THE POLITICAL ECONOMY OF THE PROPOSED ISLAMIC BANKING AND FINANCE IN NIGERIA: PROSPECTS AND CHALLENGES

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Abstract

One major problem of entrepreneurship in Nigeria is the lack of and limited access to initial and running capital. The commercial and micro finance banks in the country make it difficult for these businesses to survive, among other factors, through high interest charges which do not encourage their growth. They also do not provide adequate support for their borrowers. With the coming of the proposed Islamic banking also known as 'non-interest' banking, this paper foresees a lot of prospects for the Nigerian economy ranging from availability of adequate capital at no interest, employment provision, higher economic growth, to partnership between the lender and the borrower which leads to a mutual share in the gains and losses of the business.

With the aid of Political Economy framework, the paper argues that Nigeria stands to reap from the policy numerous political cum economic prospects as will be discussed in the paper than challenges. It goes further to state that the argument being postulated by the antagonists of the policy over the planned 'islamization of Nigeria' with the policy holds no water and is rather misleading as the banks involved must act within the laws that set them into operation in the Nigerian state.

Keywords: Political Economy, Islamic Banking, entrepreneurship, profit sharing, interest rate, commercial banking

INTRODUCTION

Banks are the most important financial institutions in a modern economy. They perform some very important functions for society and in this process significantly influence the level of economic activity, the distribution of income and the level of prices in a country (Iqbal and

Molyneux, 2005). Right from the pre-independence to the present day time in Nigeria, conventional commercial (interest-based) banks and financial institutions have controlled the economy. These banks have performed several functions of banks in an economic system which among others includes the provision of business capital for entrepreneurs in the system. However, the entrepreneurs and investors have often encountered several problems with the system of banking being operated by these conventional banks among which are high interest rates, high risk of business environment with less security, inflation etc. This situation has seriously militated against the rapid growth the production and investment sector of the economy thereby affecting the overall economic growth of the country. Thus, Zaki (2001) stated that for Nigeria to propel the rest of African economy, an integrated financial system is essential, with deep and efficient financial markets capable of improving access to finance, inclusion of and wooing international investors. It is in this direction that the Central Bank of Nigeria (CBN) under Chukwuma Soludo issued a draft framework for non-interest banking (Islamic banking) in March 2009 – an initiative intended as a platform for seamless and robust link to international financial markets. The draft was as a result of the amendment of Central Bank of Nigeria Act of 1999, in 2007, that incorporated Islamic banking among others to expand and broaden the nation's financial markets (Zaki, 2001). The draft of Islamic banking framework was also necessitated by the effect of global meltdown that castrated our financial system and slowed the growth of the economy: The All-Share Index and Market Capitalization of the Nigerian Capital Market (NSE) declined from 64,848.70 in the first week of March to 59,124.87 in the first week of May 2008, falling by 45.8 in the year. According to Zaki (2001), the CBN (under Lamido Sanusi) again, announced on June 27th, 2011 that it had licensed JAIZ Bank to operate Islamic banking, and its subsequent issuance, the following day, of final guidelines pertaining to the system in Nigeria.

However, this announcement was not received with demonstration of absolute acceptance by the Nigerian populace as a lot of people kicked against the policy some perceiving it as a plan to introduce Islamic practices all over the country while others saw it as a policy aimed at promoting the northern agenda and bringing back the northern elite into the mainstream of banking, following the collapse of northern banks in the wake of the consolidation exercise. At the same time there were those who believed that this move to commence Islamic banking will avail the opportunity to people who may want to carry out their business activities but are constrained by capital. Even top religious leaders in the country were not left out in this debate which also went along with agitations and call on the CBN governor and the government not to try implementing such policy. Little thought was given by the different parties over the basic idea behind the Islamic (non-interest) system of banking and the gains the country stands to derive from it. A closer look at these agitations showed that they flowed from ethnic cum religious sentiments which has continued to bedevil Nigeria's development.

On the above premises, this paper seeks to make clear to Nigerians and the rest of the world what Islamic banking stands for as well as the gains which Nigeria and Nigerians stand to derive from its practice. The paper also seeks redirect the thoughts of those who have continued to agitate against the policy and channel it towards the right and good path of thought which stands to benefit the country and its populace. To achieve this, we have adopted the Political Economy framework of analysis and we have also made use of secondary data to convey our message.

NON-INTEREST/ISLAMIC BANKING IN NIGERIA: A BRIEF ORIGIN

The idea of banking in an Islamic way is relatively new in the Nigerian context. The unique experience so far is that of a window or unit for Shariah compliant transactions, otherwise known as Non-Interest Banking (NIB) services introduced in 1998 by Habib Nigeria Bank (Now Bank PHB) (Alaro, 2009).

In their writing, Eze and Chiejina (2011) pointed out that in recent times; Nigeria's banking system has steadily evolved, following wide reaching reforms embarked upon by the Central Bank of Nigeria (CBN). They further stated that, at the inception of these reforms, the policy thrust was not only targeted at growing the banks and positioning them to play pivotal roles in driving development in other sectors of the economy, it was also directed at inducing improvement in their operational efficiency. The major banking reform which began in 2004 when Charles Soludo was the Governor of the CBN bank, was mergers and acquisitions while the capital base of these banks rose from N2 billion to a minimum of N25 billion as directed by the CBN. This made the banks more financially robust to play their expected role of business financing. Chukwuma Soludo issued a draft framework for non-interest banking (Islamic banking) in March 2009 which had an initiative intended as a platform for seamless and robust link to international financial markets. This was also an amendment of the CBN act 2007 which included Islamic banking.

Following from this, the CBN under the governorship of Mallam Lamido Sanusi, announced in June 2011, set of regulations on non-interest banking, which includes Islamic banking reiterating that the introduction of Islamic banking is part of its drive to propel Nigeria's economy and promote financial inclusion by introducing alternative products without undermining any group or interest in the country. Two types of non-interest banking were further recognised by the CBN. These include: non-interest financial products and services based on principles of Islamic commercial jurisprudence, as well as financial products and services based on any other established rules and principles. The CBN added that it was ready to issue guidelines pertinent to other types of banking to individuals and groups wishing to practice non-interest banking based on established rules and principles other than Islam. Based on this, two banks have so far been cleared by the CBN to operate Islamic banking in Nigeria. They include Jaiz International and Stanbic IBTC, a subsidiary of South Africa's Standard Bank (Eze and Chiejina, 2011). However, the controversy still rages on and these banks have not fully become operational with Islamic banking system. Thus, Islamic banking system is still on the path of its evolution in Nigeria.

CONCEPTUAL CLARIFICATION

Islamic Banking:

Islamic banking is generally seen as conventional banking minus the word ''interest,'' with a new contract that does not include the word ''interest'' and that is structured in a convoluted version of buy/sell, in which the seller changes ownership to the bank or finance company and then the bank sells it to the eventual buyer (Abdul-Rahman, 2010). By definition, an Islamic bank abides by Islamic law, the *shari'a* (formally *shari'a Islami'iah* but generally abbreviated to *shari'ah* or *shari'a*). The literal meaning of the Arabic word *shari'a* is 'the way to the source of life' and, in a technical sense, it is now used to refer to a legal system in keeping with the code of behaviour called for by the Holy Qur'an and the *hadith* (the authentic tradition) (Algaoud and Lewis, 2007). Thus, Islamic banking is the banking system which is carried out based on Sharia principles and guidelines.

Riba

In its basic meaning, *riba* can be defined as 'anything (big or small), pecuniary or non-pecuniary, in excess of the principal in a loan that must be paid by the borrower to the lender along with the principal as a *condition** (stipulated or by custom) of the loan or for an extension in its maturity'. According to a consensus of *fuqaha'* (Islamic jurists), it has the same meaning and import as the contemporary concept of interest (Iqbal and Molyneux, 2005). In this work, therefore, *riba* stands for 'interest'.

Non-interest Banking

The CBN defines Non-interest Financial Institution (NIFI) as a bank or Other Financial Institution (OFI) under the purview of the CBN which transacts banking business, engages in trading, investment and commercial activities as well as the provision of financial products and services in accordance with any established non-interest banking principle (PanAfrican Capital, n.d). Non-interest banking is a system of banking which does not permit the giving or taking of interest in its operations but is based on the principle of profit and loss sharing.

THEORETICAL AND LEGAL FRAMEWORK

Theoretical Framework

This work makes use of the Political-economy theory to convey the message that the introduction of Islamic banking has both political and economic implications and impacts on Nigeria as a country and its entire system. The present day political economy as a framework of political analysis looks at production, distribution and consumption system (economic system) as a means of determining the political system of a society or state. Its foundation is traced to the writings of Adams Smith as an inquiry into the wealth of nations; popularly referred to as 'classical political economy'. Smith was interested in how production, distribution, exchange and consumption was organized in the society. Other classical political economists include David Hume, Thomas Malthus, David Ricardo, John Stuart Mills etc. Karl Marx, whose works were influenced greatly by the writings of Hegel, later came up with a modification to the classical political economy. Marx, basing his political economy on the theory of surplus value, focused on the relations that exist between the classes and groups in the process of production and went ahead to identify the contradictions that exist between these classes. He strongly maintains that the economic condition of a man determines every other aspect of his life (Milward, 2000). He identified three fundamental foundations of political economy which include: historical materialism, the primacy of the economic structure, class contradictions and conflict.

The methodology of political economy as a framework for political analysis which is based on dialectical materialism focuses on the interplay of economics and politics as one affects the other and vice versa both domestically and internationally. Claude Ake, in 1981, identified three salient features of this methodology to include:

1. The Primacy of material condition
2. The dynamic nature of reality
3. The relatedness of different elements of society.

Legal Framework

The CBN issued guideline in June, 2011 over the planned introduction of Islamic (non-interst) banking system in Nigeria. These guidelines were issued pursuant to the Non-Interest banking regime under Section 33 (1) (b) of the CBN Act 2007; Sections 23(1) 52; 55(2); 59(1)(a); 61 of Banks and Other Financial Institutions Act (BOFIA) 1991 (as amended) and Section 4(1)(c) of the Regulation on the Scope of Banking Activities and Ancillary Matters, No. 3, 2010. These sections of the laws of Nigeria explicitly provide for the licensing of Non-Interest Banks (NIBs). The CBN is obliged, by these laws, to issue licenses to appropriate entities for the establishment of NIBs provided they meet the regulatory requirements for licenses.

LITERATURE REVIEW

Development of Islamic Banking

The origin of Islamic banking can be traced from a very early stage in Islamic history when Muslims were able to establish a system without interest for mobilizing resources to finance productive activities and consumer needs. The system worked quite effectively during the heyday of Islamic civilization and for centuries thereafter (Iqbal and Molyneux, 2005). Professor S. D. Goitein in 1971 recorded that partnership and profit-sharing rather than interest-based borrowing and lending formed the basis of commerce and industry in twelfth and thirteenth centuries in the Mediterranean region. However, as the centre of economic gravity shifted over the centuries to the Western world, Western financial institutions (including banks) became dominant and the Islamic tradition remained dormant.

Iqbal and Molyneux (2005) further recorded that when commercial banking emerged after the industrial revolution, a very large majority of Muslim scholars expressed their serious reservations with this model of financial intermediation due to its reliance on interest rate mechanism and they called for the development of alternative mechanisms to perform the financial intermediation function in Muslim societies. Muslim masses to a very significant extent refrained from dealing with commercial banks. However, the growing needs of traders, industrialists and other entrepreneurs in rapidly monetizing economies were pressing. The Muslim economists and banks took up the challenge of developing alternative models of financial intermediation. Valuable theoretical work was done in the early nineteenth century. At that time most of the Muslim world was under colonial rule. When Muslim countries gained their independence after the Second World War, practical experiments in interest-free financing started on a modest scale and gradually expanded in scope. The first interest-free institution with 'bank' in its name, Nasser Social Bank, was also established in Egypt in 1971. Even though the objectives of the Nasser Social Bank were mainly social, such as providing interest-free loans to the poor and needy, scholarships to students, and micro-credits to small projects on a profit-sharing basis, the involvement of a public authority in interest-free banking sent important signals to Muslim businessmen who had surplus funds. A group of such businessmen took the initiative of establishing the Dubai Islamic Bank in 1975 in Dubai in the United Arab Emirates (UAE). This was the first Islamic Bank established on private initiative. However, official support was crucial with the governments of the UAE and Kuwait contributing respectively 20 per cent and 10 per cent of the capital (Venardos, 2005; Islamic World, 2008 as cited in Marimuthu et al, 2010; Abdul-Rahman, 2010).

The most important development in the history of Islamic banking took place with the establishment of the Islamic Development Bank (IDB) in 1975. According to Igbal (2007), the IDB was established as an international financial institution in pursuance of the declaration of intent issued by a conference of finance ministers of Islamic countries held in Jeddah, Saudi

Arabia, in December 1973. The period between 1975 and 1990 was the most important period in the history of development of Islamic financial industry. During this period, it matured into a viable alternative model of financial intermediation. It won respect and credibility in terms of both theoretical developments and practical experiences. On the one hand, several financial products compatible with the *Sharijah* were developed and, on the other hand, Islamic banks showed good results while using these products (Venardos, 2005; Islamic World, 2008 as cited in Marimuthu et al, 2010; Abdul-Rahman, 2010). In the contemporary period, there are well over 200 Islamic banks operating in over 70 countries comprising most of the Muslim world and many Western countries (Hassan and Lewis, 2007; Chapra and Khan, 2000 cited in Iqbal and Llewellyn, 2002).

Principles and Models of Non-interest (Islamic) Banking

Islamic banking is a form of modern banking based on Islamic legal concepts developed in the first centuries of Islam, using risk-sharing as its main method, and excluding financing based on a fixed, pre-determined return (Schaik, 2001). According to Lewis and Algaoud (2001) as cited in Algaoud and Lewis (2007), there are strict rules applying to finance under Islamic law:

a. *riba* (interest) is prohibited in all transactions;

b. business and investment are undertaken on the basis of *halal* (legal, permitted) activities;

c. *maysir* (gambling) is prohibited and transactions should be free from *gharar* (speculation or unreasonable uncertainty);

d. *zakat* (almsgiving) is to be paid by the bank to benefit society;

e. all activities should be in line with Islamic principles, with a special *shari'a* board to supervise and advise the bank on the propriety of transactions.

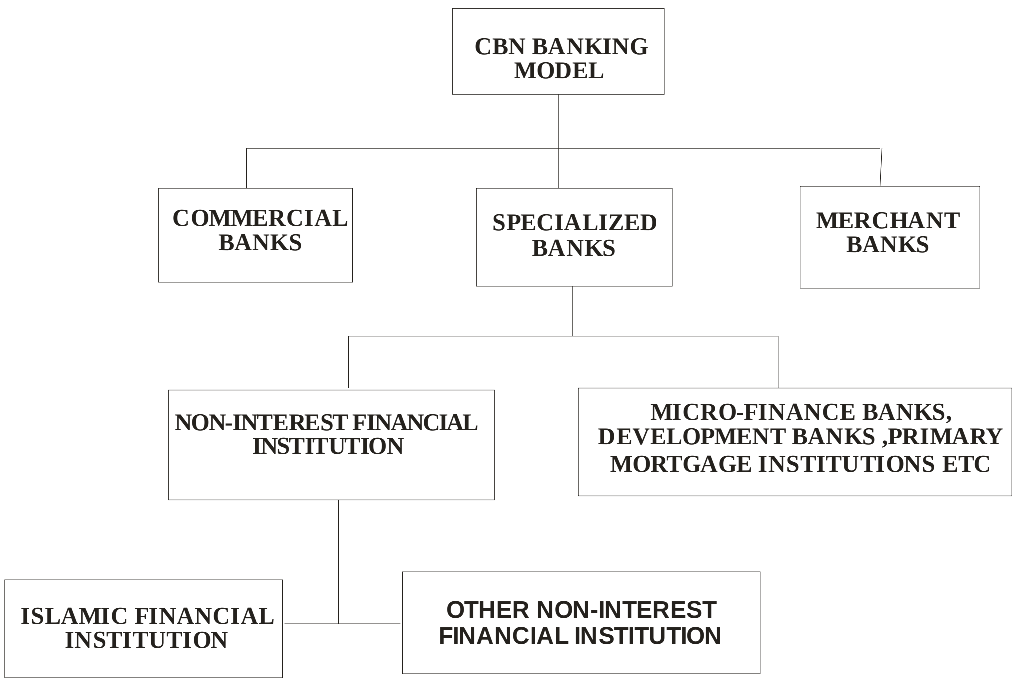
Abdul-Rahman (2010) notes that Riba means the act of taking advantage of those who need money to meet their basic necessities through the act of renting them money at a price called ''interest." Further writing on the principles of Islamic banking, Iqbal and Molyneux (2005), Venardos (2005), Khan and Bhatti (2008), Visser (2009), Marimuthu et al (2010), and Abdul-Rahman (2010) explained that:

Any predetermined payment over and above the actual amount of principal is prohibited i.e. lender should not charge any interest or additional amount over the money lent. The lender must share in the profits or losses arising out of the enterprise for which the money was lent. Furthermore, Islamic finance is based on the belief that the provider of capital and the user of capital should equally share the risk of business ventures, whether they are industries, farms, service companies or simple trade deals. Making money from money is not Islamically acceptable. Uncertainty, Risk or Speculation is also prohibited on any transaction entered into. Contracting parties should have perfect knowledge of the counter values intended to be exchanged as a result of their transactions. Investments should only support practices or products that are not forbidden e.g. trade in alcohol, construction of casino, lending money to other banks at interest. And lastly, the policy does not prevent non-Muslims from participating.

Iqbal and Molyneux (2005) further identified the different models of Islamic banking to include: Two-tier mudarabah, One-tier mudarabah combined with multiple investment instruments, Musharakah (partnership), Mudarabah (passive partnership), Diminishing partnership, Bayj al-murabahah (sales contract at a profit mark-up), Ijarah (leasing), a lease ending in the purchase of the leased asset, Salam, Al-istisnaj (Contract of Manufacture) and al-istisnaj al-tamwili (financing by way of istisnaj), An Islamic bank working as an agent (wakil).

On how an Islamic bank works, Iqbal and Molyneux (2005) and Abdul-Rahman (2010) explain that an Islamic bank is a deposit-taking banking institution whose scope of activities includes all currently known banking activities, excluding borrowing and lending on the basis of interest. On the liabilities side, it mobilizes funds on the basis of a *mudarabah* or *wakalah* (agent) contract. It can also accept demand deposits which are treated as interest-free loans from the clients to the bank and which are guaranteed. On the assets side, it advances funds on a profit-and-loss sharing or a debt-creating basis, in accordance with the principles of the *Sharijah*. It plays the role of an investment manager for the owners of time deposits, usually called investment deposits. In addition, equity holding as well as commodity and asset trading constitute an integral part of Islamic banking operations. An Islamic bank shares its net earnings with its depositors in a way that depends on the size and date-to-maturity of each deposit. Depositors must be informed beforehand of the formula used for sharing the net earnings with the bank.

A CHART OF CBN BANKING MODEL



Source: PanAfrican Capital Plc Publication

Islamic and Conventional Banking: Convergence and Divergence

Islamic banking as one of the models of non-interest banking, serves the same purpose of providing financial services as do conventional financial institutions. However, one significant difference between the two is that Islamic banking operates in accordance with principles and rules of Islamic commercial jurisprudence that generally recognizes profit and loss sharing and the prohibition of interest, as a model. Thus, instead of charging interest on financing given out, Islamic banks give financing based on joint venture and will share any profit and loss with the borrower.

In a related issue, Mirakhor and Zaidi (2007) maintains that the main difference between an Islamic or interest-free banking system and the conventional interest-based banking system is that, under the latter, the interest rate is either fixed in advance or is a simple linear function of some other benchmark rate, whereas, in the former, the profits and losses on a physical investment are shared between the creditor and the borrower according to a formula that reflects their respective levels of participation. Iqbal and Molyneux (2005) explain futher that Islamic banking promotes risk sharing between the provider of funds (investor) and the user of funds (entrepreneur). In Islamic finance, interest-bearing contracts are replaced by a return-bearing contract, which often takes the form of partnerships. Their lending is principally of the murabaha cost-plus or mark-up mode. As a result, they experience a high rate of borrower delinquency, since their lending terms are less stringent than those of the conventional banks (Aburime and Alio, 2009). For Adeola, H. (2007), the most controversial aspect of Islamic economics which sets it apart from the conventional system is the prohibition of riba and hoarding and the imposition of zakat. He continues stating that:

•The abolition of riba has economic and social consequences:

•It aims at eliminating injustice and promoting brotherhood and cooperation between capital and labour

•It promotes productive enterprises as a means of raising productivity and employment

•Islamic finance can fulfil its promise with coherent efforts and a well planned strategy to instigate Islamic economics principles on the macro and micro level

Furthermore, according to Decker (2011), a basic principle of Islamic banking is justice. This is an essential requirement for all kinds of Islamic financing. In contrast with conventional banking, Islamic banking locks into moral and ethical values in its banking operations and also they are restricted from financing alcoholic beverages, tobacco or morally questionable activities; and businesses that sell alcohol or pork, gambling, and businesses that produce media such as gossip columns or pornography (Aburime and Alio, 2009). Venardos (2005) further reiterates this fact stating that the main difference between conventional and Islamic financial systems, among many others include that the latter is based on keeping in view certain social objectives intended for the benefit of society. This is because Islam is an ethical system which guides man in all his activities including commerce and trade. Whereas a conventional banker need not be concerned with the moral implications of a business venture for which money is lent, the Islamic banker has a much greater responsibility in this respect. This leads one to a very fundamental concept in Islamic banking, namely the relation between investor and the bank. In the case of Islamic banks, this relationship is conceived as a partnership, whereas in conventional banking it is that of creditor-investor. Islamic finance is based on equity, whereas the conventional banking system is debt based.

More so, one of the main selling points of Islamic banking, at least in theory, is that, unlike conventional banking, it is concerned about the viability of the project and the profitability of the operation but not the size of the collateral. Islamic banks place less emphasis on collaterals than conventional banks. Good projects which might be turned down by conventional banks for lack of collateral would be financed by Islamic banks on a profit-sharing basis (Aburime and Alio, 2009; Abdul-Rahman, 2010).

Furthermore, Islamic banks tend to have wider variation of rates of return. To be explicit, while conventional banks guarantee deposits and their rates of return, Islamic banks, working on the principle of profit and loss sharing, cannot guarantee any fixed rate of return on deposits. Many Islamic banks also do not guarantee the deposits either.

Due to their specialization in equity and trade financing, Islamic banks tend to have higher levels of liquidity risk than their conventional counterparts. However, this is highly dependent on the stability of the economy. If the economy is stable, the risk would be minimized and vice-versa.

Related to the above is the issue of solvency risk. Due to their specialization in equity and short-term trade financing, Islamic banks tend to have lower levels of solvency risk than their conventional counterparts. This is because their solvency is tied to the solvency of all the trading institutions they have business affiliations with. This implies that Islamic banks are also highly dependent on the stability of the economy. Being heavily dependent on trading activities, Islamic banks are bound to be easily affected by trade fluctuations and cycles. Hence, in an unstable economy, their solvency risk is likely to be comparatively high.

On the Performance of Islamic Banks, they presented an valuation of Islamic banks all over the world on the basis of soundness, prudence, effectiveness in the

use of funds, economy and profitability and discovered that Islamic banks have performed beyond average in these areas. They went further to do a comparative analysis of Islamic banks and conventional banks and concluded that "the practice of Islamic banking over the last 30 years or so has shown that the model is not merely a theoretical construction in abstraction. All empirical studies to date show that in terms of performance, Islamic banks are by no means inferior to their conventional counterparts. As a matter of fact, most studies conclude that they usually show better results than conventional banks."

POLITICAL ECONOMY OF ISLAMIC BANKING IN NIGERIA

Policy making and implementation form integral part of governance. New policies are often faced with mixed reactions by the populace. It often brings division among the citizens orchestrated by uncertainties of what the new policy portends for them. However, such mixed reaction especially the negative angle of opposition is better avoided when people are involved in the process of the policy conception, making and implementation. Thus, the bottom-up approach to policy making is preferable to the top-bottom approach (Deleon and Deleon, 2002). Policy issues and general national issues in Nigeria are often interpreted or viewed from parochial ethno-religious cum political perspectives. This is owing to the diversified nature of the country and the experiences of the populace in the past. The current raging debate on Islamic banking is apparently centred on parochial, religious and ethnic sentiments. The policy has been seen as a means to favour one religion (Islam) against the other (Christianity). Some other people have also seen it as a way by which the Northern part of the country, who are synonymous to Islam (as perceived by numerous ignorant Nigerians) to dominate the rest of the country. The issue has brought about debates and accusations between and among Nigerians including religious leaders. These sentimental arguments seemed to have blind-folded the eyes of the people to the real ideas goals behind the proposed Islamic banking. It is the aim of this work to fill his gap.

The Challenges

In spite of the growth potential in Islamic banking, studies have shown that several challenges have been facing Islamic financial institutions and Nigeria stands to be faced by such challenges. Eze and Chiejina (2011) identified these challenges to include shortage of experts in Islamic banking, uncertainty in accounting principles involving revenue realization, disclosures of accounting information, accounting bases, valuation, revenue and expense matching to Islamic banks. Thus, the results of Islamic banking schemes may not be adequately defined, particularly profit and loss shares attributed to depositors (Khan and Bhatti, 2008).

Apart from these financial and accounting issues, there are also issues of knowledge of the people over operations of Islamic banking. According to Brown, Hassan and Skully (2007), many people do not understand Islamic banking; this includes both Muslims and non-Muslims. The fact that *shari'a* boards, which oversee the transactions in relation to the Qur'an, are often at the individual bank level, can lead to many interpretations of what is and what is not a suitable 'Islamic' transaction. Other problems include a lack of suitable trained staff able to perform adequate credit analysis on projects, as well as suitable managers, rather than just the owner. Latest technologies as used in conventional banks are often not used by Islamic banks. Furthermore in a study carried out by Iqbal and Molyneux (2005, they found out some challenges facing Islamic banking which they termed 'unresolved issues'. These include problems of conditions of participation in equity markets, delinquent borrowers and the issue of penalties, indexation, financial engineering, risk management, appropriate legal framework and supportive policies, regulation and supervision, development of a money market, corporate governance, human capital formation.

In the Nigerian situation, the problem of policy making and implementation have often been lack of proper communication to the people by the government of the benefits they stand to get from a policy and the methods by which a particular policy is to be implemented. The proposed Islamic (non-interest) banking system may not see the light of the day if not properly communicated to the people before its full implementation.

Again, religious-wise, the proposed Islamic non-interest banking will definitely encounter the challenge strict competition and comparison with the existing conventional banks in the country.

Their activities will always be viewed and interpreted from religious angle as Nigeria is a highly religious sensitive country. This controversy has already begun.

The Prospects

Economically, the most important aspect of Islamic banking is the principle that prohibits interest payment. This characteristic is very important as it makes capital available to entrepreneurs on no interest bases. Nigerian business men and young entrepreneurs have been faced over years by high interest charges by the conventional commercial and micro-finance banks in the country. The worst aspect of this is that the interest does not take into consideration whether the capital yielded profit or not rather it is based on fixed interest and fixed repayment period. This discourages a lot of people from going into production, more especially young entreprenuers. With Islamic banking which is based on profit and loss sharing, partnership is encouraged which also gives room for sharing of ideas and efforts between the lender and borrower. This will surely contribute a lot to the industrial and economic growth of Nigeria when fully operational.

Again, Iqbal and Molyneux (2005) after identifying the various products offered by Islamic banking, has maintained that various profit-sharing modes to the menu of available financial products renders several advantages. These advantages include:

1. The allocation of financial resources on the basis of profit-and-loss sharing gives maximum weight to the profitability of the investment, whereas an interest-based allocation prioritizes credit-worthiness. We can expect that the allocation of resources made on the basis of profitability is likely to be more efficient than that made on the basis of interest and the ability to repay.

2. A system based on profit-sharing would be more stable compared to one based on a guaranteed interest rate on capital. In the case of conventional banking, the bank is obliged to pay a guaranteed return on its obligations (deposits) regardless of their fate, should economic conditions deteriorate. In profit-sharing, the return paid on the bank's obligations depends directly on the returns of its portfolio of assets. Consequently, the cost of capital would adjust itself automatically to suit changes in production and in other business conditions. Furthermore, any shock which might befall the obligations side of the balance sheet would be automatically

absorbed. This flexibility not only prevents the failure of the enterprises seeking funds, but also ensures the existence of a necessary harmony between the firm's cash flow and its repayment obligations, an element which enables the financial system to work smoothly.

3. Since depositors of Islamic banks, except demand deposit holders, share in the actual performance of the banks, they are expected to remain more vigilant about the performance of banks. That will also contribute to financial stability.

4. Since bank assets are created in response to investment opportunities in the real sector of the economy, the real factors related to the production of goods and services (in contrast with the financial factors) become the prime movers of the rates of return to the financial sector.

5. The transformation of an interest-based system into one based on profit sharing helps achieve economic growth as this results in increasing the supply of venture or risk capital and, consequently, encourages new project owners to enter the realm of production as a result of more participation in the risk-taking process.

Furthermore, Islamic banking will ensure equitable distribution of resources in the economic system and the society at large as it is based on the principle of justice to all parties. A contract based on interest could amount to injustice either to the borrower or the lender based on the outcome of the business. When loss is incurred on the business, the borrower bears it (loss of capital, profit and labour) alone with no concern on the part of the lender. This becomes injustice on the part of the borrower as he bears the loss alone. And when excess profit is made, the borrower also takes it all alone as he pays only the capital and the fixed interest to the lender. This could also be injustice to the lender. But Islamic banking based on the sharing of both profit and loss between the lender and the borrower eliminates this injustice.

Socio-economically, when entrepreneurs are encouraged through financial provision, a lot of Nigerians will have access to finance which will bring about increase in production activities. This situation will lead to the establishment of industries and business firms which will create employment opportunities for the Nigerian youth. When this is done, a lot of Nigerian graduates and even non-graduates will be absorbed into the employment market thereby reducing the security threat orchestrated by high unemployment rate. This is an area where the conventional banks have not been able to make remarkable impact due to their high interest rates and little of no support given to entrepreneurs.

Closely linked to the above is the issue of economic growth. It is generally accepted that any economy that is not built on production rather on consumption will find it difficult to survive or thrive comfortably. The Nigerian economy has been an import-based one which imports more of finished goods and less production goods. Thus, it is consumption-oriented. This is largely due to its dependence on petroleum products for the generation of finance and this has continued to bring untold hardship on the country and her citizens. But, when investment funds become available to investors and entrepreneurs, more productive activities will spring up in the country thereby making Nigerian economy a more production-based economy and this brings about more viable economy.

Also, Islamic (non-interest) banking instigates a banking system based on partnership between labour and capital. Each partner contributes significantly to the success of the business knowing fully that the outcome of the venture is to be shared between them. According to Igbal (2007), the essential characteristic of Islamic modes of financing is their direct and undetachable link to the real economy or physical transactions. Sharing modes are only possible for productive enterprises that involve real-life businesses that increase quantity or improve quality or enhance usability of real goods and services. By doing this, such businesses generate a return that can be distributed between the entrepreneur and the financier.

Additionally, an important attribute of Islamic banking which lacks in the conventional banking is the integration of ethical and moral values with Islamic finance so that banking complements economic development. Islamic banks cannot detach themselves from ethical/moral considerations even if they try, especially since their own environment, including both staff and clientele, expects from them a pattern of behaviour that is consistent with their commitment to moral and ethical standards as laid down by the Islamic religion and measured according to those values and standards. The immediate and most important outcome of the moral and ethical commitment of Islamic banks is developmental in nature. Islamic banks restrict their financing to goods and services that are useful and abstain from financing harmful goods such as alcoholic beverages and tobacco or morally unacceptable services such as casinos and pornography, regardless of whether or not such goods and services are legal in a given country Igbal (2007).

Lastly, Islamic banking will allow Nigerian Government and corporate organizations to have access to Islamic Development funds available in the international community to finance infrastructural projects thereby causing more and rapid development of the country.

On the other hand, politically and religiously, it must be stated that though the introduction of Islamic banking might seem the de-secularizing Nigeria, it goes beyond that. Section 33 (1) (b) of the CBN Act 2007; Sections 23(1) 52; 55(2); 59(1)(a); 61 of Banks and Other Financial Institutions Act (BOFIA) 1991 (as amended) and Section 4(1)(c) of the Regulation on the Scope of Banking Activities and Ancillary Matters, No. 3, 2010 authorized the CBN to approve the setting up of Islamic non-interest banking in Nigeria and other types of non-interest banking. By this, the laws of Nigeria do not see anything wrong with Islamic non-interest banking as it is. This is coming on the grounds of careful study of its principles and philosophy of operation which does not undermine the existence of other religions in the country.

Also, the banking system in Nigeria is never an unregulated system. It is guided by laws which are superseded by the constitution of Nigeria. In line with this, Islamic non-interest banks will also not operate above the laws of the country as they will remain under the control of the CBN and the CBN is collectively owned by Nigerians. Thus, Nigerians reserve the right to say no to any practice of the Islamic non-interest banks that do not conform to their collective desires and aspirations. The CBN has also given room for any other group that may want to establish non-interest banking to do so long as it conforms to the laid down guidelines. Nigerians must learn to encourage diversity as it gives citizens variety of choices to make.

Furthermore, many Islamic banks also establish social funds especially designed for relieving the economic hardship of the poor and needy. These funds are usually financed by the yearly *zakat* dues on shareholders' equity as well as many investment depositors who give their consent to the bank's management for the deduction and distribution of *zakat* annually. These charitable activities of Islamic banks are also financed by interest that may accrue to the bank from its deposits in conventional banks and from certain transactions that the *shari'a* boards may find doubtful/suspicious from a *shari'a* point of view. This is on the ground that such earned interest cannot be taken by the bank and must be distributed to charity.

More so, due to the religious obligations which Islam puts in place for its adherents, many Moslems in Nigeria are cut off from the banking system in the country as they go against such obligations e.g the issue of interest charges. But, with the coming of Islamic non-interest banking, large number of unbanked Muslim community in Nigeria may be attracted to this type of specialized banking system and get bankable. This will also create a sense of belongingness among these set of population in the country and reduce or remove the feeling of domination by the large Christian populace. With this, the country's political unity is strengthened.

CONCLUSION

Nigeria is widely referred as the 'giant of Africa'. Nigeria is being looked upon to be the hub of economic development of Africa. However, Nigeria has been far from playing these roles due to her economic adversity which has continued to worsen annually. A major cause of this situation, apart from corruption, is the low level of production activities going on the country. This is necessitated by lack of finance and support from the financial institutions whose role it is to do so. Islamic (non-interest) banking comes with banking system that is different from the conventional commercial and micro-finance banks that have existed over the years in the country. A major potential in this system is its ability to open up the country's production sector of the economy.

Nigerians have already begun to perceive the proposed coming of Islamic (non-interest) banking as having ulterior negative motives. It is true that every policy has its prospects and challenges which we have enumerated above; the proposed Islamic (non-interest) banking system has more prospects than challenges. With the facts and arguments postulated above, Nigeria and her citizens must learn to accommodate new policies and accept change. We foresee and posit that it is through Islamic (non-interest) banking that the array of investors and entrepreneurs in Nigeria can heave a sigh of relief and the economy will benefit a lot from it through increased production and partnership between the lender and the borrower.

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