The inductive research approach was used for this qualitative study, as it provides logical reasoning to analyse the problematic situation in the banking sector of Nigeria. The primary data collection was done through qualitative interviews to narrow down the broad concept of shadow banking. After data collection, thematic analysis was performed, as it is the most appropriate technique used for assembling the qualitative data. The ethical aspects are more important to consider in the primary data collection because it is ethically wrong to conduct interviews without informed consent. The informed consent form allowed both parties to strictly follow the instructions written in the consent.

## 4. Data Analysis and Discussion

### 4.1. Chapter Introduction

The analysis chapter presents an overview of findings from the collected data. It includes graphical and statistical elements relevant to the banking sector, useful both for future research. The procedure followed first analysis based on literature review was done to recall the problematic things. After collecting the information obtained in the interviews and finally we generated the themes based on the analysis of responses that are related to shadow banking.

### 4.2. Analysis Based on Literature Review

In the chapter of literature review a clear concept of shadow banking was provided from different viewpoints. Many scholarly articles and published resources were used to analyse the current macroeconomic situation of Nigeria and how the banking sector is influenced by shadow banking. Adeleye (2020) study mentioned the low productivity growth in Nigeria is attributed to an extremely important factor. Likewise, poor in technology, demographic factors, social conditions, poor macroeconomic policies, inadequate infrastructure facilities and a high dependence on primary products and macroeconomic fluctuations. However, Abada et al. (2021) opposed him by saying that it is not only that production's drive is low, it also varies above the expectations of various macroeconomic analysts. There are varying results among different empirical studies on the determinants of production growth in Nigeria. Nonetheless, it is argued that by strengthening the other financial institutions through effective supervision and regulation, the market of Nigeria can flourish and can envisage economic stability in the region (Adetiloye et al., 2018).

The findings from the literature revealed that the changes in economic growth are positively determined by the inflation rate, interest rate and rate of unemployment. However, commercial banks of Nigeria are negatively affected by the investment ratio, per capita income need for trade. Therefore, Aro-Gordon (2017) depicted that shadow banking is a veritable platform for macroeconomic stability and economic growth in Nigeria. The study further shows that structural shocks are being transmitted between economic growth and its determinants. However, the processing of these shocks is complicated to determine. The findings based on the Augustine et al. (2018) study, there is a great deal of volatility between economic growth and its determinants, if Nigeria will have a focus on shadow banking more instead of traditional banking.

### 4.3. Thematic Analysis

#### *4.3.1. Theme 1: Role of shadow banking in strengthening economic stability in Nigeria and Global Financial Stability*

Shadow banking provides financial mediation services without explicit liquidity and guarantees for credit from governments (Chan et al., 2019). Davidovic et al. (2020) analysed it, shadow-banking services are usually located in nearby foreign financial centres. The significant systemic risks caused by the Shadow Banking System (including its interdependence with the banking system, the strong contagion between intermediaries, the misalignment concerning the prudential regime of banks) have increased awareness about the probability of a crisis developing systemic with severe negative effects on the real economy (Enemona, 2021).

For this reason, shadow banking activities have attracted the attention of regulators, who have taken various measures worldwide (primarily in the United States and Europe) to curb the uncontrolled and unregulated growth of the financial sector. Beyond the critical aspects related to the shadow banking system, Galli (2017) highlighted, if shadow banking is properly regulated, could represent one of the most effective instruments (alternative to the 'traditional' banking financing system for companies) to promote growth in Nigeria. With it, alternative forms of financing to bank debt could be developed for companies, as well as direct recourse to the capital market and this within that broader strategic path that could soon lead to the creation in Europe of a single market for capital

With the approach of the global financial crisis, much of the financing of securitized assets that were allowed to bypass the restrictions of regulated banks on their risky operations have been addressed through shadow banking (Hamdan et al., 2021). During the average annual growth of assets of conventional banks (2011-2014), it was 5.6%. The growth of the shadow banking system reached 6.3% (Hoseini and Valizadeh, 2021). Comparing the share of land in shadow bank assets between 2010 and 2014 shows that the largest increase in Nigeria and other parts of West Africa rose from 2% to 8% (Hudáková and Dvorský, 2018). On the other hand, the US maintains its dominance of parallel banking markets at around 40% (Idris and Gatawa, 2018).

#### *4.3.2. Theme 2: Shadow banking for Economic Stability and Economic Growth in Nigeria*

Reducing economic efficiency through distortion of price signals, and misallocation of resources due to the difficulty of distinguishing between changes in relative prices and changes in the general level of prices. The unpredictability of the general trend of prices would raise real interest rates and reduce the rate of investment and capital formation (Igwe and Toby, 2021). In this context, the Ilesanmi and Tewari (2019) study aims to identify the main drivers in Nigeria and they're relative important to support the efforts made by economic policymakers to reduce inflation and achieve economic stability. About 0.6 percentage points through a policy package that includes boosting investment, developing human capital, and adopting new technologies through corporate and market reforms (Javed and Basheer, 2017), could increase economic stability and growth. According to Jünger and Mietzner (2020), financial entities other than traditional banks that, in addition to lending money to creditors, seek the return of investors through low-interest rates are transforming global financial stability. Brokers, trustees and investment funds, despite combating the lack of credit, carry out high-risk operations without offering the guarantees of banking regulation, a deficit that puts them in the spotlight and classifies them as a threat.

#### *4.3.3. Theme 3: Legislative Dynamics for Restriction of the Enactment of Shadow Banking in Nigeria*

For economic growth, the most important forms of Nigeria entity that shadow banks take as legal to practice their financial and banking activities are the following formulas, mentioned by Zheng et al. (2020);

**Hedge funds or preventive conservative Hedge Fund**: They are investment funds that use advanced investment policies and tools to achieve rates of return that are relatively higher than the average return on investments prevailing in the market, without bearing the same level of risk (Kim et al., 2015). These investments may be long or short-term, and methods of balancing between the purchase and sale of securities are used. In comparison with global financial data, there are about eight thousand hedge funds in all the financial markets of the world, which transmit risks in these markets and warn of their collapse at any time (Zarrouk et al., 2021).

Trust funds: This type of trust can accommodate a wide range of assets in addition to liquid funds, is managed by a trustee, or a group that forms a trusteeship board. Moreover, it is the trustee's responsibility to manage the use of the resources included in the trust for the benefit of the beneficiary of the trust (Zaffar et al., 2019).

Mutual Funds: Mutual investment funds are a form of collective investment managed in a professional and specialized manner, where the pooling of funds from many investors and investing them in stocks, bonds, short-term financial instruments and other securities. The value of the share in the joint investment fund is calculated by dividing the fund's financial portfolio by the number of shares or issued documents and it is known as the net asset value (NVA) of the share (Lee and Shin, 2018).

Mutual investment funds are an effective alternative to direct investment in stocks or bonds and provide opportunities for diversification at a moderate cost and with a relatively low level of risk due to the elements of diversity and professionalism. Stocks and bonds and from the increase in the market value of the securities held for their value at the time of acquisition.

### *4.3.4. Theme 4: Comparing Shadow Banking with Commercial Banking for Enhancing Local and Foreign Investment Opportunities in Nigeria*

The difference between commercial banks and shadow banks is that regular banks are authorized to accept deposits and are subject to the supervision of a central monetary authority, while shadow banks are not authorized to accept deposits and accept funds for investment for the account of others. This entails a difference like a relationship between commercial banks and their clients, and between private banking banks and their clients (Lewis et al., 2017). The relationship in the first is a creditor-debtor relationship, while the relationship in the second is dominated by the nature of the agency and mediation relationship (Zhou and Dev, 2020).

A shadow banking system is a group of non-bank financial intermediaries that provide services similar to a commercial bank to conventional commercial banks (Lukonga, 2021). It sometimes includes entities such as hedge portfolios, hedge funds, money market portfolios, structured investment vehicles (SIV), credit investment portfolios, exchange-traded funds, hedge funds, private equity portfolios, credit insurance providers, securitization and finance companies. However, there is disagreement on the meaning and scope of shadow banking in academia. According to Lyons et al. (2021), investment banks and commercial banks can conduct much of their business under SBS. For instance, before the global financial crisis, financed many of the investment banks' financial operations (such as mortgage loans, securitization, hedging risk, credit default swaps) are off-balance sheets.

Since 2000, the volume of transactions in the shadow banking system has grown significantly until the financial crisis in the year 2000, and after that, and for a short period, began to shrink in all countries of the world (Ma and Liu, 2017). There are no clarifications on the extent, to which shadow-banking dealings contain the activities of commercial banks. Where their work overlaps with the work of the regular financial and banking sector, and they are institutions far from the supervisory control of central banks, and it is very difficult to ascertain and verify the extent of their work compatibility with the regulatory rules governing banking business.

Far from the grip of the commercial regulatory control, shadow banks conclude financial transactions similar to bank transactions, and among the most important forms of shadow, banks are cash funds established by banks and collect. It also receives cash subscriptions in them and does not take over their management directly, however; assign their management to specialised management companies that employ tools (Mori, 2016). Moreover, the financial activities of commercial banks such as stocks and bonds are outside the control of shadow banks.

The sources of funds in shadow banks come from investors with large financial surpluses and they are called wholesale investors - and not from depositors like regular banks -. His savings are often small, while the investor in shadow banks takes risks and does not accept the interest of the regular banks, and his investments are often large. These investors invest their money in shadow banks because they see that the interest rates in the regular banks are low. A group of intermediaries undertake the process of pumping money into securities and loan documents in a series of very complex operations, each of which is carried out through specialized financial institutions (Navaretti et al., 2018). The operations carried out by shadow banks have spread because of the financial deregulation that made the traditional banking activity unprofitable compared to the activities and investments of shadow banks.

Therefore, the operations of shadow banks spread due to the unbridled desire not to abide by the restrictions imposed by central banks on both liquidity and the nature of financial instruments. Moreover, the operations that traditional banks must deal with and the proportions of their concentration as well as their sectoral or geographical distribution, for shadow banks to create a lot of More financial products and debt without being subject to oversight and control. Regulatory authorities from wholesale investors to shadow banks directly or through intermediaries and investments of funds in shadow banks are concentrated in operations like; securitization, asset-backed securities and financial derivatives (Nijs, 2020).

#### *4.3.5. Theme 5: Risks Associated with Shadow Banking for the Macroeconomic Stability in Nigeria*

The increased risks in the financial system of Nigeria make it exposed to the kind of shock caused by the 2008 global financial crisis (Nwidobie, 2020). It is similar to the popular covered debt securities, packages of thousands of mortgages, some of which are high-risk mortgages, and debts of the global financial crisis (Omojolaibi et al., 2019). The survey found that the oversupply of cheap credit in the shadow banking system contributed to risk-taking before the 2008 global financial crisis. However, investors and financial intermediaries do not identify new risks, and regulators due to lack of financial resources are less likely to succeed. An increase in capital requirements could also pose a risk to the Nigerian economy as it limits the ability of financial intermediaries to develop risky assets, although overall monitoring of bank inflation may be better (Ozili, 2021). According to the Philippon (2016), survey, the reason is that credit scores cannot be applied as there are overlooked risks. Moreover, too much regulation should stifle the financial sector that underpins the economy (Pollari, 2016). Achieving such a good balance is impossible in the financial system of Nigeria. Likewise, monitoring regulated banks' increased exposure to shadow banking or untapped financial innovations could also be a part of Nigerian regulators. However, there is still an important problem that is difficult to solve by any regulation, which is the loss of diversity exposed the financial systems to greater risks. In short, the Nigerian banking sector needs enhanced regulation after the global financial crisis. The Shadow banking system plays a major role in addressing systemic risks like these. For example, regulations for data collection are useful for macroeconomic regulation, taking action to reduce multiple risks, and remaining vigilant to implement trends on the ground in Nigeria.

### 4.4. Discussion

The transactions of shadow banks have spread greatly due to the unbridled desire of these entities to evade control and not comply with the restrictions and rules imposed by central banks on both the liquidity positions to be maintained (Rabbani et al., 2021). The employment ceilings in various financial instruments, which make these banks, operate without the availability of a limit. Because of its lack of commitment to a scope of transparency and disclosure equivalent to that applied to banks and traditional financial institutions subject to central bank oversight, its ability to generate money, financial and credit instruments is very large and always out of control (Rafay, 2019). The danger of these financial entities and companies escalates, as they have the freedom to determine the percentage of credit and debit interests, and they also have the freedom to exceed the limits that the regular banks do not enjoy in granting the loan applicant loans that he is unable to repay when due, and this freedom. Because of the great freedom that shadow banks have, both in terms of avoiding monetary authority supervision and the freedom to set interests along with the investment in any field without oversight restrictions, most regulated international banks that are subject to supervision have established private banking branches that act as their shadow banking branches (Raza Rabbani et al., 2021). Almost a regular bank, a financial subsidiary or an investment bank, or to employ the money private banks to operate away from the eyes of supervision.

These complex financial instruments are what caused the outbreak of the global financial crisis in 2008, which the world has not absolved of its effects and consequences so far. The risks of these complex financial instruments lie in that a single credit operation has one debtor or one mortgaged guarantor asset and several creditors. The operation failed, the creditors struggled over the mortgaged asset and the whole domino stock collapsed. For instance, securitized portfolios with the guarantee of homes mortgaged to shadow banks, the value of the homes is the only guarantee for them, while the lending bank acts as the first creditor, and the holders of securitized bonds act as the second creditor on the same or the same guarantee, which is the mortgaged homes.

The first to use the notion of shadow banking was Romānova and Kudinska (2016) who defined the term as “the complete alphabet soup of leveraged non-bank investment vehicles, conduits and structures” Another prominent definition is the one proposed by the Financial Stability Board (2013), which defines shadow banking as “credit intermediation that involves entities outside the regular banking system”. However, there are two serious problems with these definitions. The first is that they are imprecise and very superficial. The second is that they argue that shadow-banking operations have nothing to do with the activities of traditional banking. Roskladka (2019), who suggests replacing this term with the financial network, a different system from the regulated banking regime and traditional market financing where transactions are public, proposes a more accurate definition of shadow banking.

In addition, with the arrival of new competitors in savings management, such as pension and investment funds, conventional banking institutions had one more reason to invest large sums of money in shadow banking. By transferring part of their assets to the financial network through special-purpose entities, the banks were able to offset the decline in their traditional intermediation activities. Therefore, it is not surprising that when reviewing the balance sheets of the large global banks we find a complex combination of operations ranging from strictly regulated indirect finance (commercial banking) and self-regulated market finance (investment banking) to deregulated operations of the financial network (shadow banking) (Sahay, et al., 2020).

Another major event that intervened in the expansion of shadow banking was the process of bank disintermediation, with which a large part of non-financial corporations have stopped borrowing from banks to finance themselves through asset trading and investment. In sum, commercial banks, which were threatened and the decline in credit activity, became the main investors in shadow banking.

The Saksonova, S. and Kuzmina-Merlino (2017) analysis contain the key element to understand the functioning of shadow banking; however, assuming that this is a sophisticated form of fictitious capital is equal to or even more imprecise than the definition proposed by Sampson and Faga (2021). However, it is clear that within shadow banking, incalculable capitals that are fictitious, such as credit, shares and derivatives, coexist and multiply. The fictitious nature of these instruments is that their price may or may not be equivalent to the real value they represent. For example, when a mortgage loan has packed with other assets and traded within shadow banking, its price can exceed the initial value of the loan granted (Sahay et al., 2020).

Therefore, the most significant recent changes in the financial system, in addition to stronger regulation on banking, are the growing importance of shadow banks (including non-bank credit intermediation entities, such as private equity) and fintech (including BigTech), also in an environment of negative nominal rates in Nigeria. In addition, the biggest criticisms of Libra (from Facebook) have been in part about central bank policies.

Based on the above discussion, international authorities are working on initiatives that seek to regulate it, increase its transparency and detect the risks that may affect the stability of markets and financial institutions. According to Samson (2021) research, shadow banking reduces market discipline and exacerbates prosperity due to its heavy reliance on short-term financing. The collapse of banking regulation had the side effect of greater growth in the shadow banking system. This business benefited from more flexible regulation and supervision. Furthermore, crowdfunding and peer lending activities have been relevant for some time. Other advantages of the shadow entity are the absorption of losses will be simplified as the investors will have to absorb them. Likewise, it can reduce costs through less brokerage and more competition. However, shadow banking exacerbates the market trend due to its heavy reliance on short-term financing (Wu and Duan, 2019). Agents tend to take advantage of organizational arbitrage and the distribution of actors and activities that reap the benefits of shadow work. If not properly regulated and supervised, new imbalances can accumulate with negative repercussions on the economic stability. Here, two main things emerge when considering shadow banking. First, the client must be aware of the risks of this activity and that it is necessary to establish a regulation that favours an activity with minimal guarantees for investors. Second, customers of shadow banking can improve with efficiency gains, through prices, through access to increasingly competitive financial services. Financial institutions can diversify and reduce their risks thanks to equal opportunities between banks and non-banks (Williams and Moser, 2019).

Despite all of the above, it was not until the global financial crisis that its relevance reached historic heights. The priority objective of central banks, price stability, has not been a sufficient condition for the existence of financial stability, causing a multitude of supervisory and regulatory bodies to implement macro-prudential policies. Classify these according to two main objectives: (i) increase the resilience of the financial sector (requirements related to capital and liquidity), and (ii) mitigate excessive credit, as well as its contraction (limits to the loan-to-value ratio (LTV), reservation requirements (Tun-Pin et al., 2019). Despite the limited implementation of macroprudential policies in the last five years, Spain is one of the pioneer countries in this area, given the existence of a macroprudential tool since 2000, known as the ' dynamic provisioning ' program.'. The idea behind this measure is to increase the buffer capital endowed during the economic boom above the average (taking it away from profits) to create a cushion that covers the losses that may occur in the future. Although it was created to combat inflationary pressures and excessive credit that Nigeria experienced after joining the European Economic and Monetary Union (EMU). Its obvious success (at the start of the crisis, Nigeria had a provision ratio on non-performing loans that far exceeded the EU average) in assisting the financing and performance of businesses during downturns has ensured its survival and extension to the international regulatory framework (Tabash and Hassan, 2017). Although the development of macroprudential policies during the last decade has been considerable, there are still challenges derived not only from the risks arising outside the regulated sector ('shadow banking') and regulatory and cross-border arbitrage but also from the incomplete integration of national banking sectors in the EU and the heterogeneity of financial cycles (Siek and Sutanto, 2019). Similarly, in a banking environment that tends to agglomerate in search of economies of scale, the bank resolution framework also remains a challenge for systemically important entities (too-big-to-fail), whose bankruptcy could represent a shock wave throughout the financial system.

### 4.5 Chapter Summary

In conclusion, the evidence does not support negative rates being harmful to the economy through the banking channel, but we do believe that limiting prudential regulation to banks makes little sense. Furthermore, new financial intermediaries (fintech and banking in shadow capitals, including venture capital and hedge funds) are decreasing monetary policy's power in the economy through the credit channel. Shadow banking, has become a worldwide phenomenon since it represents 25% of the total global financial intermediation (Schindler, 2017). What is the reason for its expansion and presence in Nigeria? According to Shin and Choi (2019), shadow banking includes traders or brokers that finance their assets through repurchase agreements, money market mutual funds that concentrate investor funds or financial entities that sell commercial papers and use the proceeds of the sale to grant credit to households. By not being regulated like the banking system, they can transfer risks to the market, since they do not have a capital “cushion”, as well as the ability to go to the commercial bank to receive emergency financing. For this reason, some countries have agreed that 'shadow banking' can produce a global financial crisis.

# 5. Conclusion and Recommendation

## 5.1. Conclusion

The purpose of the dissertation was to analyse shadow banking as a veritable platform for macroeconomic stability and economic growth in Nigeria. The study analysed the role of shadow banking in improving the foreign and local investment opportunities in Nigeria in addition to its role in the enhancement and strengthening of the overall Nigerian economy. Moreover, we have explored the legislative dynamics that restrict the enactment of shadow banking in enhancing economic growth and stabilizing the economic condition of Nigeria.

To achieve the objectives of the study, a qualitative research design was chosen using Saunders onion for research. Interpretivism philosophy was employed which allowed the researcher to gather deep insights regarding the shadow banking role in the enhancement of the Nigerian economy and how it can be used to achieve macroeconomic stability in the long run. An inductive approach was used as the researcher used observation to delve deeply into specific detail regarding shadow banking in Nigeria along with the attempt to generate specific conclusions for the economic stability. The action research strategy was employed thus the outcomes of the study are designed to be beneficial as steps that can be taken to enhance the role of shadow banking in the enhancement and stability of the Nigerian economy. Using semi-structured interviews, 25 to 30 participants who were working professionals in the banking sector of Nigeria were interviewed regarding the shadow banking practices and impacts on Nigerian economic growth and stability. Using open-ended questions, the researcher designed semi-interview questions to address the main research questions of the study.

For data analysis, thematic analysis was used that helped the researcher in the interpretation of the interview responses effectively and generate specific theories regarding shadow banking. An analysis of the secondary data such as a literature review was also presented for further insights. The literature review revealed different viewpoints of scholars regarding shadow banking in Nigeria. It is concluded from the analysis of the literature review that low production in Nigeria implies the significance of shadow banking as an easy flow of finances between investors and borrowers. Further, it has been anticipated that shadow banking can improve the overall productivity in Nigeria leading to economic prosperity. Furthermore, a low ratio of investments has negatively affected the commercial banks in Nigeria in addition to influencing the per capita need for trade. Thus, shadow banking has been considered a veritable platform for economic growth and macroeconomic stability in Nigeria. Lastly, the literature review also revealed that it is imperative for Nigeria to focus on shadow banking regulations rather than traditional banking as the volatility between economic growth and its determinants is likely to affect the macroeconomic stability in the country.

About five themes were formed based on the responses collected from the interviews. It is concluded from the data analysis and discussion of the themes that shadow banking is perceived as beneficial for its linking role between investors and borrowers. The analysis of the collected data also revealed that shadow banks are not regulated by the Central Bank of Nigeria thus it is considered a risky option as compared to traditional banks. Nevertheless, the major benefit of shadow banking as compared to a traditional bank is that they demand a low rate of interest thus increasing investments, productivity and capital formation in the country. It is found that shadow-banking practices gradually increased in Nigeria in the past few years especially between 2010 to 2014, rose from 2% to 8% respectively. As one of the objectives of the present study was to investigate the legislative dynamics that restrict the enactment of shadow banking, the interview responses suggested that the increase in shadow banking activities in Nigeria is linked to the tight regulatory framework related to traditional banking system. It was also concluded from the analysis of the literature and interview responses that shadow banking has increased gradually in the rural areas of Nigeria as compared to urban areas. It was also revealed that banking regulators in Nigeria have become attentive to the importance of shadow banking however further improvements in regulations are required for effective practices.

Currently, there is no legal framework for the regulation of shadow banking in Nigeria posing a high risk for consumers' interests and rights and a high-profit rate for the shadow bank operators. Nevertheless, due to the regulations of the traditional banks in Nigeria, shadow-banking activities have been determined to be beneficial for both the unbanked and banked population. The shadow banking operators provide loans to the consumer at a low-interest rate, as compared to a traditional bank in Nigeria. Furthermore, the overall process of receiving the loan is fast as compared to a traditional bank as the shadow banks are not regulated by the Central Bank of Nigeria and the pre-requisites are not as structured as a traditional bank. Nevertheless, the non-regulated status of shadow banks has not restricted its operations in Nigeria; it is determined that shadow-banking activities have increased in the past few years along with their impacts on economic growth. It is concluded that the role of shadow banking in strengthening the economy was found to be positive based on the majority responses and literature review analysis. It was found that uncertainty of the trends of the prices contributed to the problem of raised interest rates in turn reducing investments and capital economic formation of the country. It was concluded that economic growth in Nigeria could be boosted by reducing inflation in the country, and motivating policymaking concerning economic stability including investment enhancement strategies, human capital formation, employing advanced technologies and reforming markets. Shadow banking has therefore been confirmed as a veritable platform for macroeconomic stability and economic growth in Nigeria via interview findings and literature support.

### 5.2. Limitations

There are some limitations of the current study, which are necessary to be reported as mentioned by Galdas (2017). It should be noted that during the literature review the secondary data based on other countries related to shadow banking activities were also used as fewer researches have been published on the Nigerian-banking sector. Another limitation of the study is that the methodological choices are re-considerable concerning addressing all the research objections and research questions. The current study has used a qualitative research design; about 25 to 30 managers were included in the semi-structured interview process using open-ended questions. It is assessed that a combination of open and close-ended questions would have provided a better direction for the respondents and would have aligned the responses to the context of the research. Furthermore, the study chose an action research strategy and generated steps that should be implemented as policy recommendations and suggestions for the Nigerian economy. It is evaluated that a survey strategy would have provided deep insights and increased sample size can be used to generalise the findings of the study to ensure that the outcomes can be implemented in a different country and produce desirable results.

### 5.3. Recommendations

The study concluded that shadow-banking activities are imperative for the economic growth and macroeconomic stability of the Nigerian economy. The major benefit of shadow banking activities in Nigeria was found to be linked to extending services of banking to the unbanked population providing opportunities for local and foreign investments (Ilesanmi et al., 2019). However, the major risk associated with an increase in these activities is posing a risk of financial instability concerning the overall Nigerian economy (Tule and Onipede, 2017). In other words, as shadow banking activities are rising in different parts of Nigeria, a high level of inflation and unemployment might lead to an increase in loan defaults affecting the banking sector and overall economy of the country. Thus, stakeholders and policymakers in Nigeria should assess the situation closely to address the loopholes in the banking sector and secure the macroeconomic stability of the country. Some of the recommendations for the stakeholders and policymakers in Nigeria are listed below:

***Recommendation 1: Access to the unbanked population***

There is an infrastructural disparity between rural and urban populations, implying that there are more banks in urban areas as compared to rural areas in Nigeria (Akinwotu, 2017). Ilesanmi et al. (2019) argued that shadow banks are taking benefit of the infrastructural disparity between the rural and urban areas. Thus, it is assessed that shadow-banking activities are prevalent in rural areas whereas there is easy access for the unbanked population concerning shadow-banking activities (SARB, 2017). The Nigerian government should invest in its shadow banking to improve the access to the unbanked population in urban areas as well (FSB, 2018). In addition to that, traditional banks should also be developed in rural areas of Nigeria to provide credits or loans to the unbanked population at a very low-interest rate (Qiu, 2020). It is anticipated that this step will also decrease the unwanted consequences and risks associated with shadow banking activities, which are raised due to its non-regulated status threatening consumer rights and interests (Cox, 2019). It should be noted that developing more traditional banks might not be beneficial to improve the economic stability in Nigeria, however, this recommendation is suggested to reduce loan loss and the risks involved with shadow banking.

***Recommendation 2: Shadow Banks must be regulated***

It is recommended that consumer rights and interests should be protected as shadow banking activities are gradually increasing in Nigeria (Nabilou and Pacces, 2017). Consumer protection is extremely important and the Nigerian financial regulatory authorities have the responsibility to ensure fair treatment and transparency across all the financial entities (Abdulai, 2016). The absence of a legal framework has increased the risks related to shadow banking events in addition to risks perceived by the consumers. The regulators must focus on addressing the concerns of the stakeholders and protect the investments and interests of the consumers while maintaining the interest rate obtained by shadow banks (Constâncio, 2015). Ilesanmi et al. (2019) argued that regulators must develop regulations for entities based on the risk level involved with the activities conducted by a development, regardless of its status as a bank or a non-traditional bank (Ozili, 2021). Thus, it is proposed that Nigerian regulatory authorities should develop a set of regulations for entities that pose risks to the economic stability including shadow banks while ensuring an equilibrium between regulations by the government and increased competition in the Nigerian market (Pollari, 2016).

***Recommendation 3: Risk Assessment is essential***

It is assessed that a close relationship must be established between the regulatory authorities of banking in Nigeria and the shadow bank operators to develop responsive legislation. Qiu (2020) argued that risk assessment is mandatory for shadow banking activities to provide a sense of security to consumer rights for increased investments. Furthermore, it is assessed that safe practices of shadow banking will lead to macroeconomic stability for the Nigerian economy. Thus. It is suggested that an association should be developed between the regulatory establishments to coordinate with the operators of shadow banks. Ilesanmi et al. (2019) recommended that this association would be advantageous as shadow banking operators can identify the individuals efficiently who may be involved in nefarious acts related to the infringement of consumer's protection rights. Afterwards, the controlling establishments can coordinate with the operators to ensure that such entities or individuals are eradicated from the banking system for the stability of the Nigerian economy (Ilesanmi et al., 2019). This coordination will also speed up the process of determining those individuals and limit the risks associated with shadow banking activities in Nigeria (Ilesanmi et al., 2019; Constâncio, 2015).

### 5.4. Future Work

The objectives of this study can be achieved using a mixed-method such as collecting a combination of qualitative and quantitative data regarding shadow banking. The second aim of assessing legislative dynamics that may have hampered the implementation of shadow banking in Nigeria has not been addressed thoroughly in terms of collecting data on legal enactments in Nigeria that limit shadow banking practices. In addition to that, the current work can be extended by translating the recommendations into policy recommendations for the Nigerian economy. The shadow banking activities can be implemented in Nigeria to analyse how it can strengthen the economy for long-term growth and human capital formation in the country. A detailed case study would also be beneficial for future work as a narrow focus on the shadow bank would provide further insights regarding how it operates. It is recommended that future work should comprehensively discuss the risks associated with shadow banks. The determination regarding how consumers' rights can be protected through regulations and laws would provide better insight concerning how shadow banking can be promoted in the Nigerian economy with low risks involved in ensuring macroeconomic stability.

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**Appendix-A**

## Informed Consent for Interview

**Title of the Study:** Shadow Banking a Veritable Platform for Macroeconomic Stability and Economic Growth in Nigeria.

**Purpose of Information:** For my post-graduate academic research work.

I am a post-graduate student and doing my research on the topic of shadow banking as a Veritable Platform for Macroeconomic Stability and Economic Growth in Nigeria. I am just collecting the data through interviews to give my contribution for future research work.

Both the interviewer and interviewee are strictly adhered to keep the information of this interview confidential. Being a student, I will just analyse the data based on the responses of the interviewee and do not disclose the information to any third party. I will only analyse the data by generating themes based on the responses of Bank managers. I will not disclose the names and contact information of bank managers, as I know that sharing information about the banking sector is sometimes offensive especially when we study the banking sector role on the Government level of any country. For this research, I have selected the banking sector of Nigeria.

**Investigation Procedure**

I have investigated the research topic and interviewed by using online resources that as electronic mail, WhatsApp and through telephonic calls. I will send the interview questions to 25-30 managers of Nigeria Banks who are interested to share the role of shadow banking in the economic stability and growth of Nigeria.

Please fill in the below information before answering the interview questions

**Name:** -------

**Designation:** ----------

**Gender:** ----------

**Age:** ---------------

**Contact Number:** ------------

**Please, also tick the check box below;**

☐ **I confirmed that the provided information is correct and the interviewer do not force me for taking participate in this interview.**

**Interview Questions**

1. What is your perception of shadow banking?
2. Do you think that how shadow banking is a veritable platform for global financial stability?
3. What is the difference between traditional banking and shadow banking?
4. What are the drivers in the development of economic stability that give rise to shadow banking?
5. Why do you think that the Nigerian economy will be more stable and growing when focusing on shadow banking?
6. What is the effect of shadow banking on the government and commercial banks of Nigeria?
7. What are the benefits of shadow banking?
8. What are the risks of shadow banking on the banking system of Nigeria?