Islamic banking and finance in Nigeria: issues, challenges and opportunities

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Abstract

With increasing wave of popularity and successes of Islamic finance across the world, Nigeria aspires to be the hub of Islamic finance of Africa. The country, for instance, has an estimated population of over 170 million people, a strong banking industry and a highly receptive and agile capital market in the continent, its dream is about to become a reality. This is despite the strong appearance of South Africa and Kenya into the scene. Early this year, the Nigeria's apex bank issued a license to Jaiz Bank Plc, to operate as a full-fledged non-interest financial institution (NIFI), while other conventional bank were allowed to open a non-interest banking window. Similarly, the Nigerian government intends to float its first sovereign sukuk before the end of this year. Accordingly, the Nigeria's Stock Exchange (NSE) market has recently introduced as Islamic index – Lotus Islamic Index (LII) in line with global trends, to monitor performance of sharia'ah compliant assets. These developments, no doubt raised a number of critical issues, posed a number challenges to both operators, regulators and investors alike, as well as opened doors of opportunities for the country. This paper attempts to allay some of the thorny issues, proffers way out to some of the challenges and brings to fore some of the opportunities for the country.

Key words: Islamic Banking and Finance, Capital market, Central Bank, Sukuk

JEL Classification: G21, G23, G28

1.0 Introducion

The structure of financial intermediation globally witnessed a radical shift over the last few decades. The monopoly status enjoyed by the conventional system of banking and finance changed with the emergence of Islamic system, which most essentially is based on the principles of the shari'ah, that is, the Islamic laws. The conventional system, which hitherto, remains the only medium of financial transactions, with impunity nurtures and survives on interest, hatches uncertainty and multiplies speculation, all for profit. The system was blamed for incessant economic turmoil in the past and the ongoing financial crisis in the Western European countries, which had its roots in the United States mortagage crisis in the late 2007. The Islamic system of banking and finance is coveted for its prohibition of interest, despising uncertainty and denouncing speculation. With emphasis on resource mobilization for active partnership with

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enterprenuers and real sector operators of the economy, the islamic system proved to be capable of stimulating real growth – non inflationary growth, by way of forging mutual cooperation in risk taking and profit and loss sharing. In addition, islamic financial system is admired for fostering economic development, social progress and distributive justice, which is why, unlike the conventioal system, it is more concerned with the viability of business proposal and, equally its profitability, as against the size of the collateral, business cash flow and rate of return, that is, interest. Islamic bank, therefore, is capable of attracting large pool of investors and enterprenuers, especially in the informal sector, which have been alienated by the conventional banking system.

Despite these sterling features, wide benefaction and tremendous sucesses recorded by the islamic system of banking and finance globally[2], the adoption of the islamic banking system by the apex financial institution – the Central Bank of Nigeria (CBN), as an alternative system of financial intermidiation was greeted with steep resistance in certain quarters in the country. Assuaging the fears expressed, the CBN stressed that the attempt is part of its response to global trends and a measure to take advantage of huge financial resources exchanging hands globally.

Besides, the measure is necessary as the financial sector needs to be diversified to mitigate upheavals in the industry due to domestic and global economic conditions. We are not unaware, for instance, of the fact that the Nigerian banking and financial environment has been in serious crisis long before the emergence of the global financial crisis in the late 2007. The banking sector consolidation which ended in December, 2005, though not the first and perhaps the last one, was seen as the neessary antidote to curtial the collapse of the industry. The consolidation exercise saw the neat collapse of 89 banks as at December, 2004 into 25 banks by the end of December, 2005 and later to 24 in 2009. This is not to discount the number of job losses across all cadres in the industry during the exercise.

Against this background, this paper seeks to assess the issues sorrounding the adoption of islamic banking system – non-interest banking, in Nigeria, the challenges it posed to the Nigeria's

[2] The Islamic banking sector worldwide has been growing at a very past rate of over 15 percent annually over the past decade. From a total asset value of USD 150 billion in the mid-1990's to an estimated USD 780 billion in 2009. The Islamic Financial Service Board (IFSB), for instance, forecasts the global Islamic Finance assets to reach USD 1.6 trillion by the year 2012, with Islamic Banking expected to remain the major contributor at more than 80 percent share.

financial environment and the opportunities that could be derived. The rest of the paper is structured as follows. Following the introduction, section two identifies and appraises some of the issues relating to the introduction of Islamic banking in Nigeria, that is, non-interest financial institution (NIFI). Section three presents some of the challengesfacing NIFI in Nigeria, section four dwells on opportunities derivable from the adoption of NIFI in the country, while section five contains conclusion and recommendations of the paper.

2.0 Issues on Islamic Banking and Finance in Nigeria

Primarily, the major determinants of soundness of a financial system, its stability and continued survival, are public trust and confidence in its institutions and markets. As the apex regulatory institution, the Central bank of Nigeria's major role, among others, is the maintenance of financial stability and creation of public confidence on the Nigeria's financial industry. It has, since its inception in 1959 been faced with a number of fundamental challenges in the discharge of this function. There was the early 1960's banking crisis, for instance, the adoption of structural adjustment programme (SAP) in July, 1986, which radically changed the template of banking sector and financial regulations in the country and distress syndrome which besets the system in the mid 1990's. Unforgetfully, there was also a major shake-up of the industry was further witnessed during the 2004 *Recapitalization* and *Consolidation* exercise. The CBN, recently, averted what could have metamorphosed into another distress syndrome in the industry[3]. Equally, the introduction of non interest banking in Nigeria by the apex bank is seen as another major turning point in the history of banking operation in the country. As expected, the move was greeted with steep resistance from all and sundry – religious groups, industry experts with astounding years of practice in conventional banking, and the gullible public.

The key issues of concern, especially among the religionist were that the attempt by the CBN was meant to Islamize the industry and expose non Muslims into some form of financial exclusion. Critics from other quarters challenge the specific features of the operations of the

[3] The CBN removed the chief executives of five commercial banks in the country in 2009 and established an Asset Management Company of Nigeria (AMCON) to manage bad debt of commercial banks in the country. In a similar development, the Central Bank in the mid 2011 nationalized and renamed three commercial bank; Afribank Plc, Bank PHB Plc and Spring Bank Plc that were incapable of attracting new investors within the time frame set up by the CBN, into Mainstreet Bank Limited, Keystone Bank Limited and Enterprise Bank Limited, respectively, as a measure to bail the banks from imminent collapse.

bank wondering how a banking system will operate without charging of interest on its transactions. Other issues were to do with the capacity of the regulatory institutions; the Central Bank, Nigerian Deposit Insurance Corporation NDIC), in ensuring effective regulation and ensuring a risk free management system in the Non-interest Islamic Finance Institutions (NIFIs) at the same time achieving good corporate governance standards – honesty, transparency and accountability. Some doubt the capability of the NIFI to cope in a predominantly non shari'ah compliant environment. This section attempts to dispel these issues from both contextual and empirical view points.

Firstly, the fear that the introduction of NIFI in Nigeria is a grand attempt to islamize the country has been expressed in many quarters with various degrees of threats and intimidations. However, looking at the history, the structure of the Nigerian economy and the confluence of the sections; the regions, the tribes, the culture and religion in the Nigerian State, one will appreciate the level of accommodation and sacrifice made in keeping the nation together. The conventional banking system, which predates the country's independence and the federal system of government – comprising of the executive, legislature and judiciary, are more strange-bed fellows to the Muslims and their religion, in the Nigeria, than it is to the Christians and their faith. The economic system in Nigeria remains bouyantly secular in nature and composition and enjoys patronage and tacit support from all the religions except Islam. Moreover, demographic data from government institutions put the figures of total Muslim population in the country, conservatvely at least above 50 percent. The Muslims upon all these have never launched an official outcry on the system of goverment or its economy. The Muslim majority, rather choose to push for its cause through the minimum provisions made in the consitution of the Federal Republic of Nigeria or the powers it grants to such other institutions within the country. The action of the CBN should, therefore, be seen in this regards.

Besides, the CBN is not a religious organization working for or against any religion, but an apex institution established by a decree of the Federal Republic of Nigeria. The introduction of the non-Interest banking in the country as was rightly argued by the CBN is supported by the Decree

(BOFID) No. 25,1991 of the Banks and other financial institutions Decree[4]. Responding to some critics, the CBN Governor laments that almost 99 percent of the people who commented on the matter have not read the CBN circular regarding the non-interest banking. The Governor argued that the Bank acting under such provisions granted license to the Habib Nigerian Bank limited (former Bank PHB Plc and now Keystone Bank Plc) back in the year 1992 to offer non-interest banking services on a "window basis". In the same vein, Lotus Capital limited is a halal fund established in the year 2004 (an ethical investment fund), has been operating as a an Islamic financing company dealing in shariah compliant investment and fund management activities. Furthermore, the first full-fledged Islamic microfinance bank, Al-Barakah microfinance has commenced operations in April, 2010 in Lagos, and more recently, the first full-fleged non-interest bank in the name Jaiz Bank Plc commenced operations as a regional bank in January, 2012, in Abuja, Kano and Kaduna, in Nigeria.

Secondly, on the issue of non-interest, it is pertinent to note that, willy-nilly, Islamic financial system operates entirely on the principles shari'ah law whose main traditional sources were the Holy Qur'an, Sunnah of the Holy Prophet (traditions), Ijama (consensus of Ulamas) and Qiyas (logical reasoning). The shari'ah law prohibits usury, the collection and payment of interest and other forms of business practices that are considered haraam or unlawful. The Holy Qur'an categorically condemns all form of transaction which involves giving or taking of usury or interest in Chapters 2 verses 278-279, 3 verse 130, 4 verse 161, and 30 verse 39. The holy Qur'an, for instance, states:

> "O ye who believe, fear Allah, and give up what remains of your demand for usury, if ye are indeed believers. If ye do not, take notice of war from Allah and His messenger: but if ye turn back, ye shall have your capital sums; deal not unjustly, and ye shall not be dealt with unjustly''. (Chapter 2 verses 278-279).

The position of usury in shari'ah law is not different from the teachings of the Old Testament, and the early position of the Christian Church as contained in the First Ecumenical Council of Nicea in 325 AD and the Second and Third Lateran Council 1 (1139 and 1179, respectively).

[4] Others include Section 23(1); 52; 55(2); 59(1) (a); and 61 of the Banks and Other Financial Institutions Act (BOFIA)1991 (as amended). Also Section 33(1) (b) of the Central Bank of Nigeria (CBN) Act 2007 and Section 52 of the BOFIA 1991 (as amended) in some way all recognize profit and loss sharing Bank.

Lamenting on the evils of interest, the Former President, Chief Olusegun Obasanjo, in the year 2000 on the Nigeria's mounting debt to international creditors was reported to have said: “all that we have borrowed up to 1985 was around US$5 billion, and we have paid about US$16 billion. Yet we are still being told that we owe about US$28 billion. This came about because of the injustice in the foreign creditors' interest rates. If you ask me what the worst thing in the world is, I will say it is compound interest”. Thus, Khan and Mould (2008) argue that interest is considered as an unjust and exploitative instrument of financing since the lender is assured a return without doing any work or sharing in the risk, while the borrower, inspite of hardwork, is not assured of a positive return.

This is, therefore, an issue which is non negotiable and should any one choose to take exception to it, the shari’ah law supremes.

According to Al-Omar, et al. (1996) the four main principles of Islamic banking and finance are:

a) There must be some risk, whether funds are used in commercial or productive venture.
b) All funds should preferably finance socially and ethically productive activity.
c) Financial risk must lie solely with the lender of the capital and not with the manager or agent who works with the capital.
d) Interest is forbidden in that it is a predetermined, fixed sum owed to the lender irrespective of the outcome of the business venture in which the fund is used.

Islam also prohibits other forms of arrangements or conditions associated with the execution of business contract which involve elements of Gharar (uncertainty), gambling, speculation, deceit, etc. The main objective is to make the financial system an efficient medium for intermediation between savers and investors, (Zineldin, 1990). The prohibition of Gharar, for instance, is considered to be the prohibition of risk or the prohibition of derivative instruments in today's financial markets, which are designed to transfer risks from one party to the other, (Zaidi and Mirakhor, 1991).

As an alternative to interest-based lending, NIFI adopts asset-backed financing. This type of financing uses a number of instruments of finance. Among them are: Musharakah, Mudarabah, Murabaha, Istisna, Ijara, Salam, etc. The scope of the paper could not allow a thorough discussion on how NIFIs operate these kinds of mutual forms of finnacing. One distinguishing feature between the NIFI and the conventional banking operations, however, is the fact that while the relationship between the bank and its clients is one of direct trading or equity participation in the former, it is that of a lender/borrower in the latter. The latter relies heavily on collateral in case of client's eventual failure, while the NIFI is built more on mutual trust and cooperation in profit and loss sharing. Based on these arrangements, a number of NIFI institutions globally have recorded tremondous success over the last one decade and has shown great resilience over their conventional counterparts during the global financial crisis. According to Kuran (2002) an Islamic bank operating in the manner prescribed by its charter would work like a venture capital firm. It would lend on a profit and loss basis to people with economically promising ideas rather than enterprenuers with plenty of collateral.

Thirdly, some pessimists raise concern over the capacity of the regulatory institutions in the country in regulating a completely new mode of banking operation in the country. It is worthy to note that, acting on the powers bestowed to it, the CBN has already demonstrated goodwill on the matter. With tremendous prospects for mutual cooperation and assistance from institutions and governments across the globe, particularly in Asia and the Middle east, the regulation of NIFI in Nigeria will neatly fall in tune with the global best practices. Nigeria, for instance, under administration of President Olusegun Obasanjo joined the Islamic Development Bank (IDB) as a full-member and in January 2009, the Central Bank of Nigeria under the Govenorship of Prof. Charles Chukwuma Soludo, joined the International Financial Services Board (IFSB) as full a member. It is pertinent to note that the IFSB is an international standard-setting organisation for the Islamic finance industry and is based in Malaysia. It comprises of central banks of several countries and other regulatory and supervisory bodies and multilateral institutions like the Islamic Development Bank, the IMF and World Bank – the last two are, however, associate members. Enocouraged by Nigeria's giant strides, the Islamic Development Bank (IDB) offered the Central Bank of Nigeria a Technical Aid grant for training Central Bank examiners for the development of a framework for the regulation and supervision of Islamic finance in Nigeria, and for the organisation of an International Conference on Islamic Finance in Nigeria. It is gladning to note that the conference did actually took place on 5th – 7th July, 2011, in Abuja Nigeria. Afterwards, sizeable number staff of the CBN, Jaiz Bank Plc and other training institutions in the country continue to attend training programmes within and outside the country and in the process establish collaborations with reputable organizations and standard-setting bodies which all will strengthen capacity of Islamic finance practice in the country.

Guided by the provisions of the CBN Act and BOFID[5], the CBN in March 2009, the Banking Supervision Department of the CBN released the exposure draft of the framework for the regulation and supervision of non-interest banks in Nigeria for comments, suggestions or inputs from the stakeholders. The CBN has created a unit under the banking supervision department for effective supervision of the NIFIs. With these reassuring developments and level of preparedness of the CBN and its co-actors – Nigerian Deposit Insurance Coorporation (NDIC), Securities and Exchange Commssion (SEC), Debt Management Office (DMO), the Nigerian NIFIs will certainly not be left in the wilderness.

Fourthly, the Nigeria's financial industry – money and capital markets, is wholly conventional and secularism reigning for over a century in the country, all the financial institutions are based on the principle of taking and offering of interest. However, the position of Islamic banks on the issue of interest is very clear as enunciated in the above Qur'anic and Prophetic traditions. Moreover, their position is more precarious when they are required to discriminate in their deposit taking function and investment operations – only monies and investments that are *halal* or shari'ah compliant are considered. Those averse to the system, therefore, wonder how could such banking system cope under these predicaments? The NIFI, for instance, does not accept deposit from casinos, alcholic industries, proceeds from prostitution, sale of swine, etc. Furthermore, at the level of money market operations, it cannot engage in interbank transactions with other conventional banks, neither floats its excess liquidity in the treasury market, nor expects any return from safe keeping with the apex bank. No doubt, the challenges are enormous, but the the nature of Islamic banking transactions are completely unique and sufficient enough to more than compensate the forgone earnings from these sources. Islam prohibits that money begets money without creating somethimg tangible, or better still, without engaging other factors

[5] The enactment of the Bankers and Other Financial Institutions Decreed of 1991 (Amended). This Decree recognises banks based on profit and loss sharing and empowers the governor of the Central Bank to expect such banks together with Community banks from the provisions of the Decree (see 52). The Decree also recognises 'specialised' banks and includes in the definition such other banks as may be designated from time to time (Sec 61). It however, proscribes the incorporation or registration of any bank with a name, which includes the words, 'Islamic,' 'Christian,' 'Qur'anic,' 'Biblical' etc.

of production such as lablor in the process. The arrangement which Islamic banks seek to promote, therefore, is usually one which encourages mutual and profitable cooperation between capital and labor.

Consequently, partnership arrangements through profit and loss sharing ventures in the form of *musharaka* and *mudaraba* models, business and trade financing through *murabaha, istisna, salam,* agency through *wakala,* etc., are some examples of Islamic banking and finance products. Similarly, Islamic banks in Nigeria, could because of the non-compliant nature of the business environment, take advatage of equally competitive investements opportunities around the globe; Asia, MENA counties, Europe, and the United States. There are also numerous of investment opportunities and partnership arrangements for both private sector and governments at all levels existing at the Islamic Development Bank (IDB), International Islamic Monetary Fund (IIMF), OIC countries, etc.

Fivethly, concerns over good corporate governance became very dominant over the last decade borne out of rampant and high profile cases of corporate failures and abuses of power due to poor complaince to governance standards and moral decadence at top management level. Some antagonist of the NIFI, therefore, express fear that such cases could also obtain even in the management of the NIFIs. The cases of Intercontinental and Oceanic banks managing directors/chief executives in Nigeria is still fresh in our memories[6]. Similar occurances of breakdown of govenance standards leading to collapse of corporate institutions with long years of survival no longer make heart-breaking headlines in the local and international media. It is a known fact that corporate exceutives of Nigeria banks live an expensive lifestyle on fat and gluttonous bonuses and unrealistic allowances while proactively perpetuating themselves in their positions[7]. Contrarily, it is pertinent to note that, ethical issues – honesty, transparency and

[6] The two each (Dr. Erastus Akingbola, a.k.a. the Madoff of Nigerian banking and Mrs. Cecilia Ibru) defrauded and or squandered hundred of billions of naira from their depositors monies. The former, for instance, who sneaked out of the country to the United Kingdom, was by a High Court in the UK dated March 24, 2011 was charded an asked to forfeit a total sum of £77.84 million to Intercontinental Bank. His wife Mrs. Autche Erastus Akingbola was also declared wanted in connection to the sum of N56 billion misappropriated. Rev. Mrs. Cecelia Ibru, similarly was stripped of 199 assets and funds worth nearly N200 billion.

[7] Until the CBN released its guidelines in 2010 on the composition of Management Board of commercial banks in Nigeria following the sacking of three chief executive officers (CEOs) of Intercontinental bank plc, Oceanic bank plc, Afribank Plc, it is very common to find a CEO who stayed for over 10 years, and

compliance to corporate governance standards are not only echoed and adored in Islam, but are part and percel of its essesntial feature. Islamic sharia'ah principles under whose purview the NIFI's operate is very clear and unequivocal on the matter of upholding trust of office and on the matter of justice and fairness in ones own dealings. The Holy Qur'an in Chapter 4 verse 58 states:

> *"God doth command you to render back your trusts to those to whom they are due; And when ye judge between man and man, That ye judge with justice. Verily how excellent is the teaching which He giveth you! For God is He Who heareth and seeth all things".*

Again, in Chapter 16 verse 90, the Holy Qur'an sates:

> *God commands justice, the doing of good, and the liberality to kith and kin, and He forbids all shameful deeds, and injustice and rebellion: He instructs you, that ye may receive admonition*

3.0 Challenges Facing the NIFIs in Nigeria

The global the financial industry and indeed that of the Nigerian economy are emerging out of the deep financial crisis which started in the country in the late 2008. The impact on the Nigerian economy, particularly the stock market, for instance, has been very devastating – see Aliyu (2010) on '*Stock Prices and Exchange Rate Interactions in Nigeria: A Maiden Intra-Global Financial Crisis Investigation'*. Consequently, a number of countries in the world have adopted the islamic financial intermidiation both as a means of diversifying the financial industry and as a means of mitigating the risks associated with over reliance on only one form of financial intermidiation. The blosoming of the Islamic finance industry through large scale adoption and unprecedented growth as highlighted above, no doubt pose a number of challenges. The challenges, which could be categorized as internal and external are usually very common in the evoluntionary process of any new enterprise. The Islamic finance institutions in Nigeria are, therefore, no exception to that. The challenges of product standardization, human resources, complinace to corporate governance standards and best practices, are some of the internal challenges while externally, steep competition in the financial industry and the need for a

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even after leaving office, re-surfacing as chairman of board of directors. The CBN directed all serving CEO of Nigeria banks in 2010 who may have served for up to 10 years to resign, and are only eligible to be appointed as Chairmen of any bank after a minimum of 3 years after leaving office. This move is to ensure transparency, accountability and independence of the management boards of the Nigeria banks.

comprehensive and robust framework for effective supervison and regulation of the NIFI's particularly by the Central Bank of Nigeria (CBN) and the Nigerian Deposit Insurance Corporation (NIDC) are very critical to the survival of the NIFI's in the country.

The issue of product standardization is a challenge facing not only Nigerian NIFI's, but, the entire islamic banking and finance industry globally. A number of islamic banking products, for instance, are concieved and packaged differently, and while some are available in some countries/regions, others are not approved-of by the shari'ah experts across the globe. Moreso, this is not unconnected to the differences of opinions and juristic positions on matters that have not been decisively determined by the primary sources of shari'ah. Attempt to develop uniform standards globally have been the major preoccupation of Islamic financial experts. These continue to occupy the attention of these exprts in intenational conferences, seminars and discussion foras and have been championed by organizations and institutions like; the Islamic Development Bank (IDB) in Jeddah, Saudi Arabia; Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), Bahrain; Islamic Financial Srrvices Broad (IFSB), Malaysia; etc.

Another challenge to the NIFIs in the country is to do with paucity of qualified/skilled manpower in the field of Islamic banking and finance parctice. This is critical to the survival of any serious enterprise. Organizations that invest so much in human resources training and re-training are more likely to ascend and attain their long term objectives faster than those that spend less. With the coming on board of the *Jaiz Bank plc* and with more conventional banks in Nigeria opnening up non interest banking windows, the need for well trained manpower is competitively very high. The NIFIs and the CBN as the apex regulatory institution in the country are investing heavily on training and retraining in the area. Equally, academic institutions in the cuntry should to this challenge. On its part, the CBN has established a strong supervision unit in charge of NIFIs while among the recent attempts by the academic institutions is the establishment of an International Institute of Islamic banking and Finance (IIIBF) by the Bayero University, Kano, for graduate degrees and professional training programmes for Islamic finance practioners, Centre for Islamic banking and finace training at the Ahmadu Bello University, Zaria, Departments of Economics at the Usumanu Danfodio University, Sokoto, and Bayero University Kano, to mention but a few.

The need for complinace to corporate governance standards and best practices are brought to the fore in the recent years. Prominent among these standards applicable to operators in the Nigeria's financial industry at large, and the NIFI's in particular are the Basel III standards, IFSB, AAOIFI. These are in addition to the standards set by the regulators; CBN, NDIC, securities and exchange commission (SEC), Economic and Financial Crime Commission (EFCC), in Nigeria like the anti money laundering act, the anti terrorism financing act, etc. The NIFIs in this regards have an edge over their conventional counterparts in view of the fact that the islamic shari'ah priciples discussed above have sanctioned against any form misapproriation of trust.

There is no gain saying that the Nigerian financial industry is dominated by the conventional bank that have been operating in the country as per back as the pre-political independence period. Eventufully, while the number and size of these banks have been greatly shaped over these long years of operations, it has also ushered in a cream of financial experts in the industry at all levels. It is sad to note that these competitive advantages are lacking in the NIFI's. The glimpse of hope for the NIFI's is in the form of strong desire among the Nigerians – the muslims and non muslims as well, for an alternative system of banking due the exploitative tendancies of the conventional banks. Also the uniqueness of NIFI products and services and the numerous opportnities derivable through international operations are very encouraging.

4.0 Opportunities/Potential Benefits of NIFI

Like countries in Asia, Middle East, Western Europe, the United States and some parts of Africa, not only does the emergence of NIFI in Nigeria poses a number of challenges as identified in the precceding section of the paper, but, it eqully presents an array of opportunities as well. Most importantly, it offers a reliable alternative to the conventional mode of financial intermediation globally. According to a recent study by the IMF in the year 2010, which compares the performance of Islamic banks and conventional banks during the recent financial crisis, it was discovered that the Islamic banks, on average, showed strong resilience during the financial crisis over its conventional counterparts. Broadly, NIFIs offer opportunities for flow of cross border capital, financial market deepening, financial inclusion in both Muslim minority and majority countries, enhancing product offering, promotion of monetary policy effectiveness, employment opportunities, etc.

Nigeria in particular stands to benefit from flow of cross border of financial resources not only from the traditional sources; Western Europe and the United States, but from oil-rich Middle East – home to vast investment resources, and Asian countries – with Malaysia as the global hub of Islamic finance, as well. Already, Nigeria and Nigerian businesses are making giant strides aimed at tapping vast capacities at the Islamic Development Bank (IDB) and other avenues for long term capital flow through *sukuk* market. Recently, for instance, on the 15th March, 2012, the Nigeria's Vice President Alh. Namadi Sambo while declaring open the first IDB-Nigeria Business Forum conference states that: "I want to see more capital injected into our businesses from the bank in support of infrastructural development and general economic development. On his part, the President of IDB Group, Dr. Ahmad Al-Madani, announced the bank's approval of $98 million for the implementation of the Bilingual Education Program in Nigeria. This, according to him, is in addition to several intervention projects the bank was undertaking in Nigeria, which among others include: the National programme for Food Security, Zungeru dam project, Mambilla hydroelectric dam project, Lagos-Ibadan Expressway and National Railway Rehabilitation project as well as the Shagamu-Benin dual carriage project.

On sukuk opportunities, Abdullahi (2011) argues on why Nigeria should access funds from the market stating that with interest bearing bond becoming increasingly costlier and difficult to arrange, sukuk with its elimination of interest and substituting it with rent or profit-sharing arrangement, is cheaper and tailored to benefit both sides, that is, both issuer and investor. It is interesting to note that as of July, 2012, Global sukuk issuance hit $57.9 billion and is likley to by far surpass the $64.9 billion issued last year. So far, Malaysia accounts for 68 percent of the global sukuk issue, which makes it the runaway sukuk leader. We recall at this juncture, that Nigeria indicated interest on launching its first sukuk in 18 months period since June, 2011. We are counting down to the time when such will become a reality, although South Africa, with a muslim population of only 2 percent is taking the lead.

Akin to the above is the opportunity for financial market deepining which the cross border capital flow could help to promote. Anlaysts have argued that the current market capital market condition in Nigeria portends a lot of opportunities for significant price-adjustment of stocks, signifying more opportunities for investment in stocks, but, constriants in the area of technology efficiency, incentives, compulsory listing, capacity building, new products in offering, full disclosure, among others, are said to be critical in driving the market. Evidences, for instance, in 2010 show that the private sector through mergers and acquisition raised N2,091.8 billion (86.2 percent) through the capital market while total bond issue stood at N193.7 billion (7.2 percent). These facts show that both the private sector and the government in Nigeria have great capacity to cajole and absorb the opportunities in the global market.

The extent of financial inclusion in a country speaks of access to finacial services by its citizens. According to Adewusi (2011) financial inclusion is the provision of a broad range of high quality financial products (such as savings, credit, insurance, payments and pensions) which are relevant, appropriate and affordable, to serve the needs of the entire adult population and especially the low income segment. Adewusi (2011) further argued that financial inclusion is a key to tackling the 'poverty trap' in Nigeria. With 46.3 percent financial inclusion level in Nigeria according to the CBN Governor in 2010, it implies that 53.7 percent of Nigerians is outside the purview of banking service[8]. Although the CBN seek to reduce this level to 20 percent by the year 2020 according to the Governor, the emergence of NIFIs on the scene will no doubt help to cajole and douse the aparthy among non-bank public to accept the banking services that now suit their preferences and recognize their religious values and beliefs. Once financial acess is enhanced, economic activities such as production, employment, distribution, consumption, etc., will certainly increase and economic growth and development would arise.

Islamic finance institutions as highlighted in the preceeding section above, offer unique variety and equally competitive finacial services that have been developed, tested and accepted globally. The operation of NIFIs in Nigeria enriches the product mix and offer wide range of financial

[8] In another development, a survey by the EFInA – Enhancing Financial Innovation and Access (2010) disclosed that 22.8 million adults (26.9% of the total adult population) in Nigeria said that they would be likely (very likely and some what likely) to use Non-Interest Banking products if they were introduced in Nigeria. However, 44.9% of them said they would prefer for this service to be delivered by a new financial institution. The survey concludes that with 70% of the adult population being unbanked, finding new ways of thinking and innovation in bank product and service offerings are needed to capture this market.

services, which hitherto were not available. For instance, *Murabaha* mode of assest finacing, *Musharakah* and *Mudarabah* deposits accounts, *Ijara* financing via asset leasing, purchases and supply arrangements through *Salam, Istisna* and *Istijrar,* are all new additions to the existing menu of banking products and services in Nigeria. These services, however, bear the unique emblem of profit and loss sharing which is lacking in the conventional banking operations. Interestingly, financial market analysts from all extractions and and across religious divide are gradually familiarizing and getting aquintated with these concepts and terminlogies. At the global scene, global performance indicators have been developed for tracking the performance of islamic financial services/products. The Dow-Jones Islamic Market Index (DJIM), Standard & Poor Sharia'ah Indices, FTSE Sharia'ah Global Equity Indices, MSCI Global Islamic Indices, Jakarta Islamic Index, Islamic Index India, etc. similarly, the NSE in July 30st came up with its first Sharia'ah compliant index called Lotus Islamic Index (NSE LII).

In the preceeding paragraph, NIFI's are said to be capable of wooing the non-bank public to accept banking services that are comptible with their religious beliefs and way of life. Once this is achieved, it offers great opprtunity for the apex bank to have a full grip of monetary policy variables; monetary policy rate, money supply and credit availability. On the contrary, for instance, high degree of financial exclusion results in high proportion of money outside the bank and equally outside full control of the Central Bank. This raises M_1 money supply – though not widely used by policymakers, adversely affects the credit-deposit ratio, mounts pressure on policy rate, level of domestic prices, and slows down economic activities, thus thwarting policy performance. The presence of NIFIs in Nigeria is, therefore, crucial for attainment of monetary policy objcetives in Nigeria.

Last but not the least is the fact that the preesnce of NIFIs in Nigeria offers opportunities for employment to practitioners in the banking industry and to new entrants as well. The Jaiz Bank, Plc, the approval to all conventional banks wishing to open Islamic window and the creation of NIFI supervison unit at the CBN offer great opportunity for employment, training and retraining of manpower in the area. This boosts human resource capacity in the area in paticular and the country at large. Consequently, a number of training institutions – the International Institute of Islamic Banking and Finance (IIIBF) at the Bayero University, Kano, Islamic Training Institute at Funtua, Katsina State, Nigeria, have sprung in the country offering acadamic and professional training in the area. These have positive implications on overall productivity in the country. Available data on the level of workforce at the Jaiz show that the Bank offers employment to over 150 people.

5.0 Conclusion and Recommendations

Islamic banking and finance in Nigeria like in most countries the world over is evolving, although with vary degrees of successes. A number of countries in Asia and the Middle and East have passed the advocacy stage and are deeply engaged in research and innovations. In Europe and the United States governments and global financial institutions are not only adopting and promoting its application but even developing indices for assessing and tracking the performance of the industry. The issues, challenges and opportunities sourrounding its evolution in Nigeria are, however, unique. While the former two continue to shape its process of development with the passage of time, the latter is a stimulus for its acceptability and continued survival.

Some of the key issues against the introduction of NIFI raised by the paper were the issue of de-secularization of the Nigerian state along the religious path, practicability of the zero interest banking service amidst predominantly conventional system, concerns to do with the capacity of the regulatory institutions and compliance corporate governance standards. The paper as well identified some challenges confronting the NIFIs in the country, the regulators as well as the investors. The opportunities Nigeria are numerous; NIFIs offer avenues for flow of cross border capital, financial market deepening, financial inclusion in both Muslim minority and majority countries, promotion of monetary policy effectiveness and creation of employment opportunities.

The paper strongly recommends that the regulatoty institutions should strive to perfect the already developed framework for thr regulation of NIFIs in Nigeria. They should also prepare and present to the lawmakers, all necessary amenndments to existing provisions in the Nigerian constitution, and initiate in line with global best practices new, laws for proper positioning of the NIFI in the global arena. The paper also urge the government to hasten its bid to become the hub of Islamic finance of Africa and this can only be actualized when it sets enabling environment for trading of Islamic capital market intruments – sukuk and other *halal* (permissible) investments.

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