

## **The Prospect and Challenges of Islamic Banking and Finance in Nigeria: A Conceptual Approach**

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**Abstract:** Islamic banking and finance in Nigeria has been bedevilled with a lot of issues and challenges ranging from religious problems, policy and guideline inconsistencies, investors and promoters of the system. Though Islamic banking in world has been in existence for centuries, it still remain a new phenomenon in Nigeria and finding difficult to penetrate into the banking and financial industry in spite of the large population of Muslims in the country. This study aimed to identify and analyse the prospects and challenges of Islamic banking finance in Nigeria using secondary sources and other past literatures. By adopting conceptual method, the study suggest that both government and promoters of Islamic banking should add more effort through effective collaboration that will bring about a more detailed guideline for full operationalization of Islamic banking and finance in Nigeria. The guidelines should not ambiguous and it should state clearly the rules and policies for conduct of the business in Line with Sharia principles. This study concludes that Islamic banking and finance in Nigeria offers a huge investment opportunity for both domestic and foreign investors what is most needed to achieve this, is for all stakeholders to collaborate in a way that a structured, functional and sustainable Islamic banking model will be formulated and communicated widely so as to gain general acceptability. The study further concludes that effective and harmonious relationship and understanding between different religious sects in the country will also go a long way in enhancing the growth and development of Islamic banking and finance in Nigeria.

**Key words:** Islamic banking, Islamic faith, Central Bank of Nigeria, Nigeria Stock Exchange, stakeholders, conventional bank

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### **INTRODUCTION**

Islamic banking is believed to be an alternative type of financial intermediation that is centred on the profit and loss sharing motive. It is seen as market focused based on a moral dimension which is in accordance to Islamic values, norms, principles and teachings. It is not the only type of profit and loss sharing banking grounded on non interest doctrines but it is the most advanced form that has global acceptance and appeal (Sanusi, 2011). Similarly, Garba (2011) asserted that Islamic banking has the same tenacity as the conventional banking except for that it operates in line with the doctrine of sharia's known as Fiqh al-muamalat (Islamic rules of transaction). The rudimentary principle of Islamic banking is the distribution of profit and loss and the prohibition of riba (interest). Among the common Islamic concepts used in Islamic banking are profit sharing (mudarabah), safe keeping (waqf), joint venture (musharaka), cost plus (murabaha) and leasing (ijara). Conversely, Lawal (2010) opined that Islamic banking is not identical with interest free banking. It functions on Islamic code of ethics which is founded on

the Quran. Its entire finances are asset sponsored which makes its complete funds open for investment in the production of goods and services. Islamic banking rejects deal in all economic activities that has a social or moral issue to the society and it works on profit and loss sharing motive.

The full take off and operationalization of Islamic banking and finance in Nigeria has been hindered by a lot of issues and challenges ranging from religious diversity of the country and inability of the stakeholders to collectively face the problems. Even though to some extent the government is facilitating its full take off, most Nigerians lack the knowledge of Islamic banking and finance while other religions followers in the country completely oppose to the idea. However, the formation and implementation of Islamic banking system and policy in Nigeria has created a lot of problems from some eminent Nigerians, demanding the Governor of Central Bank of Nigeria to justify the reasons while such policy should be applied in Nigeria where there are different religions. The reason being that Nigeria is a multi-religious nation that is dominated by Muslims, Christians and religious activists.

Despite the fact that the Holy Quran and Bible forbids interest or usury which is charged on borrowed fund. Also, there have been a series of campaign and castigations against establishment of Islamic banking that are planned and organized by non-Muslim authorities to blackmail the introduction and operations of the Islamic banking system in Nigeria. This overzealous move started since the first license to start non-interest banking was granted (Yunusa and Nordin, 2015). Garba (2011) also argues that one of the major hullabaloo is apparently due to lack of understanding of the idea of Islamic banking and in what manner the system operates. The adversaries of the system largely hinged their opinions for opposing the system on what they termed as introduction of religion into banking and illegal marginalisation of non-Muslims from non-interest banking. This needless opposition is ignited by the failure of the suitable authority in Nigeria to appropriately enlighten Nigerians particularly the non-Muslims on what Islamic banking is all about who could be the customer of the bank and whether certain section of the society is excluded from its operations. Furthermore, Sanusi (2011) stated that deficiency of knowledge, expertise and technical aptitude to standardise and administer Islamic banks as well as absence of Islamic cover (Takaful) to safeguard investments of Islamic banks against unexpected dangers and facilitate the growth of the industry respectively are some major factors affecting the growth of Islamic banking in Nigeria.

Therefore, this study intends to identify the challenges and major setback that is hindering the performance and full establishment of Islamic Banking in Nigeria with the aim to developing a model and strategies that will help bring about the full take off of Islamic banking in Nigeria. The study adopted past literatures and in the end come up with surmountable solutions the challenges facing Islamic banking and finance in Nigeria.

**Literature review:** This part of the study will review past literatures relating to concept and teachings of Islam as well as the concept of Islamic banking and finance, Islamic banking in Nigeria, the regulatory framework for Islamic banking as well as recent factors threatening the full take off of Islamic banks in Nigeria.

**The concept and principles of Islamic faith:** The lexical meaning of Islam is submission and strict adherence to the command and will of Allah (SAW) without any iota of objection which is believed to be true essence of Islamic faith. By obeying and upholding the commands of Allah, it is believed that the Muslim will have harmony with the Universe in which he dwells. The religion or faith of Islam

is believed to be transmitted by the Prophet Mohammed as revealed to him by God (Allah). Fundamental to Islamic principles is The Qur'an which is the holy book believed by Muslims to be containing the speech of God revealed to the Prophet Mohammed in Arabic and transmitted to mankind and Jinn's by continuous testimony'. The Qur'an is thought to be an evidence of the prophecy of Mohammed (SAW) is the most authoritative guide for Muslims and is the first source of the Sharia'a. The Ulema (religious scholars) are agreed on this point and some even believed that it is the only source and that all other sources are explanatory of the Qur'an (Kettell, 2011). Rahman (2014) also assert that Muslims are educated that Islam came to uphold the teachings of all the Prophets of God, including the patriarch and father of all prophets, Prophet Abraham (AS) and all of his children and grandchildren, including Prophets Ishmael (AS), Isaac (AS), Jacob (also known as Israel AS), David (AS), Solomon (AS) and the many prophets who preceded the last three, (i.e., Moses (AS), Jesus (AS) and Muhammad (SAW)). The above discussion can further be affirmed in the holy Quran stated below: 2:136 Say:

“We believe in God and in that which has been bestowed from on high upon us and that which has been bestowed upon Abraham and Ishmael and Isaac and Jacob and their descendants and that which has been vouchsafed to Moses and Jesus and that which has been vouchsafed to all the prophets by their Sustainer: we make no distinction between any of them. And it is unto Him that we surrender ourselves”

Base on the above verse and discussion, Islam can be seen as a way of life in which a complete code and guide is revealed to mankind in order to live peacefully and in harmony on earth and the afterlife. This definition also brings about the definition of Islam as Salam meaning peace. It further affirms that Islam has being in existence right from the beginning of mankind existence on earth as it has been providing guide to humanity by Allah who is the Creator. It also indicate that the message of Islam has been passing through chain of Prophets which Allah bestow upon them to deliver His message to mankind. It further indicate that Islam is established base on Islamic code of conduct which is Sharia as it serves as a guide to the entire humanity on how to live from cradle to the grave. By implication, the Sharia is derived from the Quran and Sunnah thereby forming the basic source of Islamic rules and regulations.

However, Islam as a faith is built upon basic Pillars and principles as stated by Kettell (2011), Islamic structure is established on pillars which are known to be five in

number. The power and stability of any system depends on the supporting pillars, the strength and stability of Islam depends on its pillars. Muslims are duty-bound to acquaint themselves with the nature of Islam's pillars. This pillars include: the profession of faith (Shahada), five daily prayers (Salat), almsgiving (Zakat), fasting (Sawm) and pilgrimage (Hajj). Similarly, apart from the five Islamic pillars the religion proposed articles of faith in which every Muslim must have full faith and believe. The article of faith as mentioned in one of the hadith of the holy Prophet Muhammad (SAW) includes: believe in Allah (SAW) believe in the Angels, believe in all Prophets, believe in all revealed books by Allah to mankind through His messengers, believe in life after death or the hereafter and finally believe in fate and destiny.

Islam further emphasize on the need for people to abide by the teachings of the Holy Quran as well as the practises and traditions of the Holy Prophet Muhammad (SAW). This is however, due to the fact that the Holy Quran has provide a laid down rules and guidelines in which mankind is to abide by in carrying out his every social, domestic, trading as well as banking related transactions. The traditions or Sunnah of holy prophet is as well a guide for Muslims to follow because the prophet serves as a role model for entire humanity to emulate. Both the Quran and Hadith have made provision on how Muslims should carry out their respective business transactions and one of the major acts of business transactions that Islam forbids is Riba in business. Islam condemns any act of riba and any form of cheating in carrying out a contracts or any type of business transaction. It believed in Islam that parties going into contract should do so with utmost fidelity and trust and abstain against any form cheating and speculation.

**The concept of Islamic banking and finance:** According to Sanusi (2011), Islamic banking is believed to be an alternative type of financial intermediation that is centred on the profit and loss sharing motive. It is seen as market focused based on a moral dimension which is in accordance to Islamic values, norms and teachings. It is not the only type of profit and loss sharing banking grounded on non-interest doctrines but it is the most advanced form that has global acceptance and appeal. Islamic banking and finance is seen as distinctive system of banking is strictly established and based on ideologies of sharia law which forbids unconditionally in any form, the receipt and or payment of any pre-set or assured rate of returns, thereby shutting gates for the concept of usury or interest in financial transactions. Also, Islamic banking refers to a mode of banking or banking transaction that is in line with Islamic law (Sharia) ethics

and directed by Islamic economics. Ban of interest, low consumer lending, profit and loss sharing and high real sector investing are major elements of Islamic banks.

The principles of Islam which is the Sharia law prohibits Muslims from receiving or giving riba, though, what constitutes riba however, is debated and has been widely deliberated in the Islamic community. Some view riba as usury or excessively high rate of interest. But the majority of Islamic scholars view riba as interest or any pre-determined return on a loan. The fundamental principle of Islamic banking, is the exclusion of interest (riba), stems from the following Qur'an verse:

“Those who eat riba will not stand (on the Day of Resurrection) except like the standing of a person beaten by the devil (Satan) leading him to insanity. That is because they say: ‘Trading is only like riba’ whereas Allah has permitted trading and forbidden riba. So whosoever receives an admonition from his Lord and stops eating riba shall not be punished for the past his case is for Allah (to judge) but whoever returns [to riba] such are the dwellers of the Fire-they will abide therein”

Also in a Hadith narrated by Aisha (RA) stated that:

“When the Surat” Al-Baqrah about the Usury were revealed, the Prophet (SAW) went to the mosque and recited them in front of the people and then banned the trade in alcohol”

Kettell (2011) also assert that the ban of usury (riba) is in fact cited in four different verses in the Qur'an. The first among the verses emphasises that interest take away wealth from God's benedictions. The second verse denounces it, placing interest in collocation with wrongful appropriation of possessions belonging to others. The third revelation instructs Muslims to stay clear of interest for the sake of their own welfare. The fourth revelation institutes a clear division between interest and trade, urging Muslims to take only the principal sum and forgo even this sum if the borrower is unable to repay. It is further declared in the Qur'an that those who disregard the prohibition of interest are at war with God and His Prophet.

Islamic banking and finance system also ban speculation in business. According to Bello and Abubakar, Islamic banking prohibits speculation (gharar). The term gharar plainly means vulnerability. More so, it means trades that have high level of risk and are therefore related to gambling. Since Islam prohibits speculation, a potential Islamic bank will avoid all transactions with undue risk. Similarly, Fatai (2012) assert that one of the

most central goals of Islam is to realize greater justice in human society. This is not possible unless all human institutions including the financial system, subsidize positively in the direction of this end. One of the needs for this is to subject all aspects of human life, social, economic, political and global, to moral values.

Furthermore, the common products of Islamic banking as opined by Yaqub and Bello (2012) are mudaraba, musharaka, murabaha and ijara and Qard al-Hassan. Mudaraba is a system of partnership encompassing two parties, the investor that is the Islamic institution usually called *rabu-al-mal* and entrepreneur known as *mudarib*, while the former provides the capital which is invested by the latter and profits from the business is shared according to a prearranged ratio while loss is borne by the investor or *rabu-al-mal* only.

Musharaka on the other hand implies that the *riba* free financial transaction its investment subsidiary enters into a direct investment with the customer in the form of equity ownership. Profit or loss would be assigned to each joint venture according to a well-defined distribution formula (Rahman, 2014). This means that the both parties in agreement enter into contract and profit and loss sharing will be based on agreed proportion between parties.

Islamic banking and finance system, however has a systemic way of transactions which is guided by principles and practise of Sharia unlike the conventional way that relies on *riba* and high level of speculation. Islamic products and services are strictly free of *riba* and transact only in areas that is in line with doctrines of sharia and *Fiqh al-muamalat*. This is however, aimed at creating a stable economic system that will support equal growth and stability.

**Islamic banking in Nigeria:** Islamic banking is becoming systemically imperative in some nation state and in many others too big to be unnoticed. Within a duration of less than five decades from its commencement in a contemporary form in 1963, Islamic banking has progressively become an essential part of the international financial system that is catering for the specific need of not only the Muslim community but also non-Muslims who want to carry out their economic activities devoid of interest, usury or speculation (Dogarawa, 2011). Islamic banking in its present state according to Adeniran (2013) can be traced to some young Muslim economists in the late forties who thought that the banking systems should be reorganized on the basis of profit sharing rather than interest rate. They recognized the need for viable banks and the evil of interest in the enterprise and proposed a banking system

based on the concept of profit and loss sharing (Islamic banking). Though, the Islamic banking and finance mode of transaction has been in existence with its laid down principles and regulations governing the system quiet long ago, its resurgence and revival can be traced back to the twentieth century. The main breakthrough of Islamic banking as opined by happened in December 1970 at the second conference of foreign ministers of Muslim states held in Karachi, Pakistan. It was at that meeting that the idea of a full-fledged Islamic banking was first put forward. It was the product of this conference that activated the establishment of Nasr social Bank in Egypt in 1971. In 1973 and 1975, The Philippine Amana Bank and The Dubai Islamic Bank were formed.

In Nigeria however, Islamic banking began to gain recognition in the early nineties. Though, the country comprises of Muslims and non-Muslims it is believed that over eighty million people are Muslims in the country which is almost equivalent to number of Muslims in Algeria, Tunisia and Morocco. The forerunners of this Islamic banking and finance are Habib bank now Keystone bank and Ahmed Zakari Company. Habib Nigeria Bank limited led the way to Islamic Banking in Nigeria. The idea was conceived in 1995 and approved by The Central Banking of Nigeria under Banks and Other Financial Institutions Decrees (BOFID) 24 and 25 of 1991, on the March of 4th 1998. In August 2001, Habib Nigeria Bank, now known as Keystone bank introduced a new product tagged "Non interest banking". Under the scheme, the banks' lending collection was designed towards lending to entrepreneurs who are profit-oriented and profit-motivated rather than interest-oriented as is the practice in credit banking (Clifford, 2008). This however, serves as the first mover in the formation and establishment Islamic banking and finance in Nigeria. Despite, the fact that the then Habib bank was a conventional bank which offers Islamic window it is still seen as the first bank in the country that offers *riba* free products and services.

Along the line however, Ja'iz International Plc. was established in year 2003/2004 in order to serve as a fully fledged Islamic bank in Nigeria. Ja'iz international Plc. later metamorphose in Ja'iz Bank Plc. and acquired a Regional operating license to operate as an Islamic Bank from the Central Bank of Nigeria on the 11th of November 2011. Ja'iz bank begun full operations as the first *Riba* free (Islamic) Bank in Nigeria on the 6th of January, 2012 with a total number of three branches located in Abuja FCT, Kaduna and Kano. The Regional license permits the Bank to function geographically in a third of the country. Also, based on recommendations from Islamic Development

Bank (IDB) who is also a shareholder of the bank, Ja'iz Bank PLC is also in strategic alliance and partnership with Islamic Bank Bangladesh (IBBL) for Technical and Management Assistance.

Jaiz bank is so far the sole fully-fledged Islamic bank in Nigeria and despite the challenges it faces as regard to policy regulation and poor awareness among other non-Muslims, it is believed to gaining acceptance and recognition from Muslim population of over 80 million and also was able to form an alliance with the National Hajj Commission of Nigeria which gives it another boost in terms of financial growth and recognition.

**Regulatory framework for Islamic banking and finance in Nigeria:** Banks in Nigeria are regulated by the central bank of Nigeria. The Central Bank formulates policies for all financial institutions in Nigeria. Seen as the apex bank in the country and therefore serves a mechanism by the government to control and regulate banks and other financial institutions in the. Therefore, the central bank regulates the operations of Islamic banks in Nigeria. So also the Nigerian stock exchange and the National Deposit Insurance Corporation plays a vital role in regulating the activities of Islamic banks in the country.

**Central Bank of Nigeria and Islamic banking regulation:** The emergence of Islamic banking system in several Muslim and non-Muslim countries with its absence in Nigeria fuel the desires and agitations for formation of Islamic banking. This eventually generated a lot of concerns for its non-existence in Nigeria despite its vast Muslim population (Daud *et al.*, 2011). This however made the federal government of Nigeria through the central bank to come up with a new policy guideline for the regulation of Islamic banking and finance in the country. However, in January 2009, the Central Bank of Nigeria became part of the Islamic Financial Services Board (IFSB) and became a full-council member and in which Central Bank issues the draft framework for the regulation and supervision of non-interest banks in Nigeria comments and suggestions by stakeholders (Sanusi, 2011). The framework was later compiled and became into what is known as the framework for the regulation and supervision of institutions offering non-interest financial services in Nigeria. Some of the guidelines in the document are stated as:

“A Non-Interest Financial Institution (NIFI) signifies a bank or Other Financial Institution (OFI) under the jurisdiction of the Central Bank of Nigeria (CBN) which executes banking transactions, carrying out trading, investment

and commercial undertakings as well as the provision of financial products and services in cognisance with principles of Sharia and regulations of Islamic commercial jurisprudence. Dealings, instruments and contracts under this form of services are not allowed and rejected if they involve: Interest (Riba) Uncertainty or ambiguity relating to the subject matter, terms or conditions; Gambling; Speculation (Gharar); Unjust enrichment; Exploitation/unfair trade practices; Transactions in pork, alcohol, arms and ammunition, pornography and other transactions, products, goods or services which are not in line with rules and principles of Sharia”

Based on the above statement, it clearly indicates that the Central Bank of Nigeria has set down a clear guide for establishing and running Islamic financial institution in Nigeria which is as well strictly in line with basic tenets and teachings of Islam. Also the Central Bank of Nigeria draws a guideline for conventional banks willing to offer Islamic products and services. Based on the regulatory framework it stated that:

- Conventional banks/other financial institutions operating in Nigeria may deal or sell Sharia-compliant products and services via subsidiaries, windows or branches only
- A non-interest subsidiary of a conventional bank or financial institution shall be established in line with the licensing requirements for the establishment of a full-fledged non-interest bank or financial institution
- Similarly, a non-interest window or branch of a conventional bank or financial organisation shall be established and operated in line with the guidelines on windows/branches delivered by the CBN

The guideline further instructs fully-fledged Islamic banks and conventional banks offering Islamic windows to offer products and services that are in line with principles of Sharia and to give a clear demarcation between Islamic products and non-Islamic products in the case of conventional banks offering Islamic windows.

**The Nigerian Stock Exchange and Islamic equity and bond financing:** The Nigerian Stock Exchange renders financial services to the biggest economy in Africa which is Nigeria and is advocating the development of Africa's financial hub. The Nigerian Stock Exchange is a registered company limited by guarantee that came into being in 1960, licensed under the Investments and Securities Act

(ISA). Nigerian Stock Exchange provides listing and trading operations, licensing facilities, market data solutions, supplementary technology facilities and more. The Nigerian stock exchange is liable for rendering a well-organized and well regulated marketplace. The Nigerian Stock Exchange (The NSE or The Exchange), being a self-regulatory organization preserves a body of rules and guidelines to standardise admittance and management of its dealing members to enforce submission with financial and functioning requirements and the constant checking and observation of their trade operations.

In line with its primary responsibility as the regulator of the stock market, the NSE also provide a guideline for investing in Islamic Bond (Sukuk). On 6th June, 2012 the Nigerian Stock Exchange (NSE) signed a Memorandum of Understanding with Lotus Capital Limited to develop and accomplish the first index fashioned to track the performance of Sharia submissive equities on the floor of the Nigerian Stock Exchange. In recent times, Nigeria joined the global finance in implementing Sharia compliant instruments for capital-raising instruments. Examples include: Osun Sukuk Company Plc. and NSE/Lotus Islamic Index which tracks the performance of 15 Sharia compliant equities.

The NSE Lotus Islamic Index comprises of companies whose business dealings are in conformity with the Sharia principles which is believed that it will enhance the scope of the market and produce an imperative benchmark for investments as the alternative non-interest investment space widens. In order to enhance efficiency and effectiveness of the Islamic equity, in 2014 the Nigerian stock exchange draft a law guiding the regulation of Islamic bonds equities known as rules governing the listing of sukuk and debt securities in the NSE.

This guidelines sets out the obligations that must be adhered with by an Issuer seeking a listing of its sukuk or debt securities on the authorised list of the Nigerian Stock Exchange (The Exchange). For instance, the guidelines states that an Issuer must appoint a Sharia counsellor registered with the securities and exchange commission who will convey primary responsibilities that include advising on all facets of the sukuk including documentation and forming. The NSE guideline for sukuk further stated that any Issuer pursuing the listing and quotation of its sukuk or debt securities on the exchange as exchange traded bonds shall perform a trust deed which shall contain the appropriate requirements set out in the guidelines of the commission and the appendix to these rules in its trust deed or any other document governing the rights of the sukuk or debt securities holders. As regards to foreign issuer, the guideline

asserts that any issuer which is alien government, a national of any overseas country or a company or other organization incorporated under the laws of any foreign state shall appoint an representative in Nigeria that will be responsible for communication with the exchange, on behalf of the Issuer.

However, despite the NSE have open door Islamic Sukuk and equity financing people are still not aware of its existent, this might be due to low level of awareness by the sukuk promoters or poor collaboration between the NSE and the Sukuk agents.

### **PROSPECTS OF ISLAMIC BANKING AND FINANCIAL INSTITUTION IN NIGERIA**

Islamic banking offers a huge prospect for growth in Nigeria to both domestic and foreign investors, this is however, due to the fact that it remains a new and open market and also offers a huge customer potentialities. The fall of conventional banks and other financial institutions during the 2007-2008 global financial crises has also give a boost to the growth of Islamic banking and finance across the globe. In Nigeria some of the prospect of Islamic Banking and finance are discussed below.

**Islamic banking and finance offers opportunity for employment:** The establishment and formation of Islamic banking and finance institutions in Nigeria can serve as a means for creating employment opportunities for Nigerians. This implies that it will bring about reduction of unemployment in the country as asserted by Dogarawa (2011) that the establishment of Islamic banks in Nigeria is expected to provide employment opportunity for many of the educated unemployed, in that, conventional banks that may intend to offer Islamic products and service or subsidiary of Islamic banking will have to employ new staff that will supplement their existing workforce or even specialise in Islamic financial products and services.

**Promote economic growth and development through direct foreign investment:** Economic prosperity can be attained through foreign direct investment which will bring about inflow of technology, innovation, manpower and money into the economy thereby creating more potentials for growth and sustainability. Foreign investors can be offered the opportunity to invest into the industry of Islamic banking and finance and s well other willing to offer Islamic products can go in to strategic alliance and partnership with other foreign Islamic banks overseas in order to encourage foreign direct investment. According to Fatai (2012), Islamic banking and finance sub-sector is

a multi-billion dollar industry developing a global spread and impetus. After the banking sector consolidation, Nigerian banks have developed a heightened enthusiasm to function on the global stage which nurtures the outlook of strategic partnerships and relations with other global financial institutions offering Islamic financial services.

**Potential market base:** Nigeria is believed to be Africa largest market with over one and seventy million people according to 2006 census. This however, offers a potential market for investment in the Islamic banking and finance sub-sector. Moreover, the country is comprised of Muslims and non-Muslims with over 80 million Muslims which is almost equivalent to number of Muslims in Algeria, Tunisia and Morocco, this therefore, signifies a significant market base for the Islamic banking and financial institution. Similarly, Fatai (2012), also states that Nigeria is the most populated Black Country in the world with a population of about 150 million. An ample proportion of the population (Muslim and Non-Muslim) yearn for Islamic financial services.

**The Islamic banking and finance offers an alternative to conventional banks:** Though some conventional banks offer Islamic products and service to compete with the Islamic banks, it will pertinent to note that the Islamic banking and finance system in Nigeria will offer an alternative to people that adhere strictly to the principles of non-interest banking. It will also bring about healthy business competition among the conventional banks and Islamic Banks as the two are distinctively different from one another. Further, Dogarawa (2011) suggest that Islamic bank as an alternative to conventional banking, is expected to serve as a competitor that will promote effective and efficient service delivery and healthy competition.

**Assurance of stable and balanced financial system:** A more stable and balanced financial system will not only improve financial stability but it will also enhance balances economic system that will bring about sustainable development. According to Obiyo ensuring financial stability in the Nigerian economy appears to be the first major prospect of the perceived Islamic banking system in this country due to the fact that liquidity management is of great concern to the Central Bank of Nigeria. Similarly, rambling price will be reduced to the lowest minimum in the sense that loans taken if invested on a business, the loaner will not have to repay a more than the amount of loan collected but the target would be profit sharing which will aid in creating a stable economy (Ajani *et al.*, 2013).

## **CONSTRAINTS OF ISLAMIC BANKING AND FINANCE IN NIGERIA**

Upon all the efforts of government and other stakeholders involved in the Islamic banking and finance, several factors have militating against the effective and efficient operationalization of the system in Nigeria. Various studies have been conducting regarding issues facing Islamic Banking and finance in the country. Some of the problems and challenges are discussed below.

**Lack of understanding of basic tenants of Islamic banking and finance:** Islamic banking and finance is still at its introductory stage in Nigeria, many people are not aware of the through guiding principles of Islamic banks which tends to bring a lot drawbacks in full take off and acceptance in Nigeria. Religion seems to be the foremost drawback of Islamic banking in Nigeria. Non-Muslims perceive it as an Islamization process while Muslims regard it as a virtuous act founded on religious belief. Bello also opined that one of the factors hampering the full implementation of Islamic banking in Nigeria is diversity cultural and religious belief and further suggest that the issue is a serious one that needs to be effectively and efficiently resolved if Islamic banking in Nigeria must prosper. Therefore, the issue of misconception about the true picture of Islamic banking and finance in Nigeria form a serious threat to its full implementation.

**Lack of technical know-how of Islamic products and services and issue of qualified personnel to effectively handle Islamic banking operations:** Knowledgeable and experienced manpower to effectively and efficiently handle the business operations of Islamic bank and Islamic financial institution is lacking in Nigeria which hinders performs of the Islamic banks. The principles of Islamic banking and finance is completely different with that of conventional banks which makes so unique and require a specific skill and expertise. Sanusi (2011) mentioned that of the key challenges for Islamic banks is due to deficiency of understanding, skills and technical aptitude to effectively and efficiently standardise and supervise Islamic banks. Poor knowledge of accounting and auditing standards pertinent to Islamic financial institutions. The balance-sheet assembly of Islamic banks is unique and even though the research of the accounting and auditing organisation for Islamic financial institutions on accounting and auditing standards for Islamic banking products is available, there is the need to train conventional accountants and auditors in the application of the standards (Adeniran, 2013).

**Low competitive strengths and poor brand awareness:**

Despite the fact that Islamic Banking opens window of opportunity to various investors, it still unable to adopt and effective strategy that will enable it compete more favourably with other conventional banks. This might however be connected to the fact that the conventional banks already dominate the and the Islamic banks are not able to effectively penetrate and create more market and capture larger market share in order to compete favourably in the banking business. The issue of low competitive strength also bring about poor brand recognition of Islamic products in the banking industry, the Islamic banks products are recognised in the market which hampers it ability to capture more market share. Also, Bello (2014) argue that issue of brand awareness have causes a serious impediment to Islamic banking in Nigeria thereby leading to needless antagonisms and low public acceptance.

**Lack of strategic collaborative policies between government and other stakeholders:**

Though, the government in its effort to ensuring an effective guideline for Islamic banking and finance in Nigeria, collaboration between the government and other stakeholders involved in the formation and establishment of Islamic banks has yield any standard outcome. Additionally, Grace (2012) argue that the problem of policy making and implementation have often been lack of proper communication to the people by the government and other stakeholders about the benefits they stand to get from a policy and the methods by which a particular policy is to be implemented.

**Non-appearance of Islamic insurance to cover Islamic banks:**

The absence of Islamic insurance (Takaful) to protect investments of Islamic banks against unexpected vulnerabilities and expedite the development of the industry respectively also serve as a causative factor to the growth of Islamic banking and finance in Nigeria. Though the Nigerian Insurance Deposit Corporation (NDIC) serves as an insurance for other conventional banks in the country, it may not meet the Islamic standard to cover other Islamic banks. Therefore it may result to a mix up which can temper with the principles of sharia.

According to Freeman (2001) the concept of stakeholders theory emphasize on the involvement of individuals or groups who gain or are at detriment by whose right are uphold or disregarded by actions of a corporation. Similarly, stakeholders are recognised as primary or secondary stakeholders as either owners or

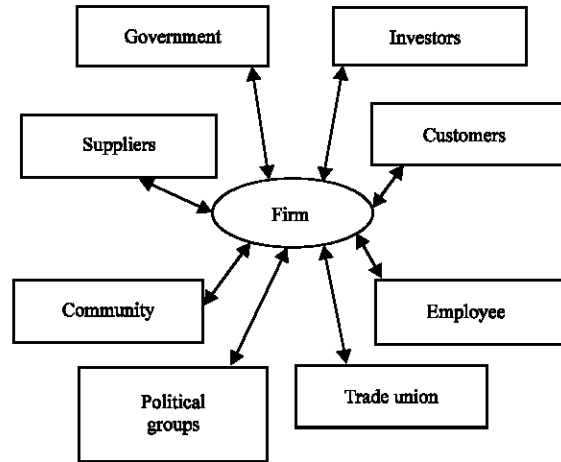


Fig. 1: Theoretical framework of firm (Donaldson and Preston, 1995)

non-owners of the firm they may be seen as owners of capital or holders of less tangible assets they can also be actors or those acted upon they may be either existing in a deliberate or an unintentional relationship with the firm; they can be viewed as rights-holders, contractors or moral claimants they are resource providers to or dependent relative of the firm as risk-takers or influencers and as legal big shot to whom agent-managers bear a fiduciary duty (Mitchell *et al.*, 1997).

Further, Freeman (1994) argued that the firm is categorised by interactions with many groups and individuals who are regarded as stakeholders and each have an influence on the performance of the corporation (Fig. 1).

Looking into Islamic banking and finance in Nigeria, the issues arising in its formation and full take off are however, concern of all stakeholders and according to the theory of stakeholders, it involves all parties and individuals that are directly or indirectly effected either natively or positively by a company or corporations. Therefore, the study adopts the theory of stakeholders in elaborating the issues and prospects of Islamic banking in Nigeria.

Further, a framework for stakeholders theory is adopted from the of Donaldson and Preston (1995). The above theoretical framework clearly depict the theory of stakeholders as it gives a clear picture of how the firm and other parties like community, customers, investor, etc., influence each other. This further gives the picture of the Islamic banking industry and how other stakeholders pose a challenge and on the other hand a prospects which goes in consistent with the definition given by Freeman (2001) as mentioned above.



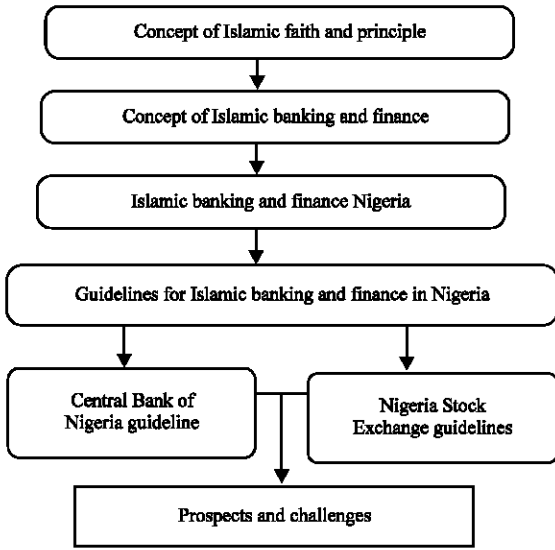


Fig. 2: Research framework for study

**Research framework:** Despite the fact that a lot of studies have conducted by various researchers on the challenges and prospects of Islamic banking and finance in Nigeria and how it involve various parties in the business the research framework for the study is given below (Fig. 2).

**CONCLUSION**

Islamic banking is believed by many to in a state boom and it is gaining acceptance all over the globe. Despite the low number of Muslims in Europe, Islamic banking and finance or non-interest banking is been practiced and accepted. Countries like Malaysia and Sudan to mention but a few are also practising Islamic banking and finance despite of the populace cultural diversity and religious differences.

In Nigeria the Islamic Banking and finance industry is still at its infant stage, it is still on record that in spite of the large number of Muslims in the country and the potential the market holds, there is only one fully-fledged Islamic bank which is Jaiz Bank and a few handful of conventional banks that offer Islamic products. This Islamic banks and products however still lack recognition and acceptance from the general public which makes it difficult to penetrate into a densely populated market with extreme competition from other rival conventional banks. Furthermore such blames were being apportioned to either poor promotional or awareness strategies by the promoters of Islamic banks which is from the investor’s side or due to inconsistent and incoherent regulatory policies for Islamic banking operations by the government of Nigeria.

**RECOMMENDATIONS**

However, the study recommends that both government and promoters of Islamic banking should add more effort through effective collaboration that will bring about a more detailed guideline for full operationalization of Islamic banking and finance in Nigeria. The guidelines should not ambiguous and it should state clearly the rules and policies for conduct of the business in Line with Sharia principles. There is also need for the government to collaborate more with other stakeholders as it regards to awareness creation and education of the general public about the benefits of Islamic banking and it openness to everybody irrespective of religion. The government should also invite investors to tap the market of Islamic Banking and finance, this implies that both government and the promoters of Islamic banking and finance should invite foreign investors and form a sustainable partnership and alliance that will bring about the growth and expansion of the market which is in consistent with the study of Bello (2014).

This study concludes that Islamic banking and finance in Nigeria offers a huge investment opportunity for both domestic and foreign investors what is most needed to achieve this is for all stakeholders to collaborate in a way that a structured, functional and sustainable Islamic banking model will be formulated and communicated widely so as to gain general acceptability. The study further concludes that effective and harmonious relationship and understanding between different religious sects in the country will also go a long way in enhancing the growth and development of Islamic banking and finance in Nigeria.

This will however, serves as a guide for interested investors both in Nigeria and abroad for Islamic banking sector in Nigeria. It will also serve a reference point for stakeholders in the industry when it comes to issues and challenges regarding policy making. The study is based concepts and past literatures and other secondary sources, therefore, there is the need to further conduct the study using primary sources. Moreover, the study concentrate on problems and prospects without going in much detail on how to strategically deal with the issues and means of achieving it.

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