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The role of non-interest banking in national economic development

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THE ROLE OF NON-INTEREST BANKING IN NATIONAL ECONOMIC DEVELOPMENT

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INTRODUCTION

A bank is any financial institution that mobilizes savings and channels same to productive units. In discharging these functions, the banks perform three transformations, Risk, liquidity and maturity transformations. Risk transformation in terms of providing a safety net for surplus unit, and thus hedges depositors against any potential security risk, such as theft, fire etc. It ensures liquidity transformation, through reduction of search cost for a potential borrower, thus, the bank provides an access to credit facility, and thus provides a consumption smoothing against income shock of a deficit unit or borrower. It performs the maturity transformation by guaranteeing both the saver and borrower of immediate fund when it is needed, more so, that often borrowers want to borrow for long period and lenders only want to lend for short period, the banks guarantee both parties of their fund at the period of maturity or when they need it. Thus, acts as an investment smoother for long term development projects. Hence, for these roles, the bank becomes an important financial institution for enhancing growth and development in an economy The paper is divided into five sections, the first section contains the introduction, section 2 has the conceptual framework, section three gives non-interest banking in Nigeria and section four concludes the paper.

2.0 CONCEPTUAL FRAMEWORK

This section discusses the transmission mechanism between banks and development, interest rate

2.1 TRANSMISSION MECHANISM BETWEEN BANKS AND DEVELOPMENT

Goldsmith (1969), Mckinnon 1973, and Shaw (1973) suggest that the channel of transmission of banking system to growth is through the efficiency of investment. Greenwood and Jovanovic (1990) view financial intermediaries as processor of information by directing the flow of an economy's resources toward investment with the highest return. Bencinvenga and Smith (1991), show that the potential economic benefit of financial intermediation is only in the manner in which financial intermediaries allocate savings.

Levine (1997) argues that the main transmission of financial activity to economic development is through the fact that financial system improves risk reduction, facilitates efficient resource allocation, enhances access to financial information on investments, increases saving mobilization and monitors contract compliance.

Saint Paul (1992) also identifies another link between finance and growth is through technological choice. With his theoretical model, he shows that underdeveloped financial market can lead to agents investing in less specialized industries. He then concludes that this can lead to multiple equilibria, a low equilibrium with underdeveloped financial markets and unspecialized technology and a high equilibrium with developed financial markets with specialized technology.

According to Ang (2008) two channels through which finance can influence growth are the capital accumulation and the total factor productivity (also known as the quantitative and qualitative channels, respectively). The former suggests that economic growth depends on capital accumulation through domestic credit and foreign capital investment. An efficient financial system is needed to mobilize savings and channel it to productive ventures. The latter suggests that efficient financial system boosts economic development through provision of credit facilities to facilitate human capital accumulation and development of technology-intensive industries.

Financial intermediaries enhance investment and growth through its informational role (Greenwood and Jovanovic 1990). Savings are allocated more efficiently; hence higher productivity of capital is possible through financial intermediaries. The risk–sharing role of financial intermediaries also allows them to pool the liquidity risk of depositors and invest funds in more illiquid and

[15]*He is the pioneer chairman of Al-Barakah Microfinance bank at 67, Ladipo street, Lagos*

productive projects (Diamond and Dybvig, 1983) Levine (2004).

In short, a good financial institution impacts positively on economic development through enhancing domestic savings, facilitating productive investments and efficient resource allocation. Other channels include improving acquisition of technology and enhancing human capital accumulation while reducing information, enforcement and transaction cost. Thus, financial institutions act as a catalyst for economic development (See Mobolaji 2010 for further details)

However, the way the conventional banking institutions have attempted to perform these functions has been a serious source of concern, since it is premised on the institution of interest rate which is less humane in outlook and exploitative in practice. This has led to financial exclusion, low financial depth and poor access to financial services with its attendant negative impacts on the economic development of several countries[16].

Honohan (2008) observes that, not only is "Africa the region in which finance looms largest, but in Africa finance is the number one barrier". He further observes that after a decade of financial reforms, financial sector development in AFRICA is still constrained by four pervasive challenges: lack of scale economies, dominance of the informal sector, governance problem and scale shocks to the system.

One of the most controversial issues in the conventional practice is the institution of interest rate. The imposition of interest rate has further worsened financial exclusion on two bases, one it is highly exploitative and secondly it is morally and religious detestable, unfortunately there seems to be no generally acceptable rationale for imposition of interest rate in the literature or it is simply inconclusive in the literature.

2.2 Interest Rate: A controversial Concept in Economics

The origins of "interest" are deeply connected to the changing meaning of "usury." Canon law in the Middle Ages forbade usury, which was generally interpreted as a loan repayment exceeding the principal amount. The modern word "interest" derives from the Medieval Latin interesse. The Oxford English Dictionary explains that interesse originally meant a penalty for the default on or late payment of an otherwise legitimate, non-usurious loan. As more sophisticated commercial and financial practices spread through Europe. Over time, "interest" became the generic term for all legitimate and accepted payments on loans.

The concept of interest rate which has undergone several stages in contemporary economic thinking, started in early 16th century with wide condemnation, to the era of Adam smith with a maximum rate of 5%, to 18th century position of Jeremy Bentham of total elimination of interest rate ceiling. It also started with many states restricting it on loans between persons and corporations, others out rightly condemn it, but now it has been defined as a rental income of money.

The concept of interest rate has gone through four stages, starting with a stage of wide condemnation from early to 17th centuries, to a stage of restrictive permission in the late 18th century. This later became a basis for financial transactions in the 19th to 21st century, and in the late 21st century, there was a resurgence of the call to zero interest rate (see Schumpeter 1934)[17]. This concept remains inconclusive in the literature. Persky (2007) concludes that the controversial concept is a modest dispute between a failing master (Smith died in 1790) and an over-eager disciple (Jeremy Bentham)

Some Economists (Classical) rationalize interest rate on the basis of abstinence theory, as it is considered as a compensation for waiting or delayed consumption or sacrifice of savers, Keynessian rationalize it on time preference theory of money, suggesting that a rational economic agent prefers the present to the future, thus he needs to be compensated for discounting his future holding, hence it is a compensation to the lender and impatient cost to the borrower. However, these positions have been faulted by Siddiqi (1978), suggesting that this position suggests that there is no existence of a voluntary sector, where individuals advance a good without anticipating a reciprocal benefit. Hausmann and Macpherson (2000) aptly demonstrate that individuals engage in so many economic activities not for their pecuniary interest only but for other social and personal considerations (example people donate blood not for material benefit but for other considerations).

From a religious perspective, the institution of interest and its application on financial transaction is condemned in both Christianity and Islam. References to this in the Bible include Luke 6:34-35; Levictus 25:36-37, Exodus 25:25). The verses in the Qu'ran that support same include Q30:39; Q4:161; Q3:130 and then Q2:275-278. However, the Jewish as shown in Deuteronomy 23:19-23 that mildly allows for discriminatory

[16] The results of the EFInA Access to Financial Services in Nigeria 2010 survey showed that 39.2 million Nigerians representing 46.3% of the adult population are financially excluded. Only 25.4 million Nigerians are banked representing 30.0% of the adult population. The main barriers for financial exclusion includes unemployment and distance to bank branches, some Muslims are also excluded from accessing conventional interest-based banking institutions in observance of the prohibition against Riba (Basheer,2011)

practice, suggesting it can be imposed on commercial transactions involving non-Jews, and this has received world condemnation.

2.3 The conventional practice and its attendant effects in the economy

Due to the above, this section briefly outlines some economic rationale for the abolition of interest rate:

The classical economists contend that interest enhances savings but discourages investment (IS), Hicks 1933 argues that there is an inverse relationship between investment and interest rate, and there is positive relationship between investment and economic growth or development. Thus, while, high interest rate discourages investment and thus, lowers economic growth and development. Though, the theory suggests high and direct relationship between interest rate and savings, however, in many developing countries in general, and in Nigeria in particular, that interest rate elasticity to savings is zero, suggesting many savers do not save because of interest rate but for other reasons (See The TATOO debate 1973-4).

Imposition of Interest rate on consumption loan may further worsen income inequality, as it may transfer wealth from the deficit unit (borrower who eventually pays the principal and the interest element) to the surplus unit (saver, who receives his principal amount saved plus interest income). It may also create an idle class of people, who earn income from accumulated wealth (earns interest on fixed deposit).

Interest paid on loan is considered as a cost of capital, and thus, for a firm it is regarded as an increase in cost of production, which sometime could be transferred to the final consumer through high prices, especially when the products are fairly inelastic. One of the most critical problems of interest rate is that it imposes unilateral risk on the customer or borrower and sometimes through this, strangulates entrepreneurship and stiffens innovation. In contrast to the NIB, where risks are mutually shared by the parties involved.(See Glossary for meaning of some of the financing modes available).

As earlier stressed, one of the channels by which financial institution enhances development is through funding of low-return but socially relevant projects, however the institution of interest rate discourages this, as the low return may not be adequate to wipe the interest-cost element and other incidental costs.

At Individual level, it may further worsen financial exclusion, lost of self-esteem and freedom, due to high debt profile. At firm's level, it may increase cost of production, reduce capacity utilization and discourage investment. At national level, interest rate may worsen both internal and external debt burden. At international level, it may lead to unequal trade relations; make some economies vulnerable to external manipulations (especially of the donor or funding agencies).

Minsky (1991) considered financial instability to be endogenous to conventional financial system. This is premised on the fact that the market is characterized by asymmetry information. His core model is known as financial instability hypothesis (FIH), which simply declares stability is inherently unsustainable.

Thus, due to these factors, many economists actually call for zero interest rate. Hence non interest financial institution is actually a veritable alternative. It would enhance financial inclusion, broaden financial depth in the country

2.4 THE CONCEPT OF ECONOMIC DEVELOPMENT

Thirwall (2006) defines economic development as the process of economic and social transformation within countries. This process often follows a well-ordered sequence and exhibits common characteristics across countries. Previously, it connotes growth target with little regard to the beneficiaries of growth or the composition of output. However, it is obvious that, societies are not indifferent to the distribution consequences of economic policy. Thus, later scholars argue that a concept of development is required that embraces the major economic and social objectives and values that societies strive for.

Sen, (1999) defined development in terms of the expansion of entitlements and capabilities. He defines entitlements as 'the set of alternative commodity bundles that a person can command in a society using the totality of rights and obligations that he or she faces and entitlements generate the capability to do certain things.

Thus, Goulet (1971) distinguishes 3 core values or basic components of development (Life-sustenance, self-esteem and Freedom. Life sustenance focuses on the provision of basic needs. No country is considered developed if it cannot provide its entire people with basic needs as housing, clothing, food and minimal education. Thus, the objective of development is to raise people out of primary poverty and to provide basic needs simultaneously.

Self esteem is associated with self-respect and independence. No country is developed if it does not have power and influence to

[17] *For a detailed analysis on the metamorphosis of interest rates, (see Persky, 2007).*

conduct relations on equal terms. Eradication of feeling of dominance and dependence associated with inferior economic and political status. Also Freedom from 3 evils of "Want, Ignorance and Squalor" People are not free until they can freely exercise the right to choose. Thus, material development enhances the range of human choice open to individuals and societies. These three values are inter-related, such that lack of self-esteem and freedom result from low levels of life sustenance which all lead to self-perpetuating chain of poverty or Galbraith (1980) accommodation of poverty. Sen (1999) views freedom as the primary objective of development and principal means of achieving development. Development consists of the removal of various types of unfreedom that leave people with little choice and opportunity. Major categories of 'unfreedom' include famine, under nourishment, poor health and lack of basic needs, lack of political liberty and basic civil rights, and the real freedom that people enjoy. Hence, the growth of per capita income is only a means to that end and not an end itself.

Thirwall, combined Goulet's and Sen's concepts of development, by observing that development occurs when there has been an improvement in basic needs, when economic progress has contributed to greater sense of self-esteem for the country and individuals within it, and when material advancement has expanded people's entitlements, capabilities and freedom. However, most ingredients of development are not measurable; thus, condition of being developed is as much a state of mind and not physical condition measurable by economic indices alone.

Thirwall (2006) further argues that economic development should be thought of in terms of the expansion of entitlements and capabilities that are not well captured by aggregate measures of output growth.

Todaro and Smith (2003), strongly argues, that economics needs to be viewed in the much broader perspective of the overall social system of a country (which includes values, beliefs, attitudes towards effort, risk taking, religion and the class system), if development mistakes of the past are to be avoided that stem from implementing policy based on economic theory alone.

Thus, it can be observed that the concept of development has undergone different stages, ranging from seeing development as purely an economic concept to the stage of seeing it as a complex interaction of human values, social and political system. Hence this comprehensive notion of development may be difficult to simply measure in terms of economic variable(s). Though, economists often use the economic measure of growth (Real GDP growth rate) or real Gross National Income per capita as indicators for growth and development however this has been argued to be inappropriate (Thirwall 2006). In conclusion, Todaro (2003) argues that development is not purely an economic phenomenon, but a multidimensional process involving the re-organization and re-orientation of entire economic and social system.

Furthermore, many national economic development goals are to promote freedom, enhance choice, entitlement and capabilities and restore self-esteem and dignity in personal, social and economic relations both at national and international level. Any system that fails to align with these goals may only lead to sub-optimal national development.

From the above, the conventional banking practice may only restrict choice and entitlement, whereas the promotion of NIB would enhance financial choice and inclusion, needed for economic development. It may also promote development through reduction in cost of financial transaction. Thus, Chapra (2009) observes that the global crisis witnessed such a tremendous dimension, due to the level of fragility and instability in the conventional banking practices. This instability has been caused by incessant financial engineering, excessive speculation and abuse of free market syndrome. (See Truman 2009). This then called for the need for an alternative framework, the non-interest banking and its impact on national economic development. Moreso, that the Islamic Financial services Industry has proven relatively resilient compared to its conventional counterpart during the global financial crisis (Sanusi, 2010).

3.0 Non-interest Banking (NIB) in Nigeria

3.1 HISTORICAL EVOLUTION OF NIB IN NIGERIA

The non-interest banking is any financial institution that exercises banking practices without the institution of interest rate. There are two types, non-interest bank according to Islamic values, and other based on other values.

The first modern experiment with non interest banking can be traced to the establishment of the Mit Ghamr Savings Bank in Egypt in 1963. During the past four decades, however, non-interest banking has grown rapidly in terms of size and the number of players. Non- interest banking is currently practiced in more than 50 countries worldwide especially in the Middle East. In August 2004, the Islamic Bank of Britain became the first bank licensed by a non-Muslim country to engage in non-interest banking. The HSBC, University Bank in Ann Arbor and Devon Bank in Chicago offer Islamic banking products in the United States. Sanusi (2010) observes that recent industry estimates show that non interest Banking is growing at a rate of 10-15% per year and with signs of consistent future growth.

Though NIB evolved in the late 60s and mid 1970s in the Middle East, it however commenced to Nigeria in 1991, with the promulgation of Decree 25, 1991 of Banking and other Financial Institutions Decree (BOFID), after 100 years of conventional interest-based banking system which started in 1892. The BOFID allows the setting up of banks on the basis of profit and loss sharing mode with a minimum paid up share capital of N50 million. However, 20 years later, the NIB is yet to be fully operationalised. Though, the framework for the NIB was in 2009, through professor Soludo, the then CBN Governor. Though, a number of attempts were made, such as Habib Nigerian 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. Jaiz International bank plc was licensed in 2004, the bank was granted approval in principle, but could not commence operation before the recapitalization of banks in 2005, which changed the required minimum capital base to N25.0 billion from N2billion in 2004. Fakiyesi (2011) observes that the first full-fledged Non-interest microfinance bank Al-Barakah microfinance in Lagos. Recently, Jaiz bank, Standard Chartered and Stanbic IBTC banks have been given license to commence operation of NIB in the country.

3.2 Non-Interest Bank (NIB) and Development

3.2.1 Non-Interest Bank (NIB): An effective route to ideal financial sector in Nigeria

Poldermans and Philippe (2008) observe that the ideal financial sector should display at least six core desirable features in line with World Trade Organization definition of a financial sector. These are financial depth, financial breadth; financial efficiency; financial effectiveness; regulatory sophistication and financial life cycle for it to serve as a catalyst for growth and development.

Collectively, they represent the benchmark, or the target. If the national – or regional – financial sector has all six pillars well developed and under control, it approximates an ideal financial sector. The financial depth connotes ability of the sector to mobilize financial resources from the economy; the financial breadth relates to the ability of the sector to offer several quality products and facilitates substantial choice. The willingness of the sector to provide affordable quality services is called financial efficiency indicator, the need for a good financial sector to be safe, stable and well regulated to meet the regulatory sophistication. A good system must have a defined progressive path known as financial life cycle. The existence of NIB would possibly enhance financial depth by enhancing financial inclusion and increasing financial resources mobilization. The NIB would also enhance financial breadth of the country by providing several quality products (see Table 3 for different NIB products), hence improving financial choice available to customers. Through zero interest rate and mutual risk sharing, the NIB offers affordable financial products. The NIB is a highly regulated system, the screening process is premised on religious value (existence of a shariah Board) either at the stage of product design or implementation, this strong regulatory framework ensures market discipline and enhances stability of the system, thus, NIB is a safe, stable and well regulated financial institution that meets the regulatory sophistication criterion.

The gradual growth of NIB in many Muslim and Non-Muslim countries suggest that the institution has a progressive path and a sustainable financial life cycle.

The benchmark for financial depth according to the authors is 200-600 banks per a million population, thus, a bank to serve 5000 customers, expectedly, Nigeria, with an estimated population of 150 million, would need an average of 30,000 banks. However, our branch networks are far less. Also, substantial number of the banks reside in the urban centers as against rural where majority reside. The existence of NIB, would improve banking coverage and access.

In essence, the introduction of non-interest banks would enhance the financial depth and broaden financial products options and enhances financial inclusion and improves financial efficiency and effectiveness in the country and in the long run impact positively on national economic development.

3.2.2 NIB and Financial Stability

The recent global crisis was driven by a number of causes, among them is the incessant transformations in the financial system called Financial Engineering (Truman 2009), financial expropriation (systematic extraction of financial profits) Lapavitsas (2009), the abolition of the Glass-Steagall Act in 1999 (in force since 1933), which formally enabled commercial banks to engage in riskier investment banking practices, created opportunities for banks to trade on their own account and inadequate market discipline, too big to fail syndrome (Chapra 2009).

However, Chapra (2009), siddiqi (2009) all argue that the non-interest banks exercise more market discipline, and thus were not totally destabilized during the shock. Chapra (2009) finally concludes that the non-interest banks are more resilient to shocks than the conventional banks, due to their ethical funding approach, avoidance of excess leverage and speculative financing, regulated financial innovativeness as well as asset-backed financing (See Mobolaji 2011 for details).

3.2.4 NIB and Dual financial sector in Nigeria

Nigeria is characterized by dual financial sectors, the formal and informal, the formal is relatively more stable but has low banking patronage due to high cost and bureaucratic procedures, the large informal sector is less stable but have few exploitative institutions, thus, the existence of NIBs would provide additional financial option through its numerous financial instruments. EFInA survey (2010) reports that about 70% of Nigerian adults have no bank accounts and 46.3% of male adults are financially excluded. This exclusion is partly due to income shock, unemployment and religious constraints.

3.2.5 NIBs and ECONOMIC AGENTS HOUSEHOLD

it may provide an alternative portfolio of holding financial assets, broadens financial choice and inclusion. With it, some Muslims can conveniently partake in the financial sector. In UK for example, the UK Government Support for Islamic Finance, according to Lord Eddie George, Governor of the Bank of England (1993-2003), is for two principal reasons enhancing financial inclusion and business benefits to UK.

BUSINESS/FIRM: NIBs may encourage emerging small and Medium Enterprises through mutual risk sharing and promotion of entrepreneurship. For example, one of the financing Modes of NIB is Mudharabah, profit and loss where both where both the entrepreneur's idea and labour effort is rewarded along the capital contribution of the financier according to an agreed ratio.

GOVERNMENT: NIB could encourage real sector development. Many of the government initiatives in the real sector can be financed at a low cost or zero interest, but on long term profit and loss sharing which would benefit both parties. A sukuk bond for example as being practiced in Malaysia London and other countries could help in real sector development for fairly long period. The NIB through its Sukuk (Islamic Bond) can partner with the government to finance several other government initiatives in the real sector on a relatively long-term basis.

3.2.6 NIBs and Social Capital

Sec 16 (1) (b) of the Federal Constitution states: The State shall, within the context of the ideals and objectives for which provisions are made in this Constitution control the national economy in such manner as to **secure the maximum welfare,**

Table 1: NIGERIAN BANKING SECTOR IN BRIEF

Year	No of Banks	Urban Branches	Rural Branches	Abroad	Total	Financial Breadth / choice	Financial Efficiency	Regulatory and stability
1960	12	154	4	2	160	Interest based	Low	Low
1970	14	263	7	3	273	Interest based	Low	Low
1980	20	565	168	7	740	Interest based	Low	Low
1990	58	1169	765	5	1939	Interest based	Low	Low
2000	54	1466	714	5	2185	NONE, but interest based	Low	Low
2004	89	2765	722	5	3492	NONE	improving	Improving
2008	24				3897	NONE	improving	Improving

Computed: From CBN Statistical Bulletin (2008)

freedom and happiness of every citizen on the basis of social justice and equality of status and opportunity. Thus, NIBs would enhance public confidence in the sector and promote 'equality of status and opportunity'. This public confidence is needed to promote national economic development, as it is a basis of social capital and citizen' genuine passion for national development (patriotism.).

This can be facilitated through the implicit mutual risk sharing profile of non interest bank, where financial support is equated to entrepreneurial skill, especially in the Mudarabah financing mode, where the business idea is valued as much as the financial contribution of the bank. And in case of any loss, individuals are indemnified to suffer only labour loss. This is in direct comparism with the conventional banking system, where the borrowers bears both the human and financial loss, and thus, have his welfare worsened in case of any loss, as there is unilateral risk shifting rather than mutual risk sharing in NIB.

3.2.7 Non-Interest Banking is set to achieve financial inclusion.

Financial Inclusion is a constitutional right of every citizen and must be respected. It is also a sensible public policy. The existence of NIB widens financial choice and enhances financial inclusion. NIB could also reduce capital flights as it could create avenues for a clement investment environment with low cost and adequate returns.

3.3 Non interest Banking and some Challenging Issues in Nigeria's Financial System

For the NIB to fully realize its potentials and impact more on the economy, some of the following challenges have to be attended to. These include well structured regulatory framework on NIB to guide against abuses and ensure uniformity in practices. The framework should equally spell out clearly the relationship between these banks and other conventional banks. The money market has to be restructured to accommodate transactions of assets in a non-interest bearing modes. In the same vein, the capital market may be rearranged to allow the NIBs to seek for long term and medium term funds and provision of non-interest bonds would facilitate further financial intermediation. Other challenges include dearth of specialists, competition with other conventional banks, poor public awareness, unstable macroeconomic environment standardization of accounting procedures etc. All these challenges are however, surmountable, considering the relative importance of this sector.

4.0 CONCLUSION

The non interest banking provides an alternative financial intermediary for mobilizing and allocating resources. Through its operational modalities, it enhances financial inclusion, financial depth and breadth and capable of improving financial effectiveness and efficiency which are needed for national economic development. Because often such NIBs are often asset backed it is more stable less fragile like the conventional banks that are asset based. NIBs are ethical investment banking outlets, and enhance mutual risk sharing between investor and banks; this reduces asymmetry and facilitates entrepreneurship and innovation. In NIBs, more market restraints and discipline are likely to operate.

Though NIB is relatively new in Nigeria but has gained a momentum across the globe. It is in operation in more than fifty countries in the world, including in the Middle East and some other parts of the world like United Kingdom, United States of America, Switzerland, South Africa, Morocco, Libya etc. The recent global financial crises have made several countries in the world to reconsider the practice of Non-interest banking alongside the conventional banks.

A little caution has to be exercised while interpreting the analysis of this paper, as the paper has only presented a preliminary analysis of the role of NIB in economic development. Some of these potential impacts may have contemporaneous impact and other have future effects. Thus, enough time has to be given for the impact to fully mature or observed in the economy, due to fewness of the number of NIBs and its level of development.

Furthermore, these effects can only be harnessed if the system is faithfully implemented and there is a strong regulatory framework in place to check abuses and arbitrariness. Due to the relative newness of the system (NIB) in Nigeria and dearth of reliable data, it is a bit difficult to conduct an empirical study in this paper; however, this can be further explored by further research in this area.

The existence of NIB only put the country among countries that offer dual banking system, (combining the ethical feature of the NIB and the financial innovation of the conventional banking system, the existence of the two systems would further enhance the potential impact of the financial sector in facilitating economic development as the two should be complementary and not substitute.

Finally, NIB is an ethical system based on religious values, with a fundamental requirement that financial transactions are linked to real economic activity or real sector development. This system has to be embraced in its entirety, if NIB would contribute towards economic development.

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APPENDIX:
Table 2: WORLD INTEREST RATE AT A GLANCE

. Country/Central Bank	Last Meeting	Current Interest Rates	Previous Interest Rates
Egypt	Sept ,2009	8.25%	8.5%
South Africa	Oct 2010	5.5%	6.5%
HongKong SAR	Dec , 2008	0.5%	1.5%
India	July 2011	8%	7.25%
Japan	Dec 19,2008	0.1%	0.3%
Korea, Republic of	Mar, 2011	3%	2.25%
New Zealand	Mar, 2011	2.5%	3%
Taiwan	Dec 2010	1.6%	1.5%
Czech Republic	May,2010	0.75%	1%
European Monetary Union	July, 2011	1.5%	1.25%
Iceland	Feb, 2011	4.25%	4.5%
Norway	May, 2011	2.25%	2.0%
Poland	June,2011	4.5%	4.25%
Slovakia	Mar 13, 2009	1.75%	2.25%
Sweden	Oct 2010	1.0%	0.75%
Switzerland	Mar 2009	0.25%	0.5%
United Kingdom	Mar , 2009	0.5%	1%
Turkey	Jan, 2011	6.25%	6.5%
Canada	Sept,2010	1%	0.75%
USA	Dec 16, 2008	0.25%	1.0%
Brazil	July, 2011	12.5%	12.25%

Source: Google July, 2011

Table 3: NIB FINANCING INSTRUMENTS AND ECONOMIC AGENTS

S/N	Potential Beneficiary	Term	Meaning
1	**Households and Firms**	Musharakah	A partnership contract between two or more parties each contributing capital.Any profit or loss is shared according to agreed ratio.
2	**Households and Firms**	Mudharabah	A profit sharing contract where one party contributes his entrepreneurial efforts while the other provides the capital. Profits are shared according to an agreed ratio, while any loss is exclusively borne by the financier after necessary due diligence has been observed by the entrepreneur
3	**Household Empowerment**	Murabahah	A sale contract involving the bank selling an asset to a customer at a cost plus margin
4	**Firm/Industrial sector Development**	Ijara	Sale and lease-back of asset , generally for long term financing
5	**Firm/Industrial sector Development**	Istisna	A purchase order contract of assets whereby a buyer places an order to purchase an asset to be delivered in the future. This is useful for manufacturing/ industrial financing
6	**Firm/ Agricultural sector**	Salam	Very useful for agricultural product financing
7	**Government**	Sukuk	Islamic Bond used for long term government finances and development projects