SOURCES AND APPLICATION OF FUNDS IN NON-INTEREST BANKING REGIME
BY A. S. ABDULKARIM

OVERVIEW AND CONCEPTUAL ISSUES OF NON-INTEREST BANKING IN NIGERIA
BY B. A. UMAR, PH.D

THE LEGAL AND REGULATORY FRAMEWORK FOR NON-INTEREST BANKING IN NIGERIA
BY A. ATTA

THE ROLE OF NON-INTEREST BANKING IN NATIONAL ECONOMIC DEVELOPMENT
BY H. I. MOBOLAJI
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INTRODUCTION

In the past two decades, Islamic Banking has grown in size and significance in a large number of countries throughout the world with Balance Sheet estimated at $1 trillion and its annual growth put at 15-20 percent. Rapid development in the Islamic Banking industry has largely accounted for this growth. At present there are over 300 Islamic Banks that are operational throughout the world. Like conventional banking, Islamic banks also need funds to operate its banking activities.

The concept of Islamic Finance is a new phenomenon in Nigeria. However, there was an attempt in the past by Habib Bank to offer Islamic Compliant Asset and Liability products. It is expected that with the licensing of Jaiz Bank (a full pledged Non-Interest Bank) and StanbicIBTC to operate a window of Non-interest banking with some other banks that have shown interest to operate the Non-Interest banking model, we shall begin to see a surge in Islamic products in a Non Interest banking regime.

<table>
<thead>
<tr>
<th>KEY DRIVERS</th>
<th>GLOBAL</th>
<th>AFRICA</th>
<th>NIGERIA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market Size</td>
<td>$1 trillion</td>
<td>$18 billion</td>
<td>Nil</td>
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<tr>
<td>(2011)</td>
<td></td>
<td></td>
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<td>Market Size Potential</td>
<td>$2.8 trillion</td>
<td>$235 billion</td>
<td>$17 billion</td>
</tr>
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<td>Estimated Muslim Population</td>
<td>1.8 billion</td>
<td>490 million</td>
<td>75 million</td>
</tr>
<tr>
<td>No. of Islamic Banks</td>
<td>300</td>
<td>37</td>
<td>3 (no significance)</td>
</tr>
</tbody>
</table>

SOURCES AND APPLICATION OF FUNDS IN NON INTEREST BANKING REGIME

TYPES OF SOURCES OF FUNDS
- Deposits
- Deposit from other Islamic Bank.
- Banks Equity
- Islamic Investment funds.
- Placement from Bank Treasury.

Deposits: Islamic Banks gets their deposit by offering Current, Savings or Investment deposit products that are compliant with Islamic Jurisprudence. Besides their own capital and equity, Islamic banks rely on two main sources of funds, (a) transaction deposits, which are risk free but yield no return and, (b) investment deposits, which carry the risks of capital loss for the promise of variable. In all, there are four main types of accounts:

1. Current Account: This type of deposit is contracted under the principle of Al-Wadiah or guaranteed trust. Under this contract, the Islamic bank guarantees the return of the principal deposit sum. Since deposit is placed under trust, Islamic banks normally do not give any returns for this type of deposits.

2. Savings Account: Savings deposits are collected under various principles, namely:
   a. Al-Wadiah – similar to current account except it does not have any cheques facility. Under strict principle of Al-Wadiah, the bank is not supposed to give any returns. Nevertheless, if the bank decides to give some returns, it is given as hiba (gift).
   b. Al-Wadiah and Mudharabah – alternative to Al-Wadiah savings where the bank is not supposed to give any returns, a hybrid of Al-Wadiah and Mudharabah (profit & loss sharing principle) deposit product was introduced. Under this principle, certain portion of the profits derived from the Mudharabah investment is shared with the depositors.
   c. Mudharabah – investor will be entitled for some profits based on agreed profit-sharing ratio pre-determined on placement of the funds.

3. General Investment Account: Is an investment account with pre-determined profit sharing ratio and maturity period. General investment deposits are contracted under the Mudharabah al Mutlaqa principle, in which the mudarib (active partner) must have absolute freedom in the
management of the investment of the subscribed capital. The conditions of this
account differ from those of the savings accounts by virtue of: a) a higher fixed minimum
amount, b) a longer duration of deposits, and c) most importantly, the depositor
may lose some of or all his funds in the event of the bank making losses.

4. Specific Investment Account: is a unique investment product
where depositors will be
advised on where the funds
will be invested, the minimum
amount that they can invest,
the projected returns and the
adherence risk that comes
with it. Generally, returns on
specific investment account
are very much higher,
however there are depositors
who are keen to place their
funds under this type of
deposits. Any losses from the
project shall be borne entirely
by the Investor(Rab-u-mal)
except where the loss is due to
negligence on the side of the
Bank(Mudarib) as such the
Bank will be liable.

TYPE OF DEPOSIT POOL
Restricted pool.(Mudaraba
Muqayyadah)

a. The pool of deposit with
specific restriction to a
particular project.

b. Deposits sourced from this
pool restrict investment
channel and risk/return profile.

c. Islamic Investment Funds are
generally raised from
restricted pool.

Unrestricted pool (Mudaraba
Mutalaqa)

a. The pool of deposit without
any specific condition of

investment in a particular
business activity is termed as
unrestricted pool.

b. In the case of unrestricted pool
Islamic Bank has full freedom
of decision making for
investment of pooled Funds in
any trade or mode of
Financing for mix income
profile.

c. Islamic Banks raise deposit in
common unrestricted pool.

Application of funds
The mudaraba and musharaka
modes, referred to earlier, are
supposedly the main conduits for
the outflow of funds from banks. In
practice, however, other
important methods are applied
by Islamic banks which include:

Murabaha (mark up). The most
commonly used mode of
financing seems to be the 'mark-
up' device. In a murabaha
transactions, the bank finances
the purchase of a good or assets
by buying it on behalf of its client
and adding a mark-up before
reselling it to the client on a 'cost-
plus' basis profit contract.

Bai’ muajjal (deferred payment).
Islamic banks have also been
resorting to purchase and resale of
properties on a deferred payment
basis. It is considered lawful in fiqh
(jurisprudence) to charge a higher
price for a good if payments are to
be made at a later date. According to fiqh this does not
amount to charging interest, since
it is not a lending transaction but a
trading one.

Bai’salam (prepaid purchase). This
method is really the opposite of the
murabaha. Here the bank
gives the commodity first, and
receives the money later. Thus, the
bank pays the money first and
receives the commodity later, and
is normally used to finance
agricultural products.

Istissanaa (manufacturing). This is
a contract to acquire goods on
behalf of a third party where the
price is paid to the manufacturer
in advance and the goods
produced and delivered at a later
date.

Ijara and ijara wa iqtina (leasing).
Under this mode, the banks buy
the equipment or machinery and
lease it out to their clients who may
opt to buy the items eventually, in
which case the monthly payments
will consist of two components, i.e.
rental for the use of the equipment
and instalment towards the
purchases price. Mostly used for
Auto and Machinery/Equipment
Financing.

Qard hasan (beneficence loans).
This is the zero return type of loan
that Allah (S.W.A) said in the Holy
Quran for Muslims to make
available to those who need
them. The borrower is obliged to
repay only the principal amount
of the loan.

Islamic securities. Islamic financial
institutions often maintain an
international Islamic equity
portfolio where the underlying
assets comprise ordinary shares in
well run businesses, the productive
activities of which exclude those
on the prohibited list (alcohol,
pork, armaments) and financial
service based on interest income.

CONCLUSION
The sources and application of
funds in Non-Interest Banking
discussed above provides
another alternative to
conventional system of banking of
offering product and services.
While it may be very wrong to
conclude that it is a better option,
the opportunity it present must be
fully explored especially in Nigeria
where the development along this
line has been relatively low with
hardly any significant growth.
OVERVIEW AND CONCEPTUAL ISSUES OF NON-INTEREST BANKING IN NIGERIA

INTRODUCTION

Non-Interest Banking is a banking business model that operates devoid of interest in lending, financing, deposit-taking and all forms of financial intermediation. The law that authorizes and regulates banking business in Nigeria, the Bank and Other Financial Institutions Act (BOFIA) does not mention a non-interest bank, but rather a profit and loss sharing bank, which it defines as: "a bank which transacts investment or commercial banking business and maintains profit and loss sharing accounts". The law however recognizes that profit and loss sharing banks transact their business devoid of interest and has by this token recognized non-interest banks. In section 23 (1) of BOFIA it states that: "every bank shall display at its offices its lending and deposit interest rates and shall render to the Bank information on such rates as may be specified, from time to time, by the Bank; provided that the provisions of this subsection shall not apply to profit and loss sharing banks". The exemption of profit and loss sharing banks from the provision requiring every bank to display its lending and deposit interest rates in its offices clearly denotes that such banks operate without interest.

Avoiding interest in business transactions is a phenomenon that is firmly entrenched in the Judeo-Christian Islamic tradition. In the Torah and Jewish Tradition, it says: “When you lend money to any of my people, to the poor among you, you shall not be to him as a creditor, nor shall you impose upon him any interest”. Exodus 22:24. In Ezekiel 18:8: it says: A righteous man...does not lend at usury or take interest”.

In the Halacha (Rabbinical law) Chapter 65:1 it says: "a person who lends money at interest violates six Torah prohibitions. He will not arise at the resurrection of the dead as [Ezekiel 18:13] states: “He gave [money] at interest and took an increase—shall he live? He shall not live”. A person who borrows at interest also violates three Torah prohibitions. The scribe [who writes the contract of loan], the witnesses to it, and the guarantor each violate one prohibition. Similarly, a broker and anyone else who helped arrange the loan – e.g. a person who informed the borrower of a potential lender or one who informed the lender of a potential borrower – also violate a prohibition”.

In the Gospels and Roman Catholic tradition, it says in Luke 6:35: But love your enemies, do good, and lend, hoping for nothing in return; and your reward will be great, and you will be sons of the Most High. St. Thomas Aquinas writes in his Summa Theologica: To take usury for money lent is unjust in itself, because this is to sell what does not exist, and this evidently leads to inequality which is contrary to justice... (Summa Theologica, II-II, question 78, article one). Canon 13 of the Second Lateran Council (1139 A.D.) reads: “Furthermore, we [Catholics] condemn that practice accounted as despicable and blameworthy by divine and human laws, denounced by Scripture in the old and new Testaments namely; the ferocious greed of usurers; and we sever them from every comfort of the church, forbidding any archbishop or bishop, or an abbot of any order whatever or anyone in clerical orders, to dare to receive usurers, unless they do so with extreme caution; but let them be held infamous throughout their whole lives and, unless they repent, be deprived of a Christian burial”. (N.P. Tanner, S.J. ed., Decrees of the Ecumenical Councils, vol. 1, p. 200).

In the Islamic Tradition, it says in the Qur’an: “O ye who believe fear Allah and give up what remains of interest if indeed you are believers. And if you do not, then be informed of a war from Allah and His Messenger. But if you repent then you shall have your capital amount, neither are you wronged nor do you do wrong unto others. And if the borrower be in difficulty then grant him respite to a time of ease”. Baqarah: 278-279. In the Hadith, the Prophet Muhammad, peace be on him cursed the one who devours interest, the one who pays it, the one who acts as a witness to the transaction, and the scribe who documents it.

Against the background of adherence to this common

1The Halacha, assessed at torah.org/learning/halacha/classes/class236.html
volatility, we find in modern times, to be precise within the past four decades, that adherents of the Islamic tradition have developed a banking business model that is interest-free and has embedded in its other ethical principles also common to the Judeo-Christian tradition. This non-interest banking model which is commonly referred to internationally as Islamic banking has achieved global presence within a short span of time (only four decades in comparison to the five centuries of conventional interest-based banking) and has indeed become mainstream and a recognized entity of the global financial landscape. Although based on a religious law, it is nevertheless, not a religious product or service, and we are witnessing its universal accessibility and its being enjoyed by people of diverse religious persuasions or ethical beliefs across the globe. Twenty percent (20.0 per cent) of the client base of the Gulf Africa Bank of Kenya is non-Muslim, while in Malaysia OCBC Al Amin Bank has reported that nearly 50% of its banking customers are non-Muslim.5

The industry is in assets, customer base, institutions and geographical spread. From the first Islamic bank that was established in 1975, there are by 2009 over 435 full-fledged Islamic banking institutions and over 181 Islamic windows of conventional banks.6 It has grown from Islamic banking and spread to Islamic Insurance (Takaful), Islamic wealth and asset management, Islamic leasing and factoring companies, Islamic capital markets and their players, and an array of financial architecture and infrastructure including payment/settlement systems, support facility providers, rating and external credit assessment institutions.

The global assets of the institutions offering it (conventionally referred as IIFS – institutions offering Islamic financial services) have hit the USD 1 trillion mark and is expected to reach USD 1.6 trillion by 2012.7

The Islamic banking sector is growing worldwide at a strong rate of 15.0%-20% over the past decade, and its asset and revenue growth averagely outperforms the conventional banking sector in several jurisdictions where a dual model operates. It has achieved wide geographic presence outside the Middle East and North Africa. It is offered in Europe in the UK (which is the 8th country in the world in terms of Islamic finance assets), Switzerland, Luxembourg, Germany and France. In Africa, there are Islamic banks in Kenya, Tanzania, Uganda, Botswana, South Africa, Mauritius, Senegal, Gambia, Mauritania, Benin, Niger etc. In Asia, outside the Muslim majority countries, it is offered in Singapore, Thailand, Hong Kong, Sri Lanka, Japan and South Korea. It is also offered in the US and Australia.

Major western international financial institutions have windows or subsidiaries of Islamic financial institutions. These include HSBC, Citigroup, Standard Chartered, Standard Bank Group, BNP Paribas, Deutsche Bank, Lloyds Banking Group, Tokyo Marine Insurance, Swiss Re etc. Western institutions are now offering degrees in Islamic finance, such as Harvard, Oxford, University of Reading, Durham University, Loughborough University, Luxembourg University; and courses in Islamic finance are being offered by the Chartered Institute for Securities and Investment (CISI). Islamic investment portfolios are tracked by major index providers including the Dow Jones, NASDAQ, Hang Seng, FTSE.

The big four professional services firms – PricewaterhouseCoopers, KPMG, Ernst & Young, Deloitte – have each established an Islamic Finance division providing specialist services in this area. International standards have been set for its regulation, and international standard setting organizations for Islamic finance have been formed. These include: the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), the Islamic Financial Services Board (IFSB) and the International Islamic Financial Market (IIFM). The IFSB has membership of 191 organizations comprising 54 regulatory and supervisory authorities, 7 intergovernmental organizations including the IMF, the World Bank and BIS, and 130 market players and professional firms operating in 43 jurisdictions. Member organizations from Africa besides the CBN include central banks of Sudan, Egypt, Djibouti, Mauritius and Zambia, and the Ministry of Economy and Finances of Senegal.

2.0 The Approach to the Introduction of Non-Interest Banking in Nigeria

The approach to the introduction of non-interest financial services in Nigeria is anchored on the need to provide alternative and complement the financial services to the financial service sector of the economy. This is informed by a number of considerations, which can be summed up as follows:

- The deepening and broadening of the financial markets through the introduction of new market players, products, services and instruments and the whole array of supporting financial infrastructure that comes along with these new operators and instruments.
- The diversification of the sources of funds and

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5 The Banker, November 2009 issue.
6 Ibid.
7 Global Islamic Finance Forum, quoting IFSB.
investment outlets for both the private and public sectors. It is now common practice in most financial centres to have multiple tranches of conventional and alternative modes of finance structured for project finance, and many conventional bond investors invest heavily in alternative finance instruments in order to diversify their investment portfolios.

- Developing a more inclusive financial system in the country. A primary determinant of the soundness of a financial system and its stability is the public trust and confidence in its institutions and markets, and this could best be achieved through financial inclusion of the major segment of the economically active sector of the society. Non-interest finance as an alternative financial service and product will play a great role in terms of financial inclusion by bringing a large segment of the hitherto unbanked and under-banked segments of the society into the mainstream organised and formal financial system. Currently, only 30% of the adult population of Nigeria has a bank account. Nigeria lags behind countries like Kenya, Botswana and obviously South Africa in terms of access to financial services. Among the negative effects of financial exclusion are: instability of the financial system, increased cost of doing business, reduced economic growth, higher incidence of crime, increased unemployment, higher cost of capital, loss of access to higher and medium income consumers by small and medium enterprises (SMEs) and social exclusion.

- The vision to engineer Nigeria’s evolution into Africa’s major International Financial Centre (IFC) and enable Nigeria’s transformation into one of the 20 largest economies in the world by 2020, is the Financial System Strategy (FSS) 2020. No country that hopes to become an international financial centre can afford to be oblivious to a new financial landscape that has already become mainstream and an intrinsic element of the global financial landscape.

The introduction of non-interest financial services in Nigeria is not limited to banking services alone. In the insurance sub-sector some companies are offering an alternative insurance product based on Islamic principles, which is called Takaful. African Alliance Insurance Plc started as early as 2003, followed by Cornerstone Insurance Plc, which has a division called Halal Takaful Nigeria, and the third is Niger Insurance Plc.

In the Capital Market sub-sector, the Securities and Exchange Commission (SEC) has issued guidelines on Islamic Fund Management and has earlier registered Lotus Capital as a capital market operator offering fund management under principles of Islamic commercial jurisprudence.

The Federal Government joined the Islamic Development Bank Group (IDB) in 2005 to avail the country of alternative sources of funding especially for infrastructure development, an area where we are having a lot of deficit in terms of financing (estimated infrastructure financing is US$12-14 billion annually).

This brings us to the next section: the potential impact of this type of banking and finance to our economy.

3.0 Potential Impact of Non-Interest Islamic Financial Services on the Nigerian Economy

This can be summed up as follows:

- Financial market deepening: new market and institutional players will be introduced e.g. Islamic Money Market, Islamic asset management companies, Takaful, training institutes, specialized service firms etc.

- Financial Inclusion: a large number of the population in the country that had hitherto steered away from the organised conventional financial services due to their aversion to interest and interest-based products will be integrated in the formal economic sector, which in turn lead to replacement of informal markets with formal and regulated ones.

- Enhanced product offering from an array of asset-backed instruments of finance as alternatives and complements to the conventional ones.

- New competition in the banking industry which is expected to engender a concomitant reduction of interest rates.

- Enhanced oversight and regulation through an added component of corporate governance, which is the supervisory board/committee of experts in Islamic jurisprudence.

- Enhanced investment in the critical sectors of the economy through the use of Sukuk, a new financing instrument.

- Development of the real sector of the economy through its

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4This is according to a survey on Access to Financial Services by EFInA (Enhancing Financial Innovation and Access) in 2010. Details of the survey available at www.efina.org
asset-backed financing which will avail funds only to production and real investment activities.

- Attracting foreign direct investment (FDI) especially from the Middle East and South East Asia where a lot of investors have funds waiting to be invested in Shariah-compliant financial products as is evidenced by the exponential growth in international Sukuk, which are Islamic investment certificates that share some of the characteristics of conventional bonds. This is true especially with the current crisis in the Euro zone and the flight from the US dollar and the increasing interest in emerging market economies.

- The risk-sharing principle of Islamic banking makes Islamic banks better positioned to withstand adverse market or credit shocks as the banks are able to pass on losses to investors and vice-versa. This has been shown to be the case in an IMF latest regional economic outlook for the Middle East, which compared the performance of Islamic banks in the Gulf Cooperation Council (GCC) with conventional ones during the global financial crisis.  

All these are based on observations on what obtained in other jurisdictions after the introduction of this type of financial service.

4. Some Conceptual Issues

As is the case with every new phenomenon a lot of conceptual issues becloud non-interest (Islamic) banking that call for continuous enlightenment and education. I will highlight a few of the commonly held misperceptions regarding non-interest (Islamic) banking and its introduction in Nigeria and attempt to correct them.

1. Introducing Islamic banking goes against Nigeria’s secularity. It will not go into the debate of whether Nigeria is a secular or multi-religious nation. I will only point out that countries with constitutions that are indisputably secular do not regard introducing Islamic banking as negating their secularity. This includes countries like the UK and France. Secular countries all over the world do permit kosher and halal restaurants, as well as Muslim slaughterhouses to cater for the livestock needs of their Muslim citizenry, and this has in no way been seen to impinge on the secularity of such nations. There is no law that compels anyone to eat from a kosher or halal restaurant or buy from a halal butchery. But adherents and non-adherents alike patronize these outlets and if adherents were denied setting up what will cater for their genuine basic needs in a way that conforms to the dictates of their faith that is when the state is failing in its secular and constitutional duty of safeguarding individual rights and freedoms. This is exactly similar to the case of Islamic banking. It is a product that caters for the basic economic needs of a section of the society in a way that conforms to the dictates of their faith without impinging in any way on the rights of others or discriminating against them.

2. Islamic banking is discriminatory and thus unconstitutional despite the fact that the guidelines issued by the Central Bank for its regulation clearly prohibits and sanctions acts of discrimination by any institution offering non-interest (Islamic) banking services. It is claimed that when a pig farmer approaches an Islamic bank for a financing facility to develop his piggyery, the Islamic bank will obviously deny him such a facility on the basis of the fact that it does not do that line of business according to its operating model. When it does that it is discriminating against him and denying him the right granted him by the Constitution of equal status and opportunity in pursuing his maximum welfare, freedom and happiness (sec 16 (1)(b)). We cannot deny that when a grocer decides not to sell cigarettes or liquor in his grocery store no court can condemn him of discriminating against sections of the society. The opposite is actually the case. That is when the financial system denies a section of the society from assessing basic financial services like obtaining home financing to fulfill basic housing needs except through doing what goes against the tenet of their faith, without having given them any alternative that will fulfill that basic need in a way that conforms to the dictates of their faith. They are certainly the ones that are discriminated against by the financial system and denied equal status and opportunity; not the pig farmer who has the alternative of getting a financing facility for his piggyery from a conventional financial institution.

iii. The Central Bank should introduce a model of non-interest banking that is general and not religion-specific. The answer to this is: does this model exist anywhere in the world? Islamic banking is not limited to observing the prohibition against dealing with interest alone. There are other prohibitions that are

See IMF direct, the IMF Blog at: blog-imfdirect.imf.org/2009/10/14/Islamic-banking/
specific to Islamic banking, like the prohibition of excessive speculation which underlies the rejection of dealing in derivative financial instruments by Islamic banks, and the prohibition to deal in commodities that are regarded as non-permissible in Islamic commercial jurisprudence like dealing in pork, liquor, casinos, pornography etc. The asset and liability structure of Islamic banks and the risk profiles of Islamic banking products are also specific, which makes them have a peculiar balance sheet structure and specific risk management processes and techniques. All these call for a specific approach to the regulation of this banking model. It is important to state that Islamic banking was not a creation of the Central Bank of Nigeria (CBN). We have seen how it is a global industry with international regulatory standards. The CBN was responsive to demands from promoters for Islamic banking, which date back to the earlier 1990s immediately after the enactment of the Banking and Other Financial Institutions Decree in 1991. All the applications were for Islamic banking. Other models of non-interest banking if they exist (because I only know of the JAK members’ bank of Sweden, which is a not-for-profit co-operative society that offers its members interest-free loans) do not enjoy this international acceptance and global standards of regulation. If the Central Bank were to introduce a non-interest banking model that is new and specific to the Nigerian financial system and invite promoters to come and establish it, there will be a moral hazard in the event of its failure, and certainly foreign investors will be wary of putting their funds in such an enterprise.

iv. The CBN is seen to be promoting Islamic banking, and this should not be the case. The CBN is certainly a regulator not a promoter of any banking business. Its core mandate is ensuring monetary stability and promoting a sound financial system in Nigeria. This places upon it the burden of public enlightenment to establish and maintain public confidence in the institutions that make up Nigeria’s financial system. Public enlightenment is sometimes wrongly misconstrued as advocacy. Despite the fact that the potentials of non-interest banking to our national economic development is recognized and has been incorporated as part of our national planning policy initiatives (by this I mean the Vision 20: 2020), the CBN is nevertheless not making any advocacy for Islamic banking. That is something for the operators to do.

v. The CBN is looking at countries like Malaysia and Bahrain as models for its non-interest (Islamic) banking model instead of countries like the UK that are thoroughly secular countries like Nigeria. When the CBN is preparing a regulatory framework for a model of banking activity or product, it looks up to those jurisdictions where such a model or product is most developed. For instance, when the microfinance banking activity was to be introduced we looked up to Bangladesh where this model has registered significant success, to learn from them and see what they have done and how they reached where they were. When we were looking at mobile payments system we looked up to Kenya where this system is internationally acclaimed as registering tremendous success. In the same vein, we looked up to Malaysia and Bahrain because Islamic banking is most developed in these two jurisdictions and both of them are generally regarded as international hubs of Islamic finance. They offer a wealth of knowledge and experience for us to learn and adapt to our own peculiar local condition. Besides the CBN has leveraged a lot on international standards set by international standard setting organizations like the IFSB and AAOIFI in formulating its guidelines. It has also learnt from the UK experience. Just as the UK made regulations regarding Islamic finance without mentioning the Islamic finance products by name, Arabic terms that are conventionally used in Islamic finance like Murabahah, Mudarabah etc have been expunged from the recent guidelines in response to the sensitivities of our polity.

5.0 Conclusion

I have attempted to give an overview of non-interest banking and its introduction in Nigeria and highlight some conceptual issues regarding the phenomenon with corresponding responses to them. A lot of public enlightenment and education needs to be done and maintained in introducing any innovative product or business model in the financial system. Non-Interest (Islamic) Banking is no exception especially bearing in mind the sensitivities that matters having religious affiliations in our society. But discourse especially dispassionate one, which such a forum provides especially with such a crop of public opinion shapers, will go a long way in dispelling apprehensions, fears and mistrust.
THE LEGAL AND REGULATORY FRAMEWORK FOR NON-INTEREST BANKING IN NIGERIA

A. ATTA

INTRODUCTION

Non-Interest banking is a form of banking that does not allow for the payment or receipt of interest on loans, monetary instruments or in any financial transactions. It has its origins in many world traditions and religions such as Judaism, Christianity and Islam. The scriptures of these three Abrahamic traditions, all perceive “interest-based” transactions as potentially exploitative and oppressive to individuals and the society as a whole. Other faith traditions such as Buddhism, Hinduism and Taoism also have provisions which govern financial transactions. Ancient western philosophers such as Plato and Socrates, also condemned the charging of interest.

It may be a surprise to some to learn that Adam Smith, despite his image as the founder of the free-market capitalism and his general support of laissez-fair economics, was strongly in favour of controlling the charging of interest. He felt that imposing an interest rate ceiling would ensure that borrowers that were likely to engage in socially beneficial investments would not be deprived of funds as a result of funds being lent to investors in high risk speculative activities, who would be willing to provide an unregulated high risk interest rate. The twentieth century economist John Maynard Keynes held a similar position.

Historically, the term “usury” was coined by the Christian church and used to describe the charging of interest at any rate, which was at the time condemned. These days, there is less reference to the term “usury” and more reference to “Non-Interest banking” or “alternative finance arrangements”. These are terms used by the financial authorities in secular states in order to ensure that the legislation promotes religious neutrality and creates a level playing field for all to participate in the financial markets in line with their ethics and beliefs. This was evident in the manner in which the UK Government facilitated Islamic finance in the UK by making changes to the Finance Act. They maintained religious neutrality in the legislation and created the umbrella term “alternative finance arrangements”, to cater for alternative finance arrangements that met certain criteria. The amendments largely dealt with tax neutrality to create a level playing field in taxation for equivalent products. The interest of the UK Government was also kindled by the need to ‘give the UK relatively large muslim community (about 3% of the populace) access to financial services consistent with their religious belief’. The UK was also emerging as a global “hub” for Islamic Finance.

The Central Bank of Nigeria seeks to mirror this approach by issuing new guidelines for Non-Interest Banking, which enables all members of the public to participate in this alternative form of banking.

In modern day banking, Non-Interest banking is most commonly seen in global Islamic finance transactions. Islamic banking services are offered by participants in the industry that come from a range of religious and secular backgrounds. As a result of the close ties between Non-Interest banking and Islamic finance, in describing the modern history and current practice of Non-Interest banking, I will refer predominantly to Islamic finance where relevant in order to exemplify the current practice and development of Non-Interest banking with real examples.

Non-Interest banking is one of the aspects of Islamic finance. Islamic finance distinguishes itself from conventional finance through its compliance with the principles of Islamic commercial jurisprudence. Islamic finance employs techniques that seek to promote ethical and socially responsible investment while providing an alternative to interest-based finance. The main tenets of Islamic commercial jurisprudence are:

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Footnotes:

8 Exodus 22:34
9 Leviticus 25:35-37; Deuteronomy 23: 19 – 20; Psalms 15
10 Quran 2:275, 278 - 279
11 Jadlow 1977; Levy 1987
12 Smith, 1937: 339
13 The General Theory of Employment, Interest and Money; Keynes (1936, 351-3)
14 FSA Paper November 2007, Islamic Finance in the UK: Regulation and Challenges
prohibit interest payments on monetary loans or securities, speculation, uncertainty in certain contractual terms and engaging in anti-social business activities. Some of the main financing techniques include cost-plus financing (murabaha), financing based on the leasing of an asset (ijarā), production/construction financing (istisnā‘a), equity investment (musharakah) and investment certificates (sukuk).

Islamic finance encourages investment in business, which encourages trade, employment and profit. Due to the profit and loss sharing aspects of some Islamic finance techniques, it can also enable poor entrepreneurs to gain access to funding to set up their own businesses, without providing the necessary collateral that may be requested in the conventional banking market.

Another aspect of Islamic financing is that it encourages transparency in transactions. The details of what the purchaser is buying, the product and the nature of the transaction need to be made clear. There is no doubt that in comparison with many approaches to banking, it is more aligned with the macro-economic objectives of most developing countries, namely: job creation, wealth creation and poverty reduction.

In March 2009, The Vatican said banks should look at the rules of Islamic finance to restore confidence amongst their clients at a time of global economic crisis. The Vatican official newspaper Osservatore Romane wrote, “The ethical principles on which Islamic finance is based may bring banks closer to their clients and to the true spirit which should mark every financial service.”

2.0 THE GLOBAL DEVELOPMENT OF NON-INTEREST BANKING

Due to the fact that Non-Interest banking is a key aspect of Islamic banking, in charting its global development in this section, reference will be made mostly to Islamic banking or Islamic finance. This is because in recent years, the growth of Non-Interest banking has been inextricably linked to the growth of Islamic finance.

Non-Interest banking, as a part of Islamic banking is the fastest growing market in ethical finance with an annual average growth of some 10 to 20 per cent. Current global Islamic finance assets stand at approximately (US$800 billion) and are estimated by practitioners in the Islamic finance industry to rise to US$4trillion by 2015. It is estimated that one-third of the capital financing in the Gulf is compliant with the principles of Islamic commercial jurisprudence.

It is generally agreed that modern Islamic finance started in Egypt in 1963 with the Mit Ghamr savings project, a social banking initiative. This was followed in 1975 by the establishment of both the Islamic Development Bank and the Dubai Islamic Bank. The industry developed through the 1980’s and 1990’s as the demand for such investments began to grow.

In 2002, the Islamic Financial Services Board was established in Malaysia to enhance the stability of the industry by issuing standards. In 2004 we saw the issuance of an Islamic bond by Saxony-Anhalt in Germany. In 2005, the first Islamic property fund was launched by Shamil Bank in China. In 2006, the Japan Bank for International Cooperation established a Shariah Advisory Group. In 2006 we saw the launch of the Dow Jones Islamic Market Index and in 2010, the first Islamic bond issued by Kuveyt Turk in Turkey.

The experience in Malaysia and several countries has shown that Islamic finance is open for all who are interested in ethical and socially responsible investment and savings and not just for Muslims. Many of the clients of Malaysian Islamic banks are non-Muslim Chinese, who have found these products competitive and ethical alternatives.

The recent growth of the Islamic finance industry can be attributed to a number of factors. Excess liquidity in the Middle East over the last few years resulted in an increased demand for both conventional and Islamic products. This demand passed through to the international markets and jurisdictions that had amenable accounting, financial and legal capabilities, became beneficiaries of this liquidity. Another consequence of the increased global demand was that the international financial institutions that had a presence in the Middle East and South East Asia began developing their Islamic financial services to cater for the industry. The repatriation of funds from the USA, predominantly due to legislation like the Patriot Act in the wake of 9/11, resulted in more investment in other international finance hubs such as London.

The UK example

The UK Government has been at the forefront of facilitating Islamic finance in Europe and a great deal can be learned from the approach taken by the administration in developing a legal and regulatory framework for Non-Interest banking. Along with the Financial Services Authority (FSA), the UK Government realized the need for a regulatory framework based on the notion that no one should be denied access to competitively priced financial products on account of their faith. Shariah compliant institutions and products were offered a level playing field by being regulated to the same standard and being conferred a similar degree of consumer protection.

A number of changes have been made to the UK Finance Acts to
ensure that Islamic Finance is on a level playing field with conventional finance. The UK has now reached a point where it is possible to do transactions compliant with Islamic commercial jurisprudence in the UK without being adversely burdened by tax.

The UK administration sought to establish London as Europe’s gateway to international Islamic finance. The former Exchequer to the Treasury, Sarah McCarthy-Fry, said that in these difficult times for international financial markets, “new opportunities for growth and development become increasingly important. The Islamic finance market presents huge long-term opportunities for London and the UK.”

The FSA has, to date, authorised six wholly Islamic banks and one Islamic hedge fund manager. According to a recent industry survey, the UK has over £18 billion worth of Shariah-compliant assets, the eighth largest amount in the world. To date, there have been 18 Islamic bonds (Sukuk) listed in London and admitted to trading on the London Stock Exchange.

The UK Government has now removed all tax barriers to a UK corporate issuing Ijara-based Sukuk. This approach will enable UK corporates to draw on alternative funds. In 2010 we saw the issuance of the first corporate Sukuk out of the UK by International Innovative Technologies (IIT). The deal was awarded European Deal of the Year at the Islamic Finance News Awards 2010. Dubai-based Millenium Private Equity are the ultimate financiers of the transaction and raised financing using a Musharaka structure for the Sukuk. IIT is a technology development company based in Newcastle, England.

There have been a number of other landmark transactions in the UK over the last few years which demonstrate the UK’s openness to Islamic financing. The fact that Islamic financing can coexist with Western finance has resulted in a number of Western and Islamic corporations raising capital to finance acquisitions using Islamic finance techniques. British luxury car maker, Aston Martin, for example, was acquired in 2007 for $295 million by a consortium including Kuwait’s Investment Dar which invests according to Islamic principles.

Another example is the “Shard of Glass” development, one of London’s most high profile skyscraper projects that is being financed by a Qatari consortium that also invests according to Islamic principles. There has also been the PCFC – Pre IPO Convertible Sukuk. The transaction was used to partially fund Dubai Ports acquisition of P&O.

The financing of the redevelopment of Chelsea Barracks, one of the most prestigious residential development sites in London, was also underwritten by an Islamic financing arrangement that involved a consortium led by a Qatari investment fund.

As European economies come to terms with the effects of the economic crisis, Islamic finance is attracting greater attention. The French Government has expressed its support for Islamic finance by introducing tax changes and introducing a concept of trust law into its existing civil law system, with the promise of a Sukuk issue in the near future. Issuers of investment debt instruments in Germany, Luxembourg and Italy are also actively pursuing Islamic finance opportunities, while Hong Kong, Sri Lanka and Singapore are actively vying to become the Asian hub for Islamic finance. South Africa and Kenya are also rapidly developing their Islamic finance capabilities. Recent defaults in the Islamic finance industry have shown that the Gulf is no stranger to the liquidity issues that the West has suffered. Central banks have actively intervened to encourage inter-bank lending. Nevertheless, bankers in the energy rich countries of the Gulf, maintain a positive outlook with regard to industry’s long-term prospects.

3.0 WHY WOULD NON-INTEREST BANKING BE BENEFICIAL FOR NIGERIA?

Nigeria is a secular and pluralistic country with approximately 150 million people. It is the most populous country in Africa and accounts for over half of the population in West Africa. It is an emerging market with huge natural and human resources.

Nigeria recognises the need to develop its infrastructure and regulatory environment. The country has many possibilities for carefully targeted investment and a great potential to expand as both a regional and international market player. There is a growing consensus in the country that foreign investment is essential to realising Nigeria’s vast potential and development requirements. Companies interested in joint ventures and long-term investments, will find opportunities in the large national market. However, to improve prospects for success, it is essential for the government to create a more secure environment as well as ensure that the necessary legislative and regulatory framework is in place in order to attract foreign investment.

Over the last few years, trade between African nations and the world’s fastest growing economies has increased significantly. There has been a huge increase in trade with the Gulf Cooperation Council from investors looking to diversify their investments and a significant increase in trade with China and India. Strengthening our global trade ties, combined with the need to finance large-scale...
infrastructure and manufacturing projects, as well as a large unbanked population provides Nigeria with a solid platform to develop and facilitate Non-Interest banking in Nigeria and collaborate with global participants in developing the Non-Interest banking market in Africa.

There is a great deal of potential for Non-Interest microfinancing, trade and project financing and capital market transactions, both domestically and internationally. The banks in Nigeria, authorised to engage in Non-Interest banking, would structure these products for Nigerian and international consumers using a combination of Non-Interest based contracts. These contracts define the kind of structures that underpin specific products. Different products may use the same contracts and some products are comprised of a combination of contracts. The main contracts that would be used for transactions would be:

1. Profit sharing agreements: in which two parties collaborate on a project. One party provides the investment and the other party provides the expertise. The profits of the joint venture are shared between the two parties as previously agreed in the contract;

2. Joint venture agreements: in which an investor and an entrepreneur agree to collaborate on a project, and both contributing the agreed capital. The contract will also set out the terms for sharing the profits and losses;

3. Declining balance partnerships: are a variation of the joint venture agreements. It is usually used for property transactions, in which the ownership of the asset is divided into units which one party buys from the other over time. The purchasing party gradually increases their share until full ownership of the asset is transferred to them;

4. Leasing contracts: in which the owner of an asset (the lessor) leases an asset to a lessee, who pays a pre-determined rental to the lessor for the use of the asset. An example of this is that a bank buys machinery and leases it to a customer. All terms are agreed at the start. There can also be an option to buy the asset in some of these contracts;

5. Purchase and resale contracts: in which a bank, for example, purchases an asset identified by a second party with the intention of immediately reselling it to the second party for payment of a pre-arranged higher sum as a set date in the future. Payment can be made in instalments;

6. Investment Certificates: these are investment certificates which are economically equivalent to bonds. They differ from bonds, in that they are not debt-based instruments that pay interest. These certificates are asset-backed or asset-based instruments and represent the actual or beneficial ownership of the asset. Such investment certificates may be issued by governments or private companies; and

7. Insurance: this is a mutual insurance arrangement. A group of individuals pay money into a fund. This fund is then used to cover payouts to members of the group once a claim is made. The money in the fund is usually invested in Non-Interest bearing and ethically profitable ventures, in order to generate profit for the fund.

It would be to the advantage of Nigerian to focus on the products that the Non-Interest banking industry has to offer and determine what the impact could be on the economy. Nigeria is strategically positioned to work with various partners in all sectors of the Nigerian economy, especially in developing infrastructure, electricity, real estate and housing sector, agriculture and oil & gas. Facilitating the regulatory and legislative framework for Non-Interest banking in Nigeria would enhance Nigeria’s competitiveness in financial services by establishing Nigeria as a regional hub for international Non-Interest banking in Africa. It would also ensure that all citizens, irrespective of their religious beliefs have access to competitively priced financial products.

4.0 THE CURRENT LEGAL AND REGULATORY FRAMEWORK AND SUGGESTIONS

Non-Interest banking is an increasingly important part of business globally. The Nigerian Government policy has in recent years recognized this, and measures have been taken to promote and facilitate Nigeria as a hub for Non-Interest banking in Africa. On 21st June 2011, the CBN launched new guidelines for the regulation and supervision of institutions offering Non-Interest financial services in Nigeria. This is in exercise of its statutory object of promising a sound financial system in Nigeria and pursuant to its power under Sections 2(d), 33(1) of the CBN Act, 2007 and Section 57 of the Banks and Other Financial Institutions Act (BOFIA), 1991. These guidelines are issued pursuant to the Non-Interest banking regime.

The latest guidelines issued on 21 June have been issued following the review of the earlier guidelines issued based on the
recommendations of various stakeholders. The new guidelines clarify the definition of Non-Interest banking which is comprised of Islamic banking and other forms of Non-Interest banking not based on Islamic commercial jurisprudence. This is in accordance with the provisions of BOFIA which permits the two types of Non-Interest banking. This ensures that discrimination on any grounds with regard to participants in any transaction regarding a Non-Interest financial institution, is strictly prohibited.

The new guidelines provide for an Advisory Council of Experts whose responsibility is to advise the CBN on the appropriateness of relevant financial products to be offered by the institutions from an ethical perspective.

Section 23 (1) and section 66 of the BOFIA 1991, (as amended), tacitly recognize the licensing of Non-Interest Banks (NIBs). The CBN is obliged, by law, to issue licenses to, and regulate appropriate entities for the establishment of banks and other financial institutions including NIBs provided they meet the regulatory requirements for licenses1. In view of this, the CBN is open to receiving and evaluating applications for licensing of Non-Interest banking institutions based on other principles rather than the Islamic variant and will soon issue separate guidelines for Non-Interest banking under other principles.

The CBN gave a provisional license to Jaiz International Bank in June 2011 to establish a bank that would operate entirely under Non-Interest principles but also under the provisions of the BOFIA. The promoters of Jaiz International Bank have six months to fulfill these requirements which deal largely with capital adequacy requirements and of management that pass the “fit and proper” test, apart from the business plan of the bank. Indeed, the bank has since commenced operations.

Investors, whether from any religious denomination or not have a right to acquire an equity stake in any of the banks that are licensed under the Non-Interest banking guidelines. Nigerians of all faith traditions can open accounts with any of the banks licensed under the Non-Interest Banking guidelines, and can attend annual general meetings if they are shareholders or investors.

The initiative by the Nigerian regulators will certainly put Nigeria on track for becoming a hub for Non-Interest banking in Africa and help to develop the economy. The CBN is not alone in this. In its own effort to regulate Islamic finance in Nigeria, the Securities and Exchange Commission (SEC), on January 27, 2011, pursuant to Section 313(6) of the Investments and Securities Act (ISA), 2007 made the Rules on Islamic Fund Management. The Rules set out the comprehensive requirements for “carrying on Islamic fund management either as an Islamic window or as an Islamic fund manager that entirely (sic) carries on Islamic fund management.” The Rules also includes provisions for Shariah Advisory Council and Shariah Supervisory Board.

Suggested Government led-initiatives

In order to investigate the obstacles facing the development of Non-Interest banking products, it would make sense for a working group to be established by the CBN, which includes the Ministry of Finance, the Federal Inland Revenue Service and stakeholders in the industry. This will facilitate the introduction of tax and regulatory changes to enable Nigerian companies to offer a wide range of Non-Interest banking products.

An Alternative Finance committee has already been established, which is comprised of the CBN, Securities and Exchange Commission, the Debt Management Office and other participants in the industry to discuss how to develop alternative finance methods for infrastructure development in Nigeria.

The Nigeria Chamber of Commerce and Industry should also set up a sub-group to produce a strategy for the promotion of Nigeria as global partner for the provision of Non-Interest banking services.

A Non-Interest banking Experts Group should also be established in order to liaise and advise these institutions on various issues. The Government should also set out its strategy to spread awareness about the growth of Non-Interest banking in Nigeria and highlight the barriers to future development.

Suggested legislative developments

Initial Steps

Amendments may need to be made to the relevant financial legislation, which cater for Non-Interest banking arrangements, in the area of stamp duty for example. In order to develop products that enable individuals to use Non-Interest banking property arrangements, such individuals should not be required to pay a double charge to stamp duty, due to the nature of the financial structure. Such provision should also apply to property transactions that involve equity sharing arrangements.

Borrowing arrangements

The legislation will also need to clarify how it will treat cost plus sales and how it will be referred to in the

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1Sections 3 & 31, BOFIA
legislation. Often, cost plus sales can be referred to as purchase and resale arrangements. It is important for there to be clarity as to whether the arrangement is to be treated as a loan for tax purposes. The legislation will also need to consider how shared ownership is to be treated, when it comes to borrowing arrangements.

Deposit arrangements

Deposit arrangements can be introduced through partnership financing. This can sometimes be referred to as a profit share return and can be taxed as if it were interest rather than treating it as a distribution. Profit share agency (in which the agent manages the sum of money being invested and the return from the investment) can also be treated in the same way.

Investment bonds

The legislators will need to consider the way in which Non-Interest banking investment bonds are treated from a tax perspective. Stamp duty, capital gains tax and capital allowances with need to be reviewed. Any stamp duty exemptions may need to be reviewed in light of whether the individual certificate holder gets control of the issuing vehicles assets by virtue of the certificate holding.

5.0 WHAT ELSE NEEDS TO BE DONE IN ORDER TO MOVE FORWARD?

The new guidelines indicate that the Nigerian regulatory authorities believe that the growth of Non-Interest banking in Nigeria is beneficial to all Nigerian citizens. From a retail perspective, all consumers gain a wider choice of retail financial services, as well as those consumers whose religious beliefs previously prevented them from accessing conventional finance. From a wholesale perspective, the entire country can benefit from Nigeria’s success as the leading African centre for Non-Interest banking.

In order for Non-Interest banking to expand, it is critical that more consumers and investors are made aware of the products available and understand them. Non-Interest banking in Nigeria does face particular challenges in this area, due to the skepticism that has surrounded the introduction of the Non-Interest banking guidelines thus far. It is a country with a diverse ethno-religious set-up and the framework should to the greatest extent possible promote classification that reminds all consumers that they can participate in this alternative form of banking.

Raising Awareness

The Non-Interest banking sector in Nigeria needs to give consumers confidence about the authenticity of the products and the manner in which they are regulated. The sector will also need to raise the profile of Nigeria as an international centre for Non-Interest banking in Africa.

The CBN, financial institutions and training centres should adopt the following approach to raising levels of awareness about Non-Interest banking:

- increasing awareness about financial capability and inclusion, in which the availability of a Non-Interest banking provides an additional choice for consumers;
- ensuring that Non-Interest banking is regulated to the same high standards as conventional finance. This will increase consumer confidence with regard to the safeguards in the industry; and
- ensuring that Non-Interest banking consumers are provided with the same level of advice and transparency given to conventional finance consumers, so they can be well-informed when engaging Non-Interest banking services.

The international Non-Interest banking industry has been the key driver behind the progress that has been made so far on raising awareness. There have been numerous initiatives including the production of bank-specific material, seminars and conferences.

Support from the Ministry of Finance

In terms of specifically raising awareness of Non-Interest banking, members of the Ministry of Finance should attend a variety of Non-Interest banking events, in order to have a dialogue with the industry participants.

Support from the Chamber of Commerce and Industry

The Nigerian Ministry of Commerce and Industry, should work to promote the strategy for the promotion of Nigeria as a Non-Interest banking hub for Africa. Utilising overseas staff, they should hold events across the globe. They should also seek to be involved in Non-Interest banking events globally.

Catering for the unbanked population

A large percentage of Nigeria’s population remains unbanked. Non-Interest banks need to collaborate with conventional banks in order to take banking services closer to the customer. Community leaders need to be involved in order to disseminate information of options for personal finance. Increasing knowledge amongst community leaders is a valuable step in reaching the wider community.
Dialoguing with the media

There has been little mainstream objective media interest in Non-Interest banking. Greater involvement with Non-Interest banking amongst journalists would support industry efforts to raise awareness more widely.

Information on Non-Interest Banking products

The CBN should produce guidance on retail products that are available for consumers.

The Ministry of Finance and Local Government Councils

The Ministry of Finance and Local Government Councils should create programs that reach out to communities across Nigeria, and ensure that information on Non-Interest banking reaches a wider audience.

Skills

A steady flow of suitably qualified people is critical to the development of the Non-Interest banking industry. This is a relatively new sector in Nigeria that requires specialist training. General training will need to be developed in order to have skilled practitioners in this field, as well as training for those who advise on the structuring and audit of the products.

The reality is that Non-Interest banking industry is developing worldwide. The new CBN Non-Interest banking guidelines enable Nigeria to be an active part of this growing landscape. With education and awareness, comprehensive regulations, increased transparency, an increasing domestic and global investor base and an objective, non-political perspective of the Non-Interest banking sector, Non-Interest banking in Nigeria has the real potential to support the economic growth of the country.
THE ROLE OF NON-INTEREST BANKING IN NATIONAL ECONOMIC DEVELOPMENT

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. Bencincvega 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

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.

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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

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)\[1\]. 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, Keynesian 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

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\[1\] 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 population 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...
conducted 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
3.2 Non-Interest Bank (NIB) and Development

3.2.1 Non-Interest Bank (NIB): A non-interest banking service on a “window basis” but actually licensed in 1992 to offer non-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.

3.2.2 Non-Interest Bank (NIB) and Financial Stability

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 has few exploitative institutions, thus, the existence of NIBs would provide additional financial option through its numerous financial instruments. EFlnA 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

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 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,
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 comparison with the conventional banking system, where the borrowers bear both the human and financial loss, and thus, have their 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 potential 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.
REFERENCES


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Sanusi, LS. (2010) Global Financial Crisis and Islamic Banking, a Key note address delivered at the International Conference on Global Financial Crisis and Islamic Banking as a Credible Alternative, held at Crescent University, Abeokuta, Nigeria between Islamic Banking.


### APPENDIX:
**Table 2: WORLD INTEREST RATE AT A GLANCE**

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

*Source: Google July, 2011*
<table>
<thead>
<tr>
<th>S/N</th>
<th>Potential Beneficiary</th>
<th>Term</th>
<th>Meaning</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Households and Firms</td>
<td>Musharakah</td>
<td>A partnership contract between two or more parties each contributing capital. Any profit or loss is shared according to agreed ratio.</td>
</tr>
<tr>
<td>2</td>
<td>Households and Firms</td>
<td>Mudharabah</td>
<td>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.</td>
</tr>
<tr>
<td>3</td>
<td>Household Empowerment</td>
<td>Murabahah</td>
<td>A sale contract involving the bank selling an asset to a customer at a cost plus margin.</td>
</tr>
<tr>
<td>4</td>
<td>Firm/Industrial sector</td>
<td>Ijara</td>
<td>Sale and lease-back of asset, generally for long term financing</td>
</tr>
<tr>
<td>5</td>
<td>Firm/Industrial sector</td>
<td>Istisna</td>
<td>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</td>
</tr>
<tr>
<td>6</td>
<td>Firm/Agricultural sector</td>
<td>Salam</td>
<td>Very useful for agricultural product financing</td>
</tr>
<tr>
<td>7</td>
<td>Government</td>
<td>Sukuk</td>
<td>Islamic Bond used for long term government finances and development projects</td>
</tr>
</tbody>
</table>
BOARD OF GOVERNORS

Sanusi Lamido Sanusi - Governor (Chairman)

Tunde Lemo - Deputy Governor (Operations)

Sarah Alade - Deputy Governor (Economic Policy)

Suleiman Barau - Deputy Governor (Corporate Services)

Kingsley Moghalu - Deputy Governor (Financial System Stability)