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ISLAMIC BANKING AND FINANCE IN DEVELOPING COUNTRIES: THE GOALS, CHALLENGES AND PROSPECTS

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Abstract

In the global financial industry, Islamic Banking and Finance (IBF) has become a fast growing sector as an alternative to Conventional Banking and Finance System (CBFS). CBFS focused on interest receipt or payment on funds, interest on borrowed funds becomes extraordinary or outrageous, and it affects borrower's business activities. Besides, access to funds for set-up and working capital by SMEs, has been a wearisome task. Therefore, there is need for an alternative ways of sourcing funds by SMEs, and this is through IBF. Presently, IBF is scanty in most secular country, this has become a matter of concern to investors, policy makers and researchers, and this call for better understanding of IBF. It is against this background that the study examined the goals, challenges and prospects of IBF in Nigeria. The study adopts exploratory research design with focus on relevant literatures. The study revealed that IBF is not a religious financial system but an ethical system that is available to both individuals and corporate organisations, either Muslim or Non-Muslim. The study recommends that government should embark on public awareness, licencing of more Islamic financial institution, promote capacity building and promulgation of distinct legal framework and Act for IBF.

Keywords: Business growth, Conventional banking and finance, Financial industry, Funds, Islamic banking and finance, Interest, SMEs

INTRODUCTION

In the global financial industry, Islamic finance has become one of the fastest growing sector. Islamic finance refers to financial system that hang on the principles of Shari'ah (Islamic principles), the essence is to develop Islamic economy. The principle of Shari'ah prohibits interest charges (riba) on loans, trades and other activities of economic values. According to Institute of Islamic Banking and Insurance (2013), Islamic banking and finance can be traced to the birth of Islam when Prophet Mohammed acted as agent for his wife's business activities. IMF (2017) defined Islamic finance as alternative means of providing financial services in accordance with shari'ah Islamic laws, principles and rules. Islamic banking and finance involves products which are undertaking according to shari'ah principles, likes non-interest (riba), kicked against, uncertainty (gharar), gambling (maysir), and also prohibits activities such as prostitution, piggery farming and products that are against Islamic faith (non-halal).

This financial system is regulated by a commerce law known as Fighal-mu'amalat which is based on equity, social justice and fairness in business operation. Islamic financial system aims is to alleviate poverty and wealth gaps within a society using fair business model. In achieving these aims, some of the products used by Islamic banking and finance are mudarabah (profit or loss sharing principle), musharakah (partnership or joint ventures), ijarah (leasing contract), salam (forward sales contract), qard-hasna (interest free loan), and murabaha (trade with markup). Islamic finance comprises of banking, leasing, sukuk (securities), equity market, investment funds, micro finance and takaful (insurance). In recent time, a flouting Islamic Bond (Sukuk) and hedge fund had been added to the financial market. However, according to IMF (2017), at least 95% of Islamic finance assets are secured in banking and securities. Islamic banks are the biggest players of Islamic finance industry. It accounts for $1.75 trillion of total assets (70%). According to a 2019 state of global Islamic economy report, total shari'ah compliant assets are expected to grow to $3.5 trillion by 2024 (Domat, 2020).

Aburime and Alo (2009); Mouawad (2009) reported that Islamic finance started in Africa in 1960's in Egypt. It is the first African country to commenced Islamic banking at a low key for political reason. According to Ariff (1988), the first Islamic bank was established in Egypt in 1963, also in Pakistan in 1970. Islamic finance has become a phenomena in most Islamic countries and some non-Islamic countries worldwide. Globally, Islamic financial system has grown from a distinct service to an influential segment over the past years in Islamic countries and also becoming populous in non-Muslim countries. Apart from Muslim countries, Islamic financial system can be found in pluralistic secular countries likes Albania, Australia, Bahamas, Bosnia, Denmark, France, Germany, Ghana, Ireland, Luxembourg, Switzerland, United

Kingdom, and United States of America (Khan & Siddiqui, 2018). The Islamic banking and finance industry presently exist in more than seventy countries worldwide, these countries have largely benefited from investment from Islamic funds, Sukuk bonds, hala sectors and financing of infrastructural developments. In 2019, global financial assets grew by 14.4 percent at a value of US$2.875 billion. The sukuk market increased by 14.5 percent (US$538 billion) in 2019 compared with increase of 10.3 percent in 2018 (Alpen capital, 2021). Previous researchers have carried out studies on Islamic finance in various countries likes Pakistan (Salman & Navaz, 2018; Rammal & Parker, 2013); Malaysia (Al Nasser & Mohammed, 2013; Husseini *et al.,* 2019; Qian & Velayutham, 2017); Mauritius (Abduh, Ramjaun & Mustaqim, 2018); Bangladeh (Iqbal, Nisha & Rashid, 2018); Africa (Faye, Triki & Kangoye, 2013); Tunisia (Kaabachi & Obeid, 2016); Jordan (Maali & Napier, 2010); United Arab Emirate (Shome, Jabeen & Rajaguru, 2018); Ghana (Mbawuni & Nimako, 2017). Most of these research have been carried out in Muslim countries with less focused on mixed secular countries. The outcome of these studies differs from country to countries because of their different business environment.

In the 21st century, interest free banking and finance remain a mirage in many Muslim dominated countries and non-Muslim countries when compared with the conventional banking and finance. Globally, Islamic finance market is very small in absolute and relative terms with less than 3% of global financial market (Taye, Triki & Kangoye, 2013). Although, there had been an increase on the patronage of the Islamic banking products from both Muslims and Non-Muslims worldwide, this has grown and spread significantly in many Arab countries as well as non-Muslim countries (Husseini *et al.* 2019). Conventional banking and finance focused on interest payment on loan, at times, this interest becomes extraordinary and exorbitant, and this affect the borrower's business activities either in the short or long run. The high interest chargeable affects the cost of production and the selling price of the finished products which becomes costly for consumers when compared with imported products.

In most developing countries, entrepreneurs are faced with the challenges of set up funds and limited access to working capital, this has become barriers to business growth and development. Thaker *et al.,* (2020), reported that most time, SMEs faces difficulties in sourcing for external finance at their early and middle stages of entrepreneurship life cycle. The high interest rate charge by the conventional banks and finance houses make it difficult for micro and mini enterprises to survive and remain competitive in the business cycle. Therefore, there is need to either minimized the interest chargeable on funds required for business activities by SMEs or opted for an alternatives (non-interest funds) as postulated in Islamic finance. This will enhance economic growth and development, and ensure social balance (Mohamed, Said & Umachandran, 2018; Baber, 2018). After the global financial crisis and COVID 19 pandemic, investors are looking for less risky investment portfolio to invest their funds, and entrepreneur are looking for cheap funds for business transactions, the most promising option is Islamic financial institution.

In Nigeria, the first Islamic bank was Jaiz Bank Plc, it was granted licence in 2010 and commenced operation on June 27th 2011in three predominantly Muslim states of Abuja, Kaduna and Kano. The dominant controlled of Nigeria financial system by conventional banks (interest based) has serious effect on enterprises or investor's decision due to the high interest chargeable, environmental risk, security challenges and incent high rate of inflation. This challenges has led to decrease in production and decline in investment growth, thereby, leading to decline in nation's economic growth and development. The dearth of infrastructural facilities such as road, railways, housing, and energy are other challenges facing the country and the business communities. Therefore, Islamic financial products (Sukuk) can be used by government as alternative means of raising capital to finance these infrastructures decayed. According to World Atlas (2018), Nigeria is ranked fifth in the world in terms of Muslim populations with over ninety million Muslims living in Nigeria. It is also the largest economy in Africa (World Bank, 2017), and a pluralistic secular states (Ezeh & Nkamnebe, 2018). According to Central Intelligence Agency (CIA) 2017, half of Nigeria population are Muslim, 40% are Christian while 10% hold indigenous belief. The country has diverse ethnicity with over 250 ethnics group (Sa'id 2019). In recent time, many Nigerians are craving for Islamic financial system (ethical banking service) which provide socially responsible investment opportunities based on equity and justice. Islamic finance is not a new concept, it has been accepted in many countries, and the question now is "why has it not gained much ground in Nigeria even in the Muslim predominant states"? At present, the operation of Islamic finance still remain scanty and has not been fully embraced by the citizens in the country. Although, the Christian communities kicked against its establishment and operation, they believe that the creation and licensing of the Islamic banking and finance would be an attempt to Islamize the country. This agitation and thought showed the ethnic and religious sentiments that had bedevil Nigeria growth and development for years. Therefore, there is need to diffuse this mindset, fear and misconceptions by the Christian fold with appropriate public awareness, education, publicity and show of sincerity of purpose by the government.

In recent times, academician, practitioners, governments and policy makers have showed much concern about growth and development of Islamic finance in countries all over the world. The concern in much on how to expand the operation of Islamic financial system in a secular countries of developing economy. Although Islamic finance knowledge and skill is scanty in these countries, this required understanding and knowledge on its objectives, purpose and prospects. The objective of the study is therefore, to fill the knowledge gap in literature on Islamic finance in developing countries with reference to secular nation like Nigeria and also to highlight the prospects of operating Islamic banking and finance in a country. Furthermore, to show how to upsurge Islamic finance patronage in the financial sector and among the citizens.

REVIEW OF LITERATURE

Conceptual review

Historical Development of Islamic Banking and Finance in the World: The idea of operating Islamic financial system (non-interest based banking) was initiated in 1940s by Aswar Qureshi (1946); Naimen Siddiqi (1948); and Mahmud Ahmad (1952) (Iqbal & Abbas, 1987; El-Galfy & Khiyar, 2012). In 1963, political economy theory was tested with the establishment of the first modern Islamic financial system (banking), called Mit Ghamr savings bank, it commenced operation through experimentation in Mit Ghamr town, Egypt by Dr Ahmed El Najjar. The bank grew to have nine branches after three years of its establishment. Despite its branch network, the bank closed for business in 1967. After the closure, the banks operations draw the attention of many Muslims communities worldwide having interest in the establishment of banks that follow the principles of shari'ah. This necessitated the creation of Islamic banks across Muslim and non-Muslim countries. The Islamic banks created were operated based on shari'ah laws, rules and regulations, besides, profits from business activities are shared among the funds contributors, based on their capital contribution (Ariff, 1988; El Galfy & Khiyar, 2012). In 1974, Organisation of Islamic Countries (OIC) established Islamic Development Bank (IDB) in Jeddah, Saudi Arabia. Thereafter, many Muslim countries had established Islamic financial system (banking), these are in Dubai (Dubai Islamic bank, 1975), the oldest and first Islamic commercial bank after IDB; Egypt (Faisal Islamic Bank, 1977); Sudan (Faisal Islamic Bank, 1977); Kuwait (Kuwait Finance House (KFH), 1977); Jordan (Jordan Islamic bank for finance and investment, and Faisal Islamic Bank of Jordan, 1978); Bahrain (Bahrain Islamic bank, 1979); and UAE (United Arab Emirates Islamic Investment Company, 1979). In 1978, the first attempt of creating Islamic financial system in Western World was achieved through the creation of Islamic finance house in Luxembourg. Furthermore, in 1983, the first shari'ah compliant insurance company (Takaful) was also created in Luxembourg (Darbel,Bouraoui & Dammak, 2011; El-Galfy & Khiyar, 2012). In addition, between 1980 and 1999, some international banks commenced to operate Islamic banking windows, these are Citigroup, UBS, HSBC, Standard Chartered Bank, and Deutsche Bank. In recent time, Islamic financial system has moved into non-Muslims dominated countries like USA, UK, Singapore and some other European countries, Asia, America and Africa countries, this was necessitated by high demand by Muslim populaces within the countries to provide or have shari'ah compliant products.

The creation and growth of Islamic banks worldwide is supported by the larger Muslim populations. At present, Muslim exist in over 80 countries worldwide (Domat, 2020). These Muslim populations are expected to be more than 25 percent of the World population by 2030. Secular country like United States of America, Muslim populations might likely increase from the present 2.6 million to 6.2 million by year 2030 while in European countries, it might increase by more than 10 percent of the total residents (Solomon, 2018; Anwar *et al.,* 2020). However, in Sub-Sahara Africa, Muslim populations is over 250 million and this has been projected to grow to over 385 million by year 2030. Majority of these Muslim populations lives in West Africa with a population of 160 million and likely to rise to 257 million by 2030. This figure accounts for 67 percent of Muslim populations in Sub-Sahara Africa (The Economist. 2015). Likewise, Islamic financial system has grown worldwide contributing to growth and development of countries economy. The global Islamic finance assets in 2019 were:

Table 1 Global Islamic Finance Assets (2019)

Banks	Size US $Billion	Share of Islamic finance assets. (%)	No of institutions/ instruments
Islamic Banking	1993	69	526
Sukuk	538	19	3420
Other IFIs	153	5	645
Islamic Funds	140	5	1749
Takaful	51	2	336

Sources: Alpen Capital and Alpen Asset Advisors (2021).

Islamic finance industry increased by 10.6 percent in 2020 from 17.3 percent in 2019, it is expected to increase by 12 percent in 2022. Sukuk issuance according to S & P Global rating for 2019, 2020 and 2021 were $167.3 billion, $139.8 billion and $155 billion respectively (Islamic finance outlook, 2022). Islamic banking assets to GDP in some countries are as follows: the highest is in Bahrain (124%), Malaysia (53%), Iran (47%), Kuwait (43%), Qatar (40%), and UAE (24%) (Alpen capital, 2021).

Islamic Banking and Finance

Islamic banking and finance is operated in line with Islamic law (Shari'ah). Its activities are undertaken based on the principles, rules and regulations of shari'ah. It prohibits riba (interest), gharar (uncertainty), maigir (gambling) and sanctity of contracts but only allow permissible activities (halal) and avoid harmful activities (haram). In Arabic, riba is synonym to the word interest used in conventional banking and finance. In both Christianity and Islamic Holy Books, interest charging is forbidden, also in ethics, charging interest on loans has never been supported. The Bible and Quar'an reported that religious faith should do away with interest forms of transactions but should embarked on financial transaction that are devoid of interest charging or payment. In the Bible, various books and chapters talks against interest, some of these are Deuteronomy 23 verse 19 “thou shalt not lend upon usury to thy brother, usury of victual, usury of money, usury of anything that is lent upon usury”, Psalm 15 verse 5 “makes loan without usury or takes reward against the innocent”. In addition, Exodus 22 verse 25; Leviticus 25 verse 35-38; Ezekiel 18 verse 13 and Proverb 19 verse 17 have words against interest charging or payment. In the Holy book of Qura'n, four verses talks about riba (interest). These are Surah Al-Rum 30: 9 (Allah displeasure on interest based practices); Surah Al-Nisaa 4:161 (interest charging reported as sinful act of Jews); Surah Al-i-Imran 3:130 (Riba (interest) prohibition was declared); Surah Al-Bagarah 2:275 (punishment was declared for those dealing in Riba (interest).

Islamic financial contracts is based on Masqasis Al-Shari'ah, this is the core area of Islamic finance (Gundogdu, 2016). The fundamental logic of Islamic financial system and its operational guidelines are drawn from Masqasid Al-Shari'ah. Therefore, Islamic banking and finance is based on rules and regulations likes:

1. Prohibition of Riba: Riba is an Arabic word meaning “interest”. This is forbidden in Islam. This can be interpreted from economic perspective as prohibition of debt and risk trading (Al-Jarhi, 2017). Alternatively, an Islamic economic system works instead.
2. Ethical and moral values: These are the fundamental guidelines for Islamic financing. Only ethically and morally business transactions are totally allowed by Islamic financial system.
3. Prohibition of Maysir (gambling): Wealth acquisition through chances (gambling) highly prohibited in Islamic finance. In the same vein, speculation and uncertainty of business transactions and relationship are not allowed.
4. Lawful activities: Islamic financial system only recognize lawful activities. Therefore, all forms of unlawful businesses relationship are forbidden.
5. Profit/loss sharing: All form of pre-determined rate of interest are forbidden in Islamic financial system. Rate of returns depends on actual market condition of business transactions. Profit/loss derived from business activities are shared based on capital contribution ratio.

6. Halal and haram concept: Halal means permissible, what God allowed for Muslim, what are permissible, pure, and clean while haram denotes what is forbidden by God. Haram is unethical and it involves activities or products such as pornography, alcohol, pork, tobacco, narcotics and any other deemed harmful and unlawful according to shari'ah.
7. Payment of zakat: Zakat in shari'ah law is 2.5 percent on the excess above the nisab. It is mandatory for Islamic institutions and Muslims with the means to pay zakat. It is one of the pillars of Islam. Zakat is to be used in meeting the basic needs of the poor, eradicate poverty and ensure wealth redistribution.

Islamic banking products

Various products that align with shari'ah principles are marketed by Islamic bank and finance. Some of these are:

1. Ijarah Thumma Bai (Hire purchase) – this is a product commonly used to finance the acquisition of assets (vehicle, machinery, equipment, etc). It is a form of arrangement where the bank finance the acquisition of asset(s) for their customers based on an agreed monthly installment payment. When the total cost and profits element has been defrayed by the customer, the ownership of the asset is transferred by the bank to the customer (Chhapra *et al.,* 2018). These can be categorized into two: Ijarah contract (lease/rental) and Bai contract (purchase).
2. Mudarabah – this is a product used to finance business activities. The bank provides the finance for the business activities while the customer provides labors and materials. It is a form of partnership between financing partner and managing partner (entrepreneur) who contributes knowledge and skill required for the project. Profit or loss derived from the business activities are shared based on partners contributions.
3. Murabahah (Cost plus) – it is an agreement to sell goods at cost plus profit margin as agreed by both parties (buyers and sellers). It is a sales contract with a fixed price of product plus a specified percentage mark-up as profit. Although it is necessary for seller to ensure the buyer is aware of the cost and profits margin at the time of sale agreement. The seller is expected to be truthful in informing the buyer the actual price of the product and the element of profit added.
4. Musharakah (Joint venture) – it is a form of project finance based on partnership agreement between the bank and customer where both invest capital. It is the contribution of two or more talents in business partnership. It is a relationship where partners jointly contribute capital, managerial experience, time and effort. Risks and profits are shared on the basis of partners' capital contribution or effort.

5. Wadiah (Safe keeping) – this is a form of arrangement where customer deposits cash or assets for purpose of custody in a bank. The bank charge fees for safekeeping of assets or cash.
6. Bai' Bithaman Ajil (Deferred payment) – this is a form of after sales payment agreement. This is where buyer pay the seller after goods have been sold and delivered by the buyer.
7. Wakalah (Agency) – this is an agency relationship between the principal (individual /company) and the agent (bank/ finance house). The agent act on behalf of the principal for an agreed fees.
8. Quard (Interest free loan) – this is an interest free loan granted to borrower for certain period of time. The borrower decides on his own to show a form of appreciation by adding an extra amount to borrowed funds at the point of repayment.
9. Hibah (Gift) – this is willingness on the part of an individual or firm to make payment in lieu of benefit received.
10. Salam (forward trade contract) – this is where seller undertakes to supply goods to buyer at a specific future date in exchange for an advanced payment made on the spot.

Characteristics/attributes of Islamic banking and finance

1. It is non-inflationary
2. Prohibition of usury (interest). The most form of riba is called "Riba Al-naseaa". This is any form of money received or paid on money due to time preference alone.
3. It is entrepreneur driven.
4. All forms of contracts should not be harmful to all parties (freedom from Al-Darar).
5. It involves Islamic ethical transaction and social justice. It prohibit unethical investments and it is guided by ethical norms and social commitments. However, any form of unethical investments or activities such as gambling, pork product, tobacco, alcohol, immoral entertainment, non-Islamic hotel or resort are forbidden in Islamic financial system.
6. It entrenched the principle of profit or loss sharing. The sharing method is based on capital contribution ration by each party.

Islamic banking and Finance in Nigeria

Islamic financial system in Nigeria is governed by three statues, these are Central Bank Act (2007), Banks and Other Financial Institutions Act (1991), and Companies and Allied Matters Act (1990). Islamic banking in Nigeria can be traced back to 1992 when CBN granted licence to Habib Nigeria Bank Limited, which latter changed to Bank PHB and presently known as Keystone Bank, to operate non-interest banking services on a window basis. In 2004, Lotus capital was established to offered Halal fund (ethical investment fund), it operates as Islamic financing company dealing in investment and funds management in line with shari;ah principles and guidelines. Furthermore, in June 2011, the Central Bank of Nigeria (CBN) issued guidelines on the pursuit of Non-interest banking in Nigeria. The CBN Act 2007 section 33(1)(b); Banks and Other Financial Institution Act (BOFIA), 1991 section 23(1), 52, 55 (2), 59(1) (a), and 61and the Regulation on the Scope of Banking Activities and Ancillary matters No 3 (2010) section 4(1) (c), are the relevant laws that empowered the CBN to licences Non-interest bank, and to carry out banking operation in Nigeria. Central Bank of Nigeria, defined Non-Interest Financial Institution (NIFI) as a bank or Other Financial Institution (OFI) which engaged in banking business, trading, investment and other commercial activities in line with any established non-interest banking principles, rules and regulations.

However, in 11th November 2011, Jaiz bank was granted a licence to operate an Islamic bank. It commenced operation on 6th January 2012 with three branches in Abuja, Kaduna and Kano. It is the pioneer of non-interest banking in Nigeria, it provides ethical services to individual, corporate organisation and government entities. Jaiz bank is publicly quoted on the Nigeria Stock Exchange (NSE). As at 31st December 2020, it has a balance sheet size of ₦233 billion from its initial value of ₦12 billion in 2012. In the same vein, financing and investment Assets increased from over ₦30 billion in 2012 to ₦166 billion balance as at 31st December, 2020. The bank has also increased its branches from 3 in 2012 to19 in 2020, also it has 49 ATM located across the country. The products and services rendered by the bank are personal banking, corporate banking, agricultural finance, MSMES financing, trade financing, and special support facility. In addition, Taj bank was also licenced in 2019 as non-interest regional bank by CBN. It has offices in Abuja and Kano. Furthermore, Lotus bank was licenced in June 2021 by CBN to operate as non-interest bank while Sterling bank got its own approval in December, 2021 to operate Islamic banking window.

According to Proshare Ecosystem (2020), the Islamic financial system in Nigeria at present, has two Islamic banks, three non-interest banking windows, four takaful (insurance) companies, three Islamic ethical funds, two Islamic micro finance, over hundred Islamic cooperative societies, and four sovereign sukuk investment funds. In Nigeria, Islamic finance industry is estimated at USD$2.3 billion as at end of 2021. Sukuk bond is the largest segment in the sector (66%), this is followed by Islamic banks (32%), while the balance of 2% is shared between takaful (insurance) and Islamic funds (total assets). Presently, sukuk investment has formed part of Federal Government debt management strategy for 2020-2023 budget cycle.

Although, sukuk market in Nigeria is at its early stage of development, but at the end of 2020, it has 0.15 percent of global sukuk market. However, Nigeria has sukuk global market share of 0.15 percent, this is the highest in Africa, ahead of Senegal (0.04%), Egypt (0.04%) and Morocco (0.02%) (Fitch ratings, 2022).

Since the creation and its short operation in the Nigeria financial sector, Islamic financial system has been able to achieved the following: Introduction of non-interest fund IV in line with Islamic principles (shari'ah) by National Pension Commission (PENCOM), Payment of ₦63.8 million surplus to policy holders by NOOR Takaful Insurance Plc in August 2021, NASFAT also partners Halal invest to improved and encourage ethical financing in Nigeria. In area of Sukuk bond, Osun state issued ₦10 billion 7 years Ijara Sukuk in 2013, this was the first sukuk to be issued in that segment.In December 2021, Securities and Exchange Commission (SEC) approved ₦30 billion corporate sukuk programme targeted at providing affordable housing development for the citizens. Furthermore, Nigeria government also issued the fourth sovereign sukuk of ₦250 billion and this was over subscribe by ₦865 billion. In the future, there is likely hood of issuance of more sukuk and Islamic commercial papers that will focus on vital areas like education, health, energy, and road infrastructure. Besides, Islamic Development Bank approved the sum of $150.52 million to support special Agro-Industrial processing zone in Nigeria and $29.75 million front-end engineering design phase II. On educational and capacity development pursuit, the 5th African Islamic conference was hosted in Abuja in November, 2021, and this create an avenue that brought together worldwide stakeholders where issues on prospects of Islamic finance was discussed. In addition, in the area of capacity development, University of Lagos and Ahmadu Bello University, Zaria and other institutions had commenced courses in Islamic banking at both undergraduate and post-graduate level (Proshare Ecosystem, 2020).

Challenges

Islamic financial system are characterized with various challenges in the Nigeria financial sector. Some of these are:

1. Low level of public awareness, publicity and education on Islamic financial system.
2. Institutional challenge- lack of free interest loan from CBN (apex bank). This affects finance houses and banks operating a non-interest services.
3. Operational challenge – Non-interest financial institution framework was designed in line with the principles of conventional banking system. The matter of liquidity and risk management fails to recognize shari'ah principles in Islamic banking system. The cash

reserve and statutory liquidity requirements are the same for both conventional and Islamic banks.

4. Shortage of skilled, professional and qualified personnel with outstanding knowledge in Islamic banking and finance. This affects the professional ability to regulate and supervise the operation of Islamic banking and finance. Even in the areas of adjudication, there are shortage of qualified judges to handled Islamic judiciary matters in various level of courts.
5. Religious matters – in Nigeria, there are many citizens' with different religious faith, having misconception and mistrust about sincerity and truthfulness of Islamic banking and finance system. Nigeria is a secular nation with religious and tribal diversity. These misconception on the concept and working of the Islamic financial system by other religious faith apart from Muslims works against its success and expansion in Nigeria.
6. Lack of standardization and unified regulatory environment – in Nigeria, CBN is the lender of last resort to conventional banks when they are faced with liquidity problems. This window could not be enjoyed by Islamic banks since such loans or facilities are interest based and thus against the tenet of Islamic financial system.
7. Uncertain social, political, and economic environment. The social, political, and economic environment had been tensed in most Muslim dominated states due to incessant insecurity that has characterized the states for years. This has slow down the expansion, progress and operation of Islamic banks in those Muslim dominated states.
8. Based on shari'ah principles, Islamic banks cannot invest excess fund in investment characterize as interest based instruments available in the financial market. This affects the management of excess funds, since the only available liquidity management instruments in the financial market are designed in line with conventional banking principles and framework. In Nigeria, the CBN inter banks market and instruments used for monetary policy are structured in line with conventional banking system, without any consideration for any money market instruments that are shari'ah compliant.
9. Insurance – in the Nigeria Insurance Industry, takaful insurance is scanty and limited to secure properties of Islamic financial system from unforeseen hazards. Islamic financial system adopts takaful (insurance) for securing properties from unforeseen circumstances, therefore Islamic banks should protect their investment by using takaful (insurance). However, the only deposit insurance in Nigeria is the Nigeria Deposit Insurance Corporation (NDIC), it secure depositors funds in conventional banks. This insurance company was not structured to favor Islamic banks/finances.

10. Lack of specific, comprehensive and separate legal framework or Act on Islamic financial system. There is no special or separate law for Islamic banking and finance in Nigeria as obtainable in other country like Malaysia, where Islamic Banking Act 1983 was promulgated and distinct from law governing conventional banks. This affects adjudication on Islamic products, contracts and entities undertaken in line with shari'ah principles and regulations.

Prospects and opportunities of Islamic banking and finance in Nigeria

Nigeria government, policy makers, potential investors and financial institutions can embrace the advantages of Islamic financial system for business development, economic growth, poverty alleviation, income redistribution, and social wellbeing of the citizens. However:

1. It will provide opportunity to harness funds outside the conventional financial system. This idle funds which are outside the financial cycle could be banked and used as non-interest loan to entrepreneur, this makes cost of production cheaper when compared with high interest rate chargeable by conventional banks.
2. It will enhance good business relationship between investors and entrepreneur since profit/loss emanating from partnership agreement are shared based on capital contribution ratio. This plays an important role to boost operational efficiency and drive profitability, thereby promoting business growth and economic development.
3. The operation and expansion of Islamic financial system will act as alternatives to conventional finance. This gives the potential investors or entrepreneur the opportunity to source capital from growing pool of Islamic products and funds. In addition, it minimized fraudulent activities pertinent in banking sector as Islamic bank is operated based on trust (shari'ah principles). The consequences attached to mistrust and fraudulent activities in shari'ah laws is weighing and not human friendly.
4. Nigeria is the most populous black nation in the world and largest economy in Africa (World Bank, 2017), it is ranked fifth in the world in terms of Muslim population (World Atlas, 2018). The sizeable proportion of the populations yearn for Islamic financial service, this will drive good return to investors and entrepreneurs. Good support for Islamic finance in Nigeria by the government will make Nigeria economy the emerging regional hub for Islamic financial system in Africa.
5. Globally, Islamic financial system has been reported as multibillion dollar industry. Therefore, strategic partnership and linkage with Islamic financial institution on a global level will drives inn Foreign Direct Investment (FDI) especially from Islamic Development

Bank (IDB). This will enhance business and infrastructural development, employment opportunity and economic growth and development.

6. At time, government have plans provide good basic infrastructures to the citizens but this has always been hampered by shortage of funds. In recent time, these infrastructural facilities can be provided through the use of sukuk fund, available in Islamic financial system. Therefore, investment in powers, roads, rails and others can be done by given room for Islamic finance product like sukuk bond. This is cheaper when compared with conventional loans in financing long term infrastructural projects
7. It will ensure and enhanced ethical consideration in business operation, activities and relationship. The business operation hang on ethical products, investments, contracts and services which are produced or rendered in line with Islamic rules and regulations. This would foster trade business that will enhance nation's Gross Domestic Product (GDP).
8. Approval and operation of Islamic financial system will reduce cash held outside the financial cycle and bridge the access to fund problems by mini and micro enterprises in Nigeria. Most individual who are against interest charges or payments keeps their money outside conventional banking system, thereby contributing to high volume of cash held outside the banking system. These categories of people will have the option of investing or saving their funds in Islamic banks. This will brings those idle cash into Islamic financial system to enhance global cash in the financial cycle of a nation.
9. The promotion and expansion of Islamic banking and finance in the country will create more employment opportunity, foster human capacity development and enhance technology transfers, opening of new businesses, and increase productivity that will add value to GDP of a nation.
10. Moral hazard – the principles of unethical investments Al-Gharar (excessive uncertainty) and Al-Darar (harmful contracts) would be avoided in business communities. This will ensure reduction in moral hazard and promote ethical and good business relationships that will enhance social and cultural environment for better living.

Theoretical Review

The study anchored on theory of political economy. Political economy is the complexity of interaction between political and economic behaviour (Borrooah, 1985). Political economy came into existence in 18th century. It is the science of wealth, it deals with man effort to source for needs and satisfy his desires. It is a theory and practice of economics affair. Political economy gives priority to the understanding of social change within a society and historical transformation. According to Frey (1978), political economy studies interdependence between economy and the politics of a country or countries. It is a branch of social science which studies the relationship that exist between the society and individuals, and between the markets and states, it adopts different techniques and methods that draw from economics, political and sociology. In the same vein, Weingast and Wittman (2008) reported that political economy refers to interdisciplinary studies which draw upon economics, law, and political science in explaining how political institutions, political environment, and economic system (capitalist, socialist, or mixed) influenced each other. Kuruma (1954) viewed that Francis Quesnay is the first to introduced scientific system into political economy. He is the father of phi Socratic school in the middle 18th century. According to O'Hara (1999) other great researchers/philosophers like Adam Smith, David Ricardo, John M. Keynes, Joan Robison, Joseph Schiempeter, John Kenneth Gabraith all followed to talks about political economy. Political economy can be viewed in two ways, firstly, it is a multi-disciplinary research field where political scientist, economist, legal scholars and other social scientist study the relationship that exist between political sphere and the economic system of a nation. Secondly, it is a field where social scientist, journalist and other observers refers political economy as an obtainable interaction of politics and business in real world societies.

Islamic economy started in 1950s. This was when Muslims dominated countries took an initiatives to build economic system in line with the principles of Shari'ah, doing business based on the principles and values that hold the citizens at large. Islamic financial system is to address shari.ah mandated or prohibited matters "Zakah and Riba". Islamic political economy is the study of the economic impact of political and economic actions in Islamic dominated state. According to Asutay (2007), Islamic economics system is an approach that cares about human and ensure ethical values, however, Islamic bank is a unit of the Islamic economics model. Islamic banking and finance in different countries operates within the existing political and economic system as mixed institutions providing mixed products. This means that Islamic banking and finance operates within a dual banking system under the regulations of existing political regimes and institutions and, banking law and regulations. Besides, political economist like Smith (1776), Hayek (1960), and Friedman (1962) opined that it is the government responsibility to ensure a functioning legal system (laws, courts and judges, and rule of law) which can be used in adjudication process. In Islamic financial system, Islamic banks represent hybrid institutions with hybrid products (Asutay, 2012), this is to ensure efficiency and competitiveness in the dual banking system while making use of Islamic norms of shari'ah. Choudhury (1997) opined that Islamic political economy is a distinct Epistemology where the central principle is prohibition of usury (interest). Right from the time of Adam Smith's wealth of nation in 1776 till John Stuart Mill's principle of political economy in 1848, the word economic today was referred to as political economy. This means economics cannot be separated from politics.

Empirical review

Rehman *et al.,* (2021) studied a brief review of growth and development of Islamic banking. The study revealed that due to Muslims desired to prevent war, there has been a significant interest in creating a new version of Islamic financial system in recent years which cut across countries in the world. This gives Islamic financial system (banking) a substantial progress in becoming a truly competitive and profitable global alternatives to conventional banking system. Thaker *et al.,* (2020) in their studied, leveraging Islamic banking and fiancé for small business, revealed that Islamic banking and finance is a broad framework that has great potentials for supporting development finance particularly as it relates to small business and thereby generating positive societal impact. In addition Ayanleye (2020) looked at legal and regulatory framework for Islamic finance in Nigeria. The study revealed that religious bigotry, inconsistence legal framework and lack of public awareness are the challenges facing the operation of the Islamic financial system. The study recommends that Islamic finance will bring economic benefits of financial intermediaries between real sector and financial sector, and further creates employment opportunities, and eradication of poverty. Furthermore, Salman and Nawaz (2018) studied comparative analysis of Islamic financial system and conventional banking system with focus on profitability, efficiency and liquidity. The study revealed that there was a significant differences between Islamic financial system and conventional banking system. The study also shows that customers have more trust on return on assets from Islamic banks than conventional banks. However, in the study of Khan and Siddiqui (2018) on Islamic product (Sukuk bond) and conventional financing instruments. The study revealed that Islamic product (Sukuk bond) was more significant with high source of profitability than conventional banking fund or instruments.

Mustafa, Baita and Usman (2018) studied the impact analysis of Islamic finance on financial inclusion and economic growth in selected Muslim countries. The study revealed positive and significant relationship between Islamic finance and economic growth. The study recommends that government of should continue to strengthen the growth of Islamic finance to bring about more development opportunities. In the same vein, Anwar *et al.,* (2020) studied Islamic bank's contribution to Indonesia economic growth. The study revealed a significant relationship in the short and long run between Indonesia Islamic bank's deposits and economic growth. The study proved that in spite of less market share in the country's financial system, evidence showed that Islamic bank was a prosperous sector, and also contribute to economic growth. The study recommends that regulators should dedicate a unit within the system to handle all legal cases as it might arise. In addition, Midoun and Med (2019) studied global Islamic finance assets with focus on analysis of the Islamic banking in Algeria. From the study, it was reported that legislation, shortage of qualified personnel and lack of application of modern technology are the most critical factors that hinders Islamic banking operation in Algeria. Husseini *et al.* (2019) also studied Islamic banking revolution in Malaysia. The outcome of the study revealed that Malaysian Islamic banks have contributed to the Malaysian economy with support to SME (Small and Medium Entrepreneurship), industries and financing of large projects. The study suggested that Islamic financial system should be embraced, as this would reduce problematic ethical and information asymmetry risks.

Furthermore, Djafri, Laldin and Laallam (2021) study the global perspectives of Islamic finance and the potential for China in tapping into Islamic finance market. The study revealed that China has huge potentials to embrace Islamic finance for economic growth and development while implementing Belt and Road Initiatives. The study recommends government support is required for effective implementation. Such supports should be in the area of legal framework, public awareness and effective collaboration with international financial organization. In the aspect of legal framework, Nabiebu and Otu (2019) examined the legal conundrum of non-interest banking in Nigeria. The study revealed that Islamic banking is constitutional and is not a means to Islamize or discriminate non-Muslims but rather to give customers the advantage of having different credit choices, create more employment opportunities and drives foreign investments from Islamic Development Bank (IDB) for infrastructural developments. The study concluded that government should create more awareness and provide legal framework for its operation. In the same vein, Sa'id (2019) laid emphasis on public awareness on Islamic banking system in Nigeria due to nation's diverse religious and ethnicity dimensions. His study revealed that Islamic banking evolves from relationship between human and non-human actors which was shaped by Nigeria socio-economic environment. Dabor and Aggreh (2017) also revealed that lack of awareness, customers' preference for conventional banks and the operation of traditional money lenders were the major challenges that affect the growth and development of Islamic banks. Besides, poverty alleviation and employment opportunities are some of the benefits. The study recommends appropriate public awareness for citizens to embrace the Islamic financial system. Various institutions should also map out strategies and framework that will ensure favorable competition with conventional banks. In addition, Gidado (2018) studied the opportunities and challenges of Islamic banking in the Nigeria economy. The study revealed that religion, manpower, moral hazard and competition from conventional banks hinders the operation of Islamic banks. The study concluded that Islamic bank should be seen as an alternative investment opportunity for foreign and domestic investors.

METHODOLOGY

The study adopts exploratory research design with focus on relevant books, journals and other literatures in the field of finance, accounting and economics. These books, journal s and literatures were reviewed, conclusion drawn and appropriate recommendations are made for purpose of adding to the frontiers of knowledge.

CONCLUSION

The approval and implementation of Islamic finance in Nigeria has political and economy benefits to the Nigeria economy growth and development; and the financial system. Nigeria has the largest Muslim population in Sub-Sahara Africa, these creates the foundation for the establishment and success of Islamic economy. Islamic finance is an investment activities that is based on economic, social and moral responsibility within a society, it is not a religious financial system but ethical system that is available for individual and corporate investors to make money in an ethically manner whether being a Muslim or not. Therefore, the misconception about Islamic finance that it is for Muslims alone or an attempt to Islamize the country is far from the truth. Islamic finance is created on the principles of just, fair and equity in contributing income and wealth in production cycle.

Islamic financial system has grown and spread in many Muslim and non-Muslim countries worldwide, therefore, it has contributed to the growth and development of business activities and economy of these countries, which Nigeria will not be an exception. In countries like Malaysia, Philippine, Morocco, and Kuwait, Islamic finance has emerge as a vital factor for economic development, poverty alleviation and wealth creation, employment opportunities, and as alternative sources of finance for SMEs. Unfortunately, in Nigeria, Islamic finance has remained scanty and undeveloped due to political, ethnicity and religious pigmentation. Many religious faith that are against interest payment and receipt holds their funds outside the banking system, thereby making funds held outside the financial cycle idle, and this increases on daily basis. Promotion of Islamic banking and finance will give the opportunity to mobilize these idle funds into productive activities.

Literature shows that in some developed and developing economy, Islamic banks has taken roots and developed. In Malaysia, after the passage of distinct law on Islamic finance (Islamic Banking Act, 1983) in 7th April 1983 and creation of first Islamic bank in July 1 1983, with full authority given to Bank of Negara to supervise and regulate Islamic banks, there had been tremendous contribution to the economy of the country and business communities. Besides, in Morocco, Islamic banks has grown by 120%, Germany concludes full fledge Islamic bank in 2017 while Philippines passed a new Islamic banking law in 2019 which is distinct from conventional banking Act to enable domestic and foreign investors to establish shari'ah compliant banking window in the country. In other countries, Islamic bank and finance has been accepted and promoted by government.

Nigeria still has a great potential for Islamic financial system taking into consideration the advantages of Muslim populations and other religious faithful who have interest in a banking system that align with non-payment or receipt of usury/riba on funds. Therefore it is a financial system that can be embraced for business growth and economic development if truly tapped. Government and potential investors should therefore make Islamic banking and finance as a competitive and profitable alternatives to conventional banking system, government should support by having a distinct legal framework or Act that will make Islamic finance as alternative investment opportunity for foreign and local investors. The essence of creating and promoting Islamic banking and finance is to strengthen its growth and development in the country, make it as an alternative means for financing more developmental projects, see it as a means of creating more employment opportunities, and used for eradicating poverty among the citizens.

RECOMMENDATIONS

1. Government should improve on public awareness and publicity on Islamic banking and finance. The regulators, financial institutions and other stakeholders should wake up to assist the effort of government in diffusing misconception about the mode and objectives of Islamic financial system in the country.
2. The regulators, Central Bank of Nigeria (CBN), Securities and Exchange Commission (SEC), Pension Commission (PENCOM), National Deposit Insurance Commission (NDIC) and National Insurance Commission (NICOM) should design a framework that will support, regulate and enhance Islamic banking system, insurance industry (takaful) and other non-interest financial sectors, for effective and efficient operation.
3. Government should endeavor to licence more Islamic financial institutions especially (banks) to cater for the unbanked populations and also to address fund gaps among SMEs entrepreneur.
4. Government should collaborate with Islamic Development Bank (IDB) in raising funds for the Nigeria ailing economy and means of financing the infrastructural decay in the

country. Funding from IDB for infrastructural development will enhance business operation and ensure wellbeing of the citizens.

5. Government and the regulators should invest more on capacity building in the financial industry and the capital market. This will ensure outstanding and professional supervision and regulatory on Islamic financial activities for achieving a better service.
6. Separate Islamic financial Act should be considered and promulgated, distinct from the present conventional banking Act. This will address all matters affecting the smooth operation of Islamic financial system (banking and takaful (insurance)) in Nigeria.
7. There should be adequate collaboration among the policy makers, regulators, operators, financial institution, professional bodies and academicians in ensuring seamless growth and development of Islamic financial system in Nigeria.

SCOPE FOR FURTHER STUDIES

The research shows that Islamic banking and finance is vital to business growth and economic developments. Islamic financial system has grown and spread in many Muslim and non-Muslim countries worldwide, therefore, it has contributed to the growth and development of business activities and economy of these countries. In the future, researcher(s) could consider study on the impact of Islamic finance (sukkuk bond) on infrastructural and economic development of a country or empirical study of Islamic finance (takaful, (insurance)) on Banks securities or the impact of Islamic finance on business growths or empirical comparison of Islamic banking system and conventional banking system.

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