

ISLAMIC BANKING IN NIGERIA: PROBLEMS AND PROSPECTS

OJO-AGBODU, AYODELE ABRAHAM*

B.Sc, M.Sc, ACIT, FCA

DR. OMAH I.*

B.Sc, M.Sc, M.Phil, Ph.D

ABSTRACT

The launching of Islamic Banking in Nigeria has generated a lot of issues from some eminent Nigerians. Owing to this a research study on the issue is necessary. This paper therefore examines the problems and prospects of Islamic Banking in Nigeria and the likely challenges based on the experiences of other nations. The research method employed was that of personal interviews from Islamic Scholars, Pastors and University students. Lagos state became a focus because it is a state that is highly dominated by Muslims and Christians. Published Public opinions emanating from National Dailies were used.

The research findings based on the research questions revealed that Islamic Banking will improve the economy of the country, accelerate the growth of small and medium scale enterprises as well as eliminate the exploitation inherent in the conventional Banking system. The research further revealed that Islamic Banking will not Islamitize Nigeria and that it will no doubt increase our societal values. However, the major challenges that Nigeria is likely to face is that of a competent Shariah Supervisory Board (religious Board that will certify Banking products as Shariah

* DEPARTMENT OF ACCOUNTING AND FINANCE, LAGOS STATE UNIVERSITY,
P.O.BOX 10457 LASU POST OFFICE OJO LAGOS.

compliant. The research is of the opinion that Islamic Banking should be allowed to operate in Nigeria because such a Banking practice will usher in credit choice among the people.

KEY WORDS: Islamic Banking, Islamic partnership, zero interest, Haram (prohibited), Western justification, islamic Economic order,hatat(lawful).

1. INTRODUCTION

Islamic Banking refers to a system of banking or banking activity that is consistent with the principles of the Shariah (Islamic rulings) and its practical application through the development of Islamic economics. The principles which emphasize moral and ethical values in all dealings have wide universal appeal. Shariah prohibits the payment or acceptance of interest charges (riba) for the lending and accepting of money as well as carrying out trade and other activities that provide goods or services considered contrary to its principles. While these principles were used as the basis for a flourishing economy in earlier times, it is only in the late 20th century that a number of Islamic banks were formed to provide an alternative basis to Muslims although Islamic banking is not restricted to Muslims.

Islamic Banking has the same purpose as conventional banking except that it operates in accordance with the rules of Shariah known as Figh al-Muamalat (Islamic rules on transactions). Islamic Banking activities must be practised consistent with the Shariah and It's practical application through the development of Islamic economics.

2. STATEMENT OF THE PROBLEM

The launching of Islamic Banking system in Nigeria has generated a lot of issues from some eminent Nigerians, asking the Governor of Central Bank of Nigeria to come and explain the reasons while such policy should be brought into Nigeria where there are different religions. The reason being that Nigeria is a multi religious nation that is dominated by Muslims, Christians and

religious activists. Moreover evidences from Quran and Bible kicked against usury which is the interest charged on borrowed fund.

It is in the light of above that this paper focuses on this contemporary issue.

3. **PURPOSE OF THE STUDY**

The purpose of the study is to examine the problems and prospects of Islamic Banking in Nigeria due to the recent debates on the issue. The study will equally look at the likely challenges based on the experiences of other nations that have been practising Islamic Banking.

4. **RESEARCH QUESTIONS**

- (i.) Can Islamic Banking be a solution to Nigeria economic disaster?
- (ii.) Can Islamic Banking eliminate exploitation inherent in the conventional Banking system?
- (iii.) Can Islamic banking accelerate the growth and development of small and medium scale enterprises (SME) in Nigeria?
- (iv.) Can the ethical restrictions embedded in Islamic Banking increase our values?
- (v.) Can the adoption of Islamic Banking leads to Islamitisation of Nigeria?

5. **RESEARCH METHODS**

The research method employed is that of personal interviews from Islamic Scholars, Pastors and University students in Lagos State. Lagos state is highly dominated by Muslims and Christians. The researcher equally made use of the public opinions of Nigerians on the issue. These opinions had earlier been published in the National Dailies.

6.0 **LITERATURE REVIEW**

The origin of the modern Islamic Bank can be traced to the very birth of Islam where the prophet himself acted as an agent for his wife's trading operations. Islamic partnerships (mudarabah) dominated the business world for centuries and the concept of interest found very little application in day-to-day transactions.

In 1963, in Mit Ghamr, in Egypt, the first Islamic interest free bank came into being. Mt Ghamr is a rural area and the people were religious. They did not place their savings in any Bank knowing that interest was forbidden. In these circumstances, the task was not only to respect Islamic values concerning interest but also to educate the people about the use of banks. The following types of accounts were accepted:

- i. Savings Account
- ii. Investment Account
- iii. Zakat Account

The Mit Ghamr project was successful as deposit increased from 1963 to 1966. The bank was cautious, rejecting about 60% of loan applications and the default ratio was zero in economically good times.

Today Islamic Banking has gain greater grounds in many countries of the world. In Nigeria, Islamic Banking according to Abikan (2011) was first licensed in 1963 in the South-West zone. The license was later withdrawn by the authorities of the then western Region.

6.1 ISLAMIC BANKING PRINCIPLES

The Shariah prohibits the payment of charges for the renting of money (riba, which in the definition of Islamic scholars covers any excess of financial dealings, usury or interest) for specific terms as well as investing in business that provide goods or services considered contrary to its principles (Haram). While these principles were used as the basis for a flourishing economy in earlier times, it is only in the late 20th Century that a number of Islamic-Banks were formed to apply these principles to private or semi-private commercial institutions within Muslim Community.

Islamic Banking outlawed riba. The universal nature of these principles is immediately apparent even at a cursory glance can non-Muslim literature. Usury was prohibited in both the old and the new testaments of the Bible (Deut 23¹⁹ and Ezekiel 18¹³)

A popular belief persists that Islamic Banking is simply an interest-free financial structure. Islamic economics is a complete system of social and economic justice. It deals with property

rights, the incentive system, the allocation of resources, economic freedom and decision making and the proper role of government.

6.2 CHARACTERISTICS/ATTRIBUTES OF ISLAMIC BANKING

- i. Islamic Banking is non-inflationary
- ii. Islamic Banking is entrepreneur driven
- iii. Islamic ethics transaction and social justice
- iv. Islamic Banking plays a vital role in economy's vision. That is the vision that moves away from debt based partnership to an equity based and stake taking partnership.
- v. Islamic Banking believes in the principle of variable return (Profit and loss sharing) and depends on the actual productivity and performance of the projects.

6.3 ISLAMIC PROHIBITION OF INTEREST/WESTERN JUSTIFICATION OF INTEREST

The Islamic law of prohibition of interest is not based on economic theory but on Divine Authority, which considered the charging of interest as an act of injustice. Islam recognizes that everything in the world has some usefulness, goodness or utility in them. Interest is therefore not seen as a different thing. Interest has some benefit but the harm it does is more than the benefit.

The modern economists have developed many arguments to justify interest.

One argument is that interest is the reward for saving, a compensation that the creditor pays the debtor for the latter's temporary loss of the use of capital.

Another is that interest is the payment for the loss in value due to inflation. The goods the saving wants will cost more in the future so he is justified in charging a rent for the use of his loan.

Keynes (1883-1946) argued that money is the most liquid of assets that is to say, it is the asset most readily exchangeable for other forms of assets and that interest is the price paid for loss of liquidity.

In order to be Islamic, the banking system has to avoid interest. Owing to this, much of the literature on the theory of Islamic Banking has grown out of a concern as to how the monetary and Banking System would function if interest were to be abolished by law.

Another Islamic principle is that there would be no reward without risk bearing. This principle is applicable to both labour and capital. As no payment is allowed to labour unless it is applied to risk, so no reward for capital should be allowed unless it is exposed to business risks.

6.4 OTHER KEY PROHIBITIONS IN ISLAMIC BANKING

Islam not only prohibits dealing in interest and investment in unlawful activities that Islam deems harmful to society, but also transactions involving excessive uncertainty (gharar) and all forms of gambling (maysir)

6.5 ISLAMIC ECONOMIC ORDER (IEC)

- i. IEO permits the individual the right to seek economic well-being, Islam makes a clear distinction between what is *hatat* (lawful) and what is *haram* (forbidden) in pursuit of such economic activity. In broad terms, Islam forbids all forms of economic activity, which are morally or socially injurious.
- ii. While acknowledging the individual's right to ownership of wealth legitimately acquired Islam makes it obligatory on the individual to spend his wealth judiciously and not to hoard it, keep it idle or to squander it.
- iii. While allowing an individual to retain any surplus wealth, Islam seeks to reduce the margin of the surplus for the well-being of the community as a whole, in particular the destitute and deprived sections of the society by participation in the process of *Zakat* (a tax on wealth that is distributed to the needy)
- iv. Islam seeks to prevent the accumulation of wealth in a few hands to the detriment of society as a whole by its law of inheritance.
- v. Viewed as a whole, the economic system envisaged by Islam aims at social justice without inhibiting individual enterprise beyond the point where it becomes not only collectively injurious but also individually self destructive.

6.6 PROFIT AND LOSS SHARING IN ISLAMIC BANKING

Islamic Banking promotes the concept of participation in a transaction backed by real assets, utilizing the funds at risk on a profit and loss sharing basis. Such participatory modes used by Islamic banks are known as *MUSHARAKAH* and *MUDARABAH*. This by no means implies

that investments with financial institutions are necessarily speculative. This can be excluded by careful investment policy, diversification of risk and prudent management by Islamic institution. The concept of profit and loss sharing in an enterprise as a basis of financial transactions is a progressive one as it distinguishes good performance from the bad and mediocre.

6.7 SUMMARY OF THE RULES GUIDING ISLAMIC FINANCE

- i. Any predetermined payment over and above the actual amount of principal is prohibited.
- ii. The lender must share in the profits or losses arising out of the enterprise for which the money was lend
- iii. Making money from money is not Islamically acceptable
- iv. Gharar (uncertainty, Risk or speculation) is also prohibited.
- v. Investment should only support practices or products that are not forbidden.

7. FIELD RESEARCH

The researcher made use of personal interview and questionnaires in respect of the research questions earlier stated. Forty personal interviews were conducted while seventy questionnaires were distributed to both Muslims and Christians. The case study was Lagos State which is highly dominated by both Muslims and Christians. Below are the responses from the personal interview and the questionnaires administered.

S/N	RESEARCH QUESTIONS	MUSLIM		CHRISTIAN		TOTAL	
		YES	NO	YES	NO	YES	NO
1.	Islamic Banking is a solution to Nigeria economic disaster	60	3	26	21	86	24
2.	Islamic Banking can eliminate exploitation inherent in conventional Banking system	62	1	37	10	99	11
3.	Islamic Banking will accelerate the growth of SMEs in Nigeria	63	-	41	6	104	6
4.	Ethical restrictions in Islamic Banking will increase the societal	60	3	11	36	71	39

	values						
5.	Adoption of Islamic Banking will lead to Islamitization of Nigeria.	11	52	39	8	50	60

PERCENTAGE ANALYSIS

	MUSLIM		CHRISTIAN		TOTAL	
	YES	NO	YES	NO	YES	NO
Research Q (1)	54	3	24	19	78	22
Research Q (2)	34	1	34	9	90	10
Research Q (3)	57	-	37	6	94	6
Research Q (4)	55	2	10	33	65	35
Research Q (5)	10	47	36	7	46	54

The research findings above also revealed the following:

About 78% of the respondents are of the opinion that Islamic Banking will provide solution to the economic problem currently facing the nation. 54% of this is from the Muslim Community while 24% is from the Christian Community. This opinion will not be unconnected with the positive relationship between the financial sector and economic growth and development. This high percentage is equally in line with the defence given by the Central Bank of Nigeria in respect of Islamic Banking that non-interest banking under Islamic banking would address the major reasons why people are staying away from depositing in banks. This implies mobilization of savings for desirable investment.

The study equally revealed that 90% of the respondent is of the opinion that Islamic Banking will eliminate exploitation inherent in the conventional banking system. There is a strong agreement between the Muslim and the Christian Community in this regard as both had the same percentage point.

The research work indicated that Islamic Banking will accelerate the growth of Small and Medium Scale enterprises in Nigeria. About 94% of the respondents is in the favour. There is a high percentage from both the Muslim and Christian respondents. The study equally showed that the ethical values in Islamic Banking will increase the society value. Although this opinion is mostly from the Muslim respondents. About 55% of this positive opinion out of 65% came from

the Muslims. 35% of the respondents believe that Islamic Banking will not increase societal value.

It was equally revealed by the study that Islamic Banking will not lead to Islamitization of Nigeria if adopted. 54% of the respondents is of this opinion while 46% is of the believe that Islamic banking will lead to Islamitization. About 36% of the 46% came from the Christian Community.

8. CONCLUSION/RECOMMENDATION

The study revealed that Islamic Banking if adopted in Nigeria will improve the economy of the country, accelerate the growth of SMEs, eliminate exploitation inherent in the conventional baking system, and increased societal values. It equally revealed that Islamic Banking will not islamitise Nigeria. In the words of Professor Akpan Ekpo, Director General, of West African Institute for Financial and Economic Management (WAIFEM) Islamic Banking policy does not prevent non-muslims from participating. It is another Banking technique that should join the existing operations in the industry so that anyone interested could participate.

According to Okonjo-Iweala, (Nigeria Finance Minister) Islamic Banking is another form of banking that has already been operational in several countries and should not be look at with a lot of emotions.

Owing to this, Islamic Banking should be allowed to operate in Nigeria because such a banking practice will usher in credit choice among the people.

Furthermore, it will allow Nigeria to benefit from Islamic Development fund of which other countries are already of benefiting. Such fund will therefore be used to finance beneficial project that will accelerate economic growth and development. The researcher therefore recommend a competent Shariah Supervisory Board (Religious Board) that will certify Banking product Shariah compliant in view of the experiences of other nations.

REFERENCES

1. Abdurrofih AA (2011) Islamic Banking system (An ideal Financial System for every nation). Lagos Rokad Publication.
2. Abikan I (2011): “Viability of Islamic Banking in Nigeria, issues and prospects: A 13th Ramadam lectures delivered in Ibadan Oyo State Nigeria. Punch Newspaper, August 17th pp.20
3. Bello Muhammad (2011) “Islamic Banking and Nigeria’s Economic Development”. Daily Trust Newspaper Publication, July 2010
4. The Bible Deut 23¹⁹; Ezekiel 18¹³
5. The Holy Quran Q2 vs 275; Q2 Vs 219; Q4 vs 161; Q30 vs 39
6. Tunde Bubare (2011) “Tunde Bukare Blasts Islamic Banking Opponent” National Mirror News Paper Publication. July 24th