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## ISLAMIC BANKING IN NIGERIA: ISSUES AND PROSPECTS

BY

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### INTRODUCTION

Conceptually, Islamic banking has been defined as banking in consonance with the ethics and value system of Islam and governed, in addition to the conventional good governance and risk management rules, by the principles laid down by Islamic Shariah (The State Bank of Pakistan, 2009). Islamic banking has become a global phenomenon giving Muslim and non-Muslim nations deep thought of either adopting it in full fledge, partially or rather discard it completely. For decades now, Islamic banking has been growing and spreading from the predominantly Muslim countries of the Far East (Saudi Arabia, Jordan, Syria, Kuwait, Qatar, Malaysia, Pakistan, Singapore, Indonesia, etc) to countries of Africa (Sudan, Nigeria, Libya, Morocco, Tunisia, etc) and the European countries as the United Kingdom, the United State of America, Denmark, Luxembourg, etc. It is inevitable therefore that Islamic banking in Nigeria has come to stay although with some accompanying issues.

Interest which is also known as 'Riba' or 'Usury' simply refers to the premium that must be paid by the

borrower to the lender along with the principal amount as a condition for the loan or for an extension in its maturity. Interest has been used over the centuries and still seen as an important monetary policy instrument in monetary management by monetary authorities (like central or national banks) in most countries of the world. For instance, in Nigeria the Monetary Policy Rate (MPR) of the Central Bank of Nigeria (CBN) benchmarked the expected lending and deposit rates in the money market of the Nigerian financial sector. Principally, this is why the conventional banking scholars are opposed to the adoption of Islamic banking system under which interest is prohibited outrightly. The key role of interest as argued by the proponents of conventional banking is that it encourages efficient and effective allocation of funds through increased savings and borrowing amongst the people, and thus, it is a reward for money kept or lent to someone for whatever purpose (production or consumption loan). However, it should be noted that besides the prohibition of interest, other major principles of Islamic banking includes prohibition of uncertainty in contractual terms and conditions; parties are to share both profit and loss associated with each transaction; prohibition of unethical investment investing in alcohol, pornography, gambling, etc; and each transactions must be tied to a tangible and identifiable underlying asset.

On the other hand, experts in Islamic banking (Chapra, 1981; Siddiqi, 1983<sup>6</sup>; Ausaf, 1987; Gusau and Bawa, 1993; and Mahmoud, 2000) argued that interest should not and cannot be the price for money; that money has no intrinsic utility, it is only a medium of exchange and a unit of account. According to Muhammad (1999) each unit of money is 100 per cent equal to another unit of the same currency,

thus, there is no room for making profit through the exchange of these units.

Muslim narrated on the authority of 'Abu Sa'id Al-Khudriy; The Messenger of Allah (pbuh) said: **"Gold for gold, silver for silver, wheat for wheat, barley for barley, dates for dates, and salt for salt; like for like, hand to hand, in equal amounts; and any increase is Riba."** Also, Muslim narrated on the authority of 'Abu Sa'id Al-Khudriy: **Bilal visited the Messenger of Allah (pbuh) with some high quality dates, and the Prophet (pbuh) inquired about their source. Bilal explained that he traded two volumes of lower quality dates for one volume of higher quality. The Messenger of Allah (pbuh) said: "this is precisely the forbidden Riba! Do not do this. Instead, sell the first type of dates, and use the proceeds to buy the other."**

Therefore, profit is generated when something with intrinsic utility is sold for money and or when different currencies are traded. He further argued that the profit resulting from dealing in money of the same currency or the papers representing them is interest, and is hence prohibited. Invariably, the Qur'an and the Al-Hadith (sources of Shari'ah) as well as the findings of some scholastic works (Radcliffe Committee, 1959; Chapra, 1988; and Gusau and Aliyu, 1995) showed that interest is evil and destroys not only individual but a nation, and it is capable of grounding the global economy.

**"Allah hath blighted usury and made alms giving fruitful. Allah loveth not the impious and guilty"**(Qur'an Chapter 2 verse 276).

A simple case is the debt overhang retarding the growth of the highly indebted nations of the world consequent

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<sup>6</sup>Siddiqi's Banking Without Interest was first published in Urdu in the 1960s. First translated into English in 1973 and reprinted in 1980 Corrected and substantially improved translation of the original Urdu text was issued in 1983

upon interest. Their current debt status are largely due to the interest burden resulting from the non-servicing of their loans as and when due, and not that they take additional loans. The burden of interest and its consequent negative impact on economic growth was one major reason why Nigeria in 2005 sought for debt relief from the Paris Club *its major creditor*. The CBN Annual Report and Financial Statement of 2005 showed that as at end-December 2004, Nigeria's external debt stood at US\$35.9 billion of which the Paris Club constituted 85.8 per cent (or US\$30.85 billion). Consequently, in October 2005 Nigeria was granted International Development Assistance (IDA) by the Paris Club with the cancellation of 60.0 per cent (US\$18.0) of the debts owed. Subsequently, Nigeria paid-up the outstanding amount owed the Paris Club bringing down its debt profile to US\$3.5 billion by the end-December 2006.

Going by the fundamentals of the Nigerian economy, many Nigerians especially the Muslim Ummah, while demanding for Islamic banking products/services others are apprehensive as to how efficient and effective will such system perform without charging interest.

Accordingly, the major objective of this paper is to analyze the challenging issues and highlight the prospects of Islamic banking in Nigeria. Following this introduction is section two which discusses the evolution of Islamic banking including the basic principles as well as the products/services offered by the system. Section three reviews Islamic banking practices in Nigeria. Section four analyzes the challenging issues and highlights the prospects of practicing Islamic banking in Nigeria. Section five concludes the paper and proffers policy recommendations.

## 2.0 ISLAMIC BANKING: EVOLUTION, PRINCIPLES AND PRODUCTS/SERVICES

### 2.1 The Evolution of Islamic Banking

The first modern experiment with Islamic banking was in Egypt under cover without projecting an Islamic image on it for the fear of being seen as a manifestation of Islamic fundamentalism that was anathema to the then political regime in Egypt. Ahmad Elnaggar in 1963 pioneered the establishment of an Islamic

bank in a form of savings bank based on the principle of profit-sharing in the Egyptian town of Mit Ghamr; and by 1967 there were nine banks in operation including those in Cairo with more than 250,000 depositors and a total of 1.8 million Egyptian pounds in deposits. This savings bank later became part of the Nasr Social Bank in 1972, which is still operational in Egypt. Several other Islamic banks were established thus: Islamic Development Bank (set up in 1974 by the Organization of Islamic Countries); Dubai Islamic Bank (1975); Kuwait Finance House (1977); Jordan Islamic Bank for Finance and Investment (1978); Bank Islam Malaysia (1983); Al-Rajhi Banking and Investment (1984); Arab Gambia Islamic Bank licensed September, 1996 and now a subsidiary of Finbank of Nigeria Plc; Islamic Bank of Britain (2004), licensed as the first Islamic bank in the United Kingdom; European Islamic Development Bank licensed in 2006 as the United Kingdom's first independent bank for Shariah-compliant investments; the Islamic Bank of Asia (2007); etc. There are several conventional banks offering Shariah compliant services at window level and these include the United States Michigan-based University Bank, HSBC Investment Bank, Lloyds TSB, Royal Bank of Scotland, Bank of Ireland, etc.

Currently, there are more than 300 Islamic financial institutions spread over 75 countries with an annual growth rate of 10-15 per cent, and an additional 250 mutual funds that comply with Islamic principles (Habibullah and Omar, 2008). According to Moody's Investors Service over US\$822 billion is estimated to be the worth of Shariah compliant asset managed by the Islamic financial institutions globally. The total assets was reported to have grown to US\$950 billion in 2009 in spite of the global economic crisis and have an estimated market potential of at least US\$5.0 trillion<sup>7</sup>.

In the shores of Africa, countries such as Sudan, Libya, Tunisia, Morocco, the Gambia, etc have successfully institutionalized Islamic banking in their respective financial systems. Nigeria joined the membership of the Islamic Development Bank (IDB) in 2006 in order to benefit from the interest free loan the Bank give to member countries. Furthermore, the CBN Governor recently reiterated this point in his speech on the topic "Islamic Solution to the Global

Economic Meltdown" (an annual Ramadan symposium organized by Movement for Islamic Culture and Awareness MICA), that the recognition of the benefits of Islamic Banking in a growing economy like Nigeria prompted the Bank to develop a regulatory and supervisory framework for Islamic (non-interest) banking in Nigeria. He further stated that the action is meant to create an enabling environment for attracting the multi-billion dollar global Islamic finance industry to Nigeria and to enable Nigerians benefit from a number of Shari'ah-compliant banking products and services (Sanusi, 2009). In Nigeria, Bank PHB (formerly Habib Nigeria Bank Limited) was licensed in 1992 to commence non-interest banking on a window basis, but commenced operations in 1999 seven years after approval was granted by the CBN. However, the first proposed full fledge Islamic bank in Nigeria was the Jaiz International Bank Plc, which has been given approval in principle pending its meeting of the N25.0 billion minimum capital base under the universal banking system and banking consolidation requirement. Importantly, the first licensed Islamic microfinance bank Al-Barakah Microfinance Bank was commissioned and had commenced operations in Lagos in April, 2010. There are ethical mutual funds like the Halal Fund of Lotus Capital Limited established in 2004 as the first ethical investment company that is Shariah compliant in Nigeria; and it is registered with the Securities and Exchange Commission (SEC).

### 2.2 Basic Principles in Islamic Banking Practice

The basic underlying principles of Islamic banking generally include the followings:

- ♦ **Prohibition of Interest/Riba/Usury:** Under Islamic banking system interest is completely prohibited, be it simple or compound interest charge on productive or unproductive/consumption loans. Simply, interest is a predetermined return on money deposited or lent and it is vehemently prohibited by Shariah. The Qur'anic prohibition of interest appears in the following chapters; thus: Q30:39; Q4:161; Q3:130-132; and Q2:275-281.

*"O you who believe! Devour not riba, doubled and multiplied, but fear Allah that*

<sup>7</sup>[www.news.com](http://www.news.com)

*you may prosper" (Qur'an 3:130).*

*"O ye who believe! Fear Allah, and give up what remains of your demand for usury, if ye are Indeed believers. If ye do not, take notice of war from Allah and His Messenger: but if ye turn back, ye shall have your capital sums; Deal not unjustly, and ye shall not be dealt with unjustly" (Qur'an 2:278-279).*

♦ **Profit and Loss Sharing:** Economic agents involve in any financial transaction must share from the associated profit and loss of the transaction entered into. The sharing ratio should be spelt out in the terms and conditions that apply to such transaction at the onset of the business.

♦ **Ban on uncertainty:** Uncertainty in terms and conditions of all transactions is prohibited and should not be allowed. All the terms and conditions of the associated profit and loss should not only be clearly spelt out but be thoroughly understood by all parties to the financial transaction, also at the take-off of the business.

♦ **Prohibition of Unethical Investment:** Financing of industries that are into the production of alcoholic products, pornography, gambling, pork-based products, etc are all prohibited and must be discouraged. These activities result in increased social vices when allowed in a society as against the engagement of resources in productive activities.

♦ **Asset backing:** Under Islamic banking system, each financial transaction must be tied to a "tangible, identifiable underlying asset". This is because money is not considered as asset class; it is not tangible and hence, may not earn a return (The National Bureau of Asian Research, 2008). The rationale is to transform all assets into gold standard or its equivalents whose value do not deteriorate over time.

**2.3 Islamic Banking Products/Services**

(i) **Profit Sharing Financing Products (Long-term Financing)**

♦ **Mudarabah** A profit-sharing partnership to which one contributes the capital (rabul mal) and the other the entrepreneurship (mudarib); or the bank provides the capital while the customer manages the investment. Profit is shared according to a pre-determined ratio.

♦ **Musharakah (partnership)** This is equity participation in which all holders are involved in the management of the investment. Profits are shared according to pre-agreed ratio and losses shared according to equity contribution. Note that this is classified into eight or ten categories.

♦ **Wakalah** An authorization from the customer to the bank to transact business on the customer's behalf.

♦ **Hawalah** An agreement by the bank to undertake some liabilities of the customer in return for a service fee; and when the liabilities mature the customer pays back the bank.

♦ **Qard Hasan (Benevolence loan)** It is charitable loans free from profit sharing margins, repayment of principal by installments; and a modest service charge is permissible.

(ii) **Advance Purchase Financing Products (Short-term Financing)**

♦ **Murabahah (Trade financing)** A sales contract between a bank and its customer, where the bank purchases goods on the order of the customer and the customer pays the original price plus a profit margin agreed upon by both parties. Repayment is mostly by installments within a specified period.

♦ **Ijarah (Lease and Hire Purchase)** A contract under which the bank acquires and leases equipment to a customer for a rental fee, and subsequently, the customer buys the equipment at the end of the lease period at an agreed price less the rental fees already paid.

♦ **Istisna'** A contract for acquisition of goods by specification or order,

where price is paid progressively in accordance with the progress of work completion. Prices and installment schedules are mutually agreed upon in advance.

♦ **Bai Salam (Deferred delivery sale)** A sales contract similar to a forward contract where delivery of product is in the future in exchange for payment on the spot market.

♦ **Bai Muajal (Deferred payment)** A sales contract similar to spot contract where delivery of product is taken on the spot but payment is delayed for an agreed period in the future. Payment can be made lump sum or in installments, provided there is no extra charge for delay.

(iii) **Deposit Products**

♦ **Mudarabah** It is a deposit product based on revenue sharing between the bank and the depositor, inclusive of savings deposits that can be withdrawn at any time and term deposit.

♦ **Qard Al-Hasana** Unremunerated deposit products, usually meant for charitable purposes; widespread in Iran.

♦ **Wadi'ah** This refer to current account deposits (giro wadi'ah).

**3.0 PRACTICE OF ISLAMIC BANKING IN NIGERIA**

The practice of Islamic banking in Nigeria could be reviewed in two perspectives namely formal and informal. The formal practice are those backed by law of the country while the informal are the modes of financing though not prohibited but not covered under the formal law.

**3.1 Formal Islamic Banking Practice**

Nigeria has laid the foundation for the increased practice of Islamic banking in response to the ongoing global trend of Islamic banking inclusion into the global financial system. In the history of the Nigerian banking law, provisions (for the first time) were made for a banking system that deviate from the conventional banking in the Banks and other Financial Institutions Decree (BOFID) No. 25,

1991. In its categorization of banks in Nigeria, BOFID provides that the President of the Federal Republic of Nigeria on the recommendation of the Central Bank shall, from time to time, determine, as he may deem appropriate, the minimum paid-up share capital of each category of banks. It then made Profit and Loss Sharing bank a category of the Nigerian banks with minimum paid-up share capital, for the time being, of N50,000,000.

Following the promulgation of the BOFID, Habib Nigeria Bank Limited (now Bank PHB Plc) was licensed in 1992 to offer non-interest banking services on a "window basis" but actually commenced operations in 1999. Some of its pioneering products include non-interest current account, non-interest savings account, general purpose investment, etc. The first proposed full-fledged Islamic bank in Nigeria is the Jaiz International Bank Plc. In 2004, the Bank was granted approval in principle pending its meeting of the then newly required minimum capital base of N25.0 billion during the banking consolidation exercise as against N2.0 billion minimum capital base when the license application was filed with the CBN. It is important to note that during the Bank's initial public offer, the shares were oversubscribed (115.98 per cent). Recently, the first full-fledged Islamic Microfinance Bank Al-Barakah Microfinance was recently commissioned and has commenced operations in April, 2010 in Lagos (Mohammed, 2010).

There are some non-bank financial intermediation institutions like Hududullah Micro-credit Company with headquarters in Yola, Adamawa State, which has been practicing a business financing system 'close' to Mudarabah arrangement since 1995 when it commenced operation. They lend money to their clients on profit sharing basis, but they do not share loss with the client in case of any. Also the clients in turn deposit with the company part of their shared profit from the 'Mudarabah-like' business as a strategy for self capital accumulation. The Lotus Capital Limited's Halal Fund established in 2004 (an ethical investment fund), is yet another dimension of Islamic financing practice in Nigeria because it is Shariah-compliant. The over subscription of the Halal Fund public offer was an indication that there is huge potential market for Islamic financing products.

### 3.2 Informal Islamic Banking Practice

From participatory observation, there are so many informal financial transactions that are Shariah-compliant. There are several kinds of groups formed by people of same community, tribe/ethnic, trade interest, etc that informally practice mudarabah and musharakah modes of financing because such agreements are not written down but rather based on a gentleman's agreement. These groups usually make periodic monetary contributions to a purse, mainly as a pool, where people in need borrow at no interest while they also arrange rotational receipt for members of equal amount. For instance, in the northern region we have what is called 'Adashe', which is periodic contribution (daily, weekly or monthly). Members do borrow from the monies gathered to meet their immediate demands at no interest but with the promise to pay back before it is the next member's turn to collect his/her contribution (mostly weekly or monthly). In addition, there are business financing arrangements where a finance owner, finances a business activity with agreement to share from the proceeds there from (basically informal mudaraba, muzara'a and musharakah arrangements because the agreement are not reduced to writing). This is mostly practiced in the agricultural sector and in trading activities.

From the foregoing, it is indeed evident that Islamic banking is highly practicable in Nigeria and could be a big success stories if the economy learn from the experiences of other countries that have been in it for sometimes now.

## 4.0 CHALLENGING ISSUES AND PROSPECTS

### 4.1 CHALLENGING ISSUES

#### 4.1.1 INSTITUTIONAL ISSUES

##### ♦ Banking Laws

The establishment and practice of Islamic banking in Nigeria is provided for both in the BOFID No. 25 of 1991 and by extension the Nigerian constitution of 1999, section 315 (4) (b). But the regulatory and supervisory frameworks were not in place until March, 2009 when the first draft was released by the CBN under Professor Soludo Charles Chukwuma. This implied that the

then Habib Bank Nigeria Plc (now Bank PHB) had practiced interest-free banking for a decade without an adequate operational framework. Secondly, the framework is yet to be put to test to ascertain its efficiency and effectiveness. Nigeria could learn from Malaysian experience where the conventional banks operate side by side with the Islamic banks.

##### ♦ Relationship with CBN (Apex Monetary Authority)

The CBN regulates and supervises the banks operating in Nigeria and it serves as the lender of last resort to the banks. Its operations are interest based either in accepting deposits from banks or lending to them. For instance, making deposits and withdrawals from their accounts with the CBN should supposedly be interest driven. In addition, the CBN has to put into consideration the peculiarity of the operations of the Islamic banks when it comes to the issue of their supervision. Therefore, the issue of charting the mode of relationship between the CBN and the prospective Islamic banks is a challenging one.

##### ♦ Relationship with conventional and other Banks

Islamic banks relationship with other banks is yet another issue of concern. The conventional as well as microfinance banks' operations are interest-based in Nigeria. Since the Islamic banks cannot operate in a vacuum, finding a platform for their interaction becomes paramount for harmonization of their activities in the financial markets as well as in the Clearing House.

##### ♦ Participation in the Money Market (Liquidity Market)

Activities in the money market mainly involve transactions in intangible assets like treasury bills, commercial papers, savings deposits accounts, time deposits accounts, certificates of deposits, bankers' acceptances, treasury certificates, etc which are principally interest driven. The Islamic banks will face the challenge of participating in the market since they neither give nor

receive interest under whatever circumstance.

♦ **Participation in the Capital market**

This market is meant for the intermediation of medium to long-term funds through the issuance of new securities (equities and debt instruments) and trading of existing ones. While the issuances and trading in equities might not pose serious problems to the Islamic banks; issuance and trading in debt instruments (development stocks, debentures and bonds) by the Islamic banks will be highly challenging because the debt instruments are mostly interest-based.

♦ **Participation in the Foreign Exchange Market**

The Islamic banks will have little or no problems in participating in the foreign exchange market as trading in different currencies is allowed under Shariah (it is trading in same currency that is prohibited).

**4.1.2 OPERATIONAL ISSUES**

♦ **Liquidity Issue**

Islamic banks will find it extremely challenging when they are faced with liquidity squeeze because the available avenues for sourcing liquidity (financial markets and inter-bank lending) in the system is associated with interest. However, in case of excess liquidity the Islamic banks can easily make deposits to available sources without demanding for interest but they will be worried over the use of such funds. For instance, the receiving bank can lend such fund out at interest or even finance unethical investments.

♦ **Environmental Constraints**

The Islamic banks will operate within two environments namely internal and external. Internally, they will operate within their immediate environment comprising shareholders, management and staff as well as internal customers (account holders). Externally, government policies, diverse socio-cultural

belief of the citizenry, political dimensions of the country, trend of globalization, technological advancement, etc are uncontrollable and will be challenging for the Islamic banks to deal with. The Islamic banks will require dedicated and God fearing shareholders, management and staff who also understand the basic principles of Islamic banking.

♦ **High Business Risk Due to Ethical Issues**

The cardinal watch dog that endangers public confidence in Islamic banking is trust/honesty. Unfortunately, our country is characterized with wide spread immorality, materialism, corruption, '419', lack of transparency and accountability in our dealings, etc which might be the root cause of defaults just as in the case of conventional banks, as revealed by the special audit of Nigerian banks under the on-going banking sector reform.

♦ **Competitiveness**

The competitiveness of the Islamic banks vis-à-vis the conventional banks in an economy such as Nigeria is being widely questioned. So many people believed that the Islamic banks may not withstand the conventional banks because of the wide use of interest elements which is also a major source of income to the banks including the CBN.

♦ **Inadequate Experienced Manpower**

There are no adequate experienced Islamic banking professionals for the advancement of the practice of Islamic banking in Nigeria. Practical experiences matters greatly in the successful establishment of Islamic banking in Nigeria. So far there are few public education/enlightenment campaigns which were majorly at a fee that discourage large participation. Currently, no single educational institution offers full fledged certificate, diploma or degree program in Islamic financing. Though, institutions like Usmanu Dafodiyo University,

Sokoto; Bayero University, Kano; and Ahmadu Bello University, Zaria offer Islamic financing courses at undergraduate and postgraduate levels and with so many projects written in the area up to doctoral degree level. Thus, manpower development by prospective Islamic banks as well as the CBN has to be painstakingly pursued.

♦ **Level of Public Awareness**

Currently, Islamic banking in Nigeria is facing the problem of general acceptability because many are not familiar with the various Islamic modes of financing. More efforts have to be made in enlightening the general public of the advantages and disadvantages of Islamic banking to the growth of individual business and the economy in particular.

♦ **Issue of Accounting and Auditing Standards**

Standardization of accounting and auditing procedures of the operations of Islamic banks is one big problem in the adoption of Islamic banking/financing paradigm in Nigeria. Issues of revenue realization, valuation, revenue and expenditure matching, etc are associated with a lot of uncertainties.

**4.2 PROSPECTS**

♦ **Existence of Regulatory and Supervisory Framework**

In addition to the existing legal framework (BOFID - 1991), the recent release of the regulatory and supervisory framework for Islamic banking practice by the CBN is a giant stride towards the advancement of Islamic banking paradigm in Nigeria. This will in a way engender the smooth adoption of Islamic banking in Nigeria.

♦ **Increasing willingness of Investors**

The trend recorded in the initial public offer for Jaz International Plc and Lotus Capital Halal Fund and the recent commissioning of Al-Barakah Microfinance Bank are clear evidences that Nigerian

investors are very much interested in investing in the establishment of Islamic finance institutions.

#### ♦ **Human Capital Development**

The recent signing of memorandum of understanding between the CBN and the Central Bank of Malaysia (Bank Negara Malaysia) was to share expertise and exchange relevant information in the areas of banking supervision, monetary policy, Islamic finance, SMEs, microfinance, etc. Also, Nigeria attended the 16<sup>th</sup> meeting of the Council of Islamic Financial Services Board (IFSB) in Khartoum, Sudan. The hosting of training workshops and seminars on Islamic banking and finance in Nigeria are all aimed at capacity building of professionals to meet the demand for manpower.

There is increasing demand for Islamic banking services mostly by the Muslim communities, as it provides them with opportunities of living in consonance with their religious provision (interest prohibition). In addition, there are non-Muslims that are willing to enjoy the Islamic banking services in order to better their life.

#### ♦ **Market Availability and Demand for Islamic Banking Products/Services**

The market for Islamic banking products and services is readily available and largely untapped. The size of Muslim population in Nigeria is about 55 per cent of the country's total population of over 140 million, and this translate to about 77 million people<sup>8</sup>. This represent a huge potential market for financial services providers as these people are likely to engage in one economic activity or the other. Empirical findings long before now have corroborated this present assertion. Gusau and Bawa (1993)<sup>9</sup> on the idea of establishing interest free banking system in Nigeria found that the majority of the Muslims respondents said they will deposit their monies in an Islamic bank if one is established

purely for religious reasons; and they will abandon their present banks so as to rid themselves of interest. Based on these findings, the authors argued that interest free banking has good prospects in Nigeria.

#### ♦ **Research and Development on Islamic Banking**

There are several international institutions and few local ones dedicated to the shaping, practice, promotion and advancement of Islamic banking in Nigeria. In the international scene, we have institutions such as the International Centre for Education in Islamic Finance (INCEIF), Malaysia; Pakistan's Institute of Policy Studies; the London based Institute of Islamic Banking and Insurance; the Islamic Development Bank; Accounting and Auditing Organization for Islamic and Financial Institutions (AAOIFI); and many other institutions and universities in Malaysia, Iran, Indonesia, Saudi Arabia, United Arab Emirate, United Kingdom to mention a few. In Nigeria, Bank PHB Nigeria Plc, promoters of Jaiz International Plc, Lotus Capital Limited, academicians and interested seasoned bankers are playing key role in developing Islamic banking in Nigeria.

#### ♦ **Other Countries Experiences**

The successful adoption and sustainability of Islamic banks across the globe is a clear indication that its implementation in Nigeria can be successful. For instance, Iran took some administrative steps in February, 1981 to completely eliminate interest from banking operations. They replaced interest on all assets by a 4 per cent maximum service charge and by a 4.8 per cent profit rate depending on the type of economic activity. Also, they converted interest on deposits to a 'guaranteed minimum profit'. In August 1983, the Usury-free Banking Law was introduced and a 14-month change over period was allowed and by March 1985

the whole Iranian Banking System was converted to an interest free one. Thus, so far Islamic banking has proven to be lucrative, promising and fast growing; and it shall not be an exception in Nigeria.

### **5.0 CONCLUSION AND POLICY RECOMMENDATIONS**

#### **5.1 Conclusion**

Islamic banking is relatively a new phenomenon in Nigeria but has greatly advanced in the Middle East and some other parts of the world like the United Kingdom, United States of America, Denmark, Switzerland and Luxembourg; as well as in African countries of Egypt, Sudan, Morocco, South Africa, Libya, Tunisia, etc. So far literatures have shown that Islamic banking has been recording tremendous growth where it is being practice. With the recent global economic crisis, most nations of the world have turned to consider the practice of Islamic banking as a viable option to getting out of the crisis. Nigeria is also making some efforts towards the actualization of Islamic banking practice in Nigeria without necessarily affecting the operations of the conventional banks.

#### **5.2 Policy Recommendations**

- a. To increase the level of public awareness of Islamic banking and what it stood for; there should be a continued public education campaigns, inclusion of Islamic banking concepts in our school curricula, making Islamic financing course a part of business administration programs and related programs, and offering fully fledged certificate, diploma and degree programs in the higher institutions of learning. The CBN could play a leading role in bringing together all stakeholders to a forum in order to discuss ways of improving public awareness at all levels.
- b. The CBN, promoters of Islamic banking in Nigeria, deposit money banks and other stakeholders should encourage, by way of sponsorship, human capital development in the field of Islamic financing so as to forestall the likelihood of manpower

<sup>8</sup>See [www.islamonline.net/english/news](http://www.islamonline.net/english/news)

<sup>9</sup>Quoted by Gusau (2004) in a paper (titled *Islamic Banking: The Nigerian Experience*) presented at International Seminar on Islamic Banking and Finance, held 27-28 February, at Accra, Ghana.

<p>inadequacy in a few years to come. There are several seminars and workshops continually being organized as well as so many universities in the Middle East and Europe offering fully fledged degree programs at all levels.</p> <p>c. The CBN should hasten the facing out of universal banking so as to facilitate the establishment of</p>	<p>Islamic banks under the different proposed categorization of banks (international, national, regional or unit banks).</p> <p>d. Most importantly, the CBN/other regulators and operators in the Nigerian financial system should collaborate in order to chart ways of dealing with the prospective Islamic banks in terms of financial</p>	<p>transactions in all the financial markets.</p> <p>e. Insistence on good corporate governance as being currently pursued should be sustained in order to enhance transparency and accountability, which promotes efficiency and effectiveness of the entire system for the achievement of macroeconomic stability.</p>
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