JOURNAL OF ORIENTAL AND AFRICAN STUDIES

VOLUME 19
2010

ATHENS – GREECE

JOURNAL
OF
ORIENTAL AND AFRICAN STUDIES

Vol. 19 (2010)

A Street in Cairo
(W. H. Bartlett, *The Nile Boat: or Glimpses of the Land of Egypt*, New York 1851).

CONTENTS

JOURNAL OF ORIENTAL AND AFRICAN STUDIES

The *JOAS* is an international academic organ, which claims to be an independent and pluralist review for the promotion of Asian and African studies. Contributions of scholars and scientists from all over the world are invited.

EDITOR: **Athanasius Th. Photopoulos,** Ass. Professor of History at the University of Patras, Greece.
CO-EDITOR: **Alexandra Photopoulou**
ADDRESS: P.O. Box 40103, Agia Barbara 123 10, Athens – Greece.
Phone/Fax: 00302105613643, mobile: 6934167113, E-mail: joas@otenet.gr

EDITORIAL RULES

Contributions may be submitted in English, French, German, Italian and Greek. A summary of the article's contents in English should be attached on a separate sheet.

Offprint of articles or journal's volumes for the contributors are not provided.

The author should send a bio-bibliographical notice (in English), and his/her academic or professional status, and address of institution.

Books for review should be addressed to the editor. Books edited in non-European languages should have attached on a separate sheet the transliterated name of the author and the title, as well as a summary of the contents in English.

All correspondence should be addressed to the editor in Athens.

The editor will be pleased to receive material for publication in the JOAS. The following types of items are required: -Congresses for Asian and African studies. -The development of Oriental and African studies at university level. -The edition of related periodicals or collective volumes. –Obituaries. -Books and manuscripts for sale. -News on excavations, museums, foundations, discoveries etc.

Subscription: 100 € per year (postage included).

ISSN 1105-3518.

KAREEM MURITALA KEWUYEMI

THE DEVELOPMENT FINANCE INSTITUTIONS IN NIGERIA AND THE ISLAMIC FINANCE SINCE 1964

Introduction

Since 1964 various DFIs were established at both the national and state levels in Nigeria to cater for economic development of some specific sectors. The anticipation was that the DFIs would be able to cover the areas neglected by the commercial banks. This is because it is impossible for these banks to meet the huge financial requirements of the different sectors in the economy. It is also believed the DFIs would become specialist in their various fields to the extent that they exert greater positive impacts on the standard of living of people, infrastructural facilities, socio-economic development, etc than the commercial banks. However, hope has not been met up till today. Our roads are full of pot-holes, power supply is epileptic; most of the population live in de-humanizing housing environment while those that have access to average housing do so at abnormal cost.

The economy situation in Nigeria today can be described as an economy with growth but no development. By growth we mean more output while development implies more output and changes in the technical and institutional arrangement by which it is produced and distributed (Jhingan, 2006). This paper set out to answer the question "why has DFIs in Nigeria remained passive and irrelevant in the drive towards development of the Nigerian Nation despite all restructuring and reforms of the institute over the years?" The historical survey approach explicitly revealed the reasons for this and recommendations from Islamic perspectives were proffered.

For ease of exposition, the paper is divided into five sections. Following the introduction in section one, section two reviews evolution and development of DFIs in Nigeria between 1964 and 2010 as well as the overview of the structure of the Nigerian financial industry. An attempt is made in section three to discuss the major Islamic financial products and services in relation to national development. Section four contains proposed alternatives to Nigerian DFI products from the Islamic perspectives. Section five concludes the paper with an assessment of potential risks and ways of managing the risks associated to Islamic financial products and services.

1.0 Historical background of the DFIs in Nigeria since 1964

Since her independence in 1960, Nigeria has been making frantic efforts to develop her economy and consequently to improve the living standards of her people. In order to achieve these objectives, development finance institutions, specialized banks and other financial institutions have been established to finance various long-term projects which commercial banks and the CBN could not involve themselves. The former deals with short-term loans by traditionally providing only working capital while the later is expected legally to control and regulate the financial system. So, there was a gap. An attempt to fill this vacuum led to the establishment of Philip Hill Nigeria Limited and Nigerian Acceptance Limited. Both were later merged and carried the name the Nigeria Acceptance Limited (NAL) in 1969 up till 1973 when Union Dominion Trust Nigeria Limited (UDT) joined it. In 1975, the numbers of merchant banks were six. By1993, the number rose to fifty-five. The reason was the need to facilitate the issuing of shares to Nigerian citizens based on Nigerian Enterprises Promotions acts 1972 & 1979 which was enacted to change the ownership structure in Nigerian companies. Other reasons were the impact of oil boom, commercialization/privatizations to mention but a few (Nwoji, 1999: 37-47 & Ezekezie, 2002: 182-187). Instead of financing industry and commerce, they were investing in government securities (treasury bills and treasury certificates (CBN1971). In their operations, they were commercial banks. The 1976 Federal Budget also confirmed this assertion. They could not as well fill the gap of financing medium and long-term projects needed for the economic development of specific sectors in Nigeria. Therefore, the development finance institutions were established to provide medium and long-term finance to the industrial and agricultural sectors of the economy. The Nigerian Local Development Board (NLDB) which was set up in Lagos by the Nigerian Government in 1946 and was abolished in 1949 because it could not perform the two loaded functions expected of it was the first development finance institution to be established in Nigeria. In 1952, the Colony Development Board (CDB) and the three regional development boards, namely the Northern Regional Development (Loans) Board, the Western Regional Development (Loans) Board and the Eastern Regional Development (Loans) Board were established to replace the NLDB. They shared its assets and liabilities. The Regional Production Developments in the regions which were established in the same year were merged with the Regional Development (Loans) Boards in 1955 based on the recommendation of the World Bank Mission to Nigeria. The Federal Loan Board replaced the CDB in 1956. Between 1957&1961, the Western Region Housing Corporation, the Northern Region Housing Corporation and the Nigeria building society were established to cater for housing development in Nigeria. In 1959, The Investment Company of Nigeria Limited (ICON) was the first privately-owned development finance company which was later reconstituted in 1964 to become the Nigerian Industrial Development Bank (NIDB). The Western Nigerian Agriculture Credit Corporation (WNACC) was also established in 1964. The Nigerian Bank for Commerce and Industries (NBCI), The Nigerian Agricultural and Co-Operative Bank (NACB), The Agricultural Credit Guarantee Scheme, The Federal Mortgage Bank of Nigeria (FMBN) were also established at different times after the independence to meet financial requirements of some specific sectors of the economy. All these have been reconstituted many times. Eventually, as at today, there are five development finance institutions in Nigeria reconstituted from the above-mentioned ones. Here, we review historically and operationally the five DFIs, as stated in the next section.

2.0 Overview of the framework of current DFIs in the Nigerian economy

2.1 The elements of the present Nigerian financial system

The Nigerian financial system consists of the banking institutions, non–banking institutions and regulatory bodies. The regulatory bodies include the Central Bank of Nigeria (CBN), Nigeria Deposit Insurance Corporation (NDIC),National Insurance Commission (NAICOM), National Pension Commission (NPC) and Security Exchange Commission (SEC).The banking institutions include deposit money banks (which combine the roles of both formerly commercial banks and merchant banks), Community banks and Microfinance Banks, Specialized Financial Institutions (which include the Primary Mortgage Institutions PMIs), Development banks, Discount Houses and Finance Companies. The non–banking financial institutions on the other hand comprises of Insurance Companies, Pension Funds Management and the Capital Market.

The CBN and NDIC are the Financial Regulatory Authorities in Nigeria responsible to oversee the effective running of all the banking institutions, while other Non- Banking institutions; Insurance Companies, Pension Funds Management and the Capital Market are regulated by NAICOM, NPC and SEC respectively. This is depicted in the diagram 1.1. At present, in the Nigeria financial system, there are 24 deposits money banks, 5 discount houses, 5 development financial institutions, 601 bureau de change, 98 primary mortgage institutions, 84finance companies and 901 micro–finance institutions & community banks, 49 insurance companies, 26 pension fund administrators and 5 pension fund custodians.

In this paper, our focus is on the activities of DFIs and as stated below we have 5 functional DFIs in the modern financial system. They are Bank of Industry, Federal Mortgage Bank of Nigeria, Nigeria Agricultural Cooperative and Rural Development Bank, Nigeria Export Import Bank and Urban Development Bank of Nigeria Plc. These are discussed extensively in the next sub-sections.

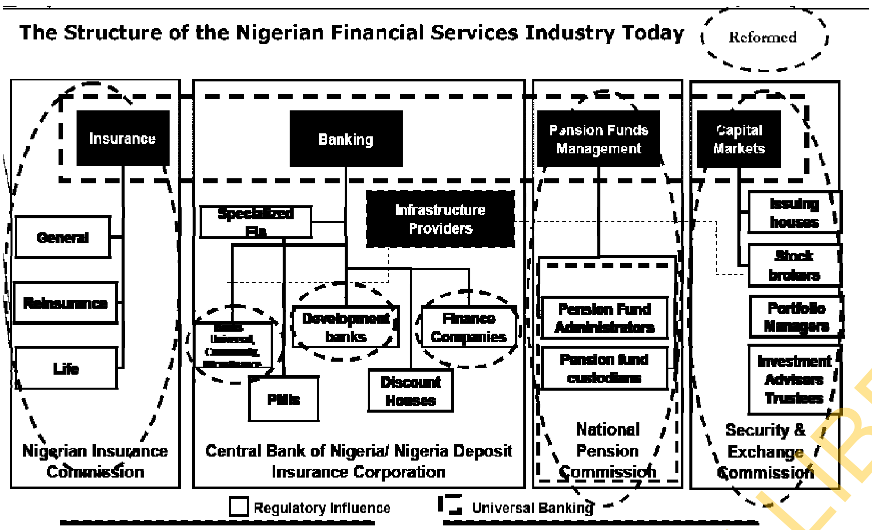

Fig 1.1: Source: Soludo C.C, 2007

2.2 Islamic microfinance Bank: Al-Barakah Microfinance Bank (2010).

The first interest-free microfinance bank in Nigeria named *Al-Barakah* microfinance bank was established in April 2010 (The Nation Newspaper, 19th April, 2010). Muslims in Nigeria have been demanding and making frantic efforts to establish an interest-free bank since 1960. Microfinance banks which are supposed to alleviate or eradicate poverty in Nigeria are compounding to the problems of the poor in the country because of the exorbitant interest charged. The interest charged on their loans ranges between 3% and 5% per month. That is, between 36% and 60% per annum, which is more than a rate of 14% per annum charged by conventional universal banks in Nigeria as at 2010.

In Nigeria, Muslims are the majority; this can give them the opportunity to live their lives economically according to the injunctions of the *Sharii'ah.* Despite the establishment of Micro finance banks, a large number of poor people have not taken the opportunity as a result of stringent conditions attached to the terms and conditions of the loan. Many farmers, SMEs, petty traders etc could not source funds from them. Therefore, there is still a wide gap. Introducing interest-free banking in Nigeria is long overdue. In fact, the Nigerians have been practising interest-free microfinance informally. The

Yorubas in the western part of Nigeria call the interest-free microfinance "*esusu*"; the Igbos name it "*etutu*" while the Hausas call it "*adashi*" (Anyanwu, 2004). Under this informal setting, they only pay service charges. The service charge can come in various forms. The service charge may be that one of the daily or weekly contributions may be used. Despite the establishment of co-operative societies, microfinance banks etc, to assist the poor many poor people are still involved in the said informal interest-free finance. This is an indication that any interest-free microfinance bank established in Nigeria will be highly patronized. SMEs will benefit heavily from such an arrangement. What applies to a fully fledged Islamic banking applies to interest-free microfinance banks. Virtually, they provide the same services but in small and medium scales. All the Islamic financial products and services discussed are also used by them.

3.0 Islamic financial products and services in relation to the national development

3.1 Mudaarabah (Combination of Entrepreneurship and Capital)

Mudaarabah is a financial technique whereby financial and human resources are combined together (El-Gousi, A.M. 1982 p. 214). The term, *Mudaarabah* is referred to in the Quran 73:20 when Allah says: 'While others travelling through the land, seeking of Allah's Bounty'. The verse refers to the journey made for the purpose of trade. *Mudaarabah* is, therefore, an arrangement in which the capital provider entrusts his capital to the agent manager for the purpose of investment on the condition that profits made will be shared between them based on a previously agreed-upon ratio or percentage. If loss is incurred, and the loss is not due to the negligence of the agent, it is borne totally by the principal. The agent loses his time and effort. However, if the loss is due to his carelessness or negligence, the agent is to bear the loss. The profit sharing ratio is mutually agreed upon between the principal and the finance user based on the market forces prevailing during the time and based also on other variables (Sidique 1983). Both parties risk one thing or the other. An investor in partnership of *Mudaarabah* risks his capital while agent in this finance arrangement risks his time and effort. The element of risk entitles each of them to sharing the profits and the loss. (Taqi Usmani, 1999).

Mudaarabah can be organized in a limited mandate (*Mudaarabah al-muqayyadah*) and an unlimited mandate (*Mudaarabatul-mutlaqah*). As regards the former, an agent is restricted to some transactions the scope of which is defined between the finance provider and the finance user (Ali Ahmad, 1423/2002). As regards the latter, the agent is given a blanket authorization. Therefore, he may buy and sell all types of goods that are shari'ah compliant. He has the right to choose when, where and how to use the funds.

3.2 *Mushaarakah*

There are some projects or ventures which a person may not be able to finance or undertake alone. Such projects need an accumulation of efforts and capital. This is the reason for this type of business organization i.e. partnership. The validity of *Mushaarakah* is confirmed in the Quran (Q38:24). *Mushaarakah* is a partnership that involves contribution of labour and capital from both the finance provider and the would-be customer. The profit is distributed among the partners either according to shares of each partner or as agreed upon. The loss is shared in the ratio of the shares of capital contributed. This is to say that there is no fixed formula for profit-sharing, and each case is dealt with on its own merit i.e. the partners will consider all the variables before they agree on the sharing formula.

3.2.1 Short-term and Long-term Projects in the form of Diminishing *Mushaarakah*

Mushaarakah can be used to finance both short-term and long-term projects. When used to finance a short-term or a long-term project, decreasing form of participation is usually agreed upon. This is when the finance provider passes the total ownership to the customer after an agreed period of time. During the agreed period, the finance provider is receiving his capital instalmentally in addition to a suitable share of the profits. (Hammad, 2002:23).

By way of an example, the Islamic bank or a finance provider agrees to participate in the establishment of a business with the aim of getting back his capital along with his agreed share of the profit. A client approaches a bank to finance a project, say ₦3m. The bank screens the client and appraises the project. If it is feasible and viable, the bank provides the funds with a view to getting both the capital and the share of the profit or rent. The bank monitors implementation, and, if necessary, takes part in actual management in order to be sure of its success. Let us assume that at the end of the project, the rent is fixed, say, ₦600, 000 every year which is to be shared by the partners in proportion to their share in the construction of the shop. The customer agrees to pay to the bank after every six month ₦200,000. The bank contributed 50% of the capital and the customer also contributed the same. It means they are to share the rent equally. At the end of the first year, the rent due to the client is given to the bank i.e. ₦300,000 being the half of the rent, and first capital instalment i.e. ₦200,000 is also paid making ₦500,000. This has reduced the bank's capital to ₦1m while that of the client has increased to ₦2m. Consequently, the rent due to the bank has reduced to ₦200,000 while that of the customer has increased to ₦400,000.

At the end of the second year the rent due to the client ₦400,000 and his second instalment of ₦200,000 are given to the bank. This has reduced the share of the bank to ₦400, 000 while that of the client has increased to ₦2, 600,000. Based on the capital, the rent due to the bank will be

$$\frac{400,000}{3,000,000} \times 600,000 = 80,000$$

While the client is entitled to

$$\frac{2,600,000}{3,000,000} \times 600,000 = 520,000$$

The client gives the bank only ₦400,000 to balance the payment of the bank's remaining share of the capital and keeps the rest ₦120,000. Thus, the customer becomes the sole owner of the shop and right from that time he claims all the rent.

3.2.2 Financing a Letter of Credit through *Mushaarakah*

The bank and the entrepreneur can enter into *Mushaarakah* to import some goods. After the screening of the project, the bank may issue a letter of credit for the importation or exportation of a commodity. The proceeds realized from the business are shared based on a pre-agreed ratio.(Fuad and Mohammed, 1988).

3.2.3 *Mushaarakah* arrangement for home buying estate and its other uses

The Islamic bank and a customer pool their resources together to buy a home. The expected profits are sourced from rentals. The rentals are shared between them according to a pre-agreed ratio. The bank's share is redeemed over a period time based on the unilateral promise made by the client to buy it. The client uses his rental and instalment payment to redeem the bank's share. Eventually, the whole ownership of the home is transferred to the client. Rural and urban electrification, construction of public roads, ports markets, corporate plants, refineries, warehouse, financing working capital, trading, manufacturing etc are some areas where the use of this Islamic banking product, *Mushaarakah* are highly beneficial and useful. A company can issue *Mushaarakah* security to source for funds in order to carry out big projects or to expand the existing ones. Each investor in *Mushaarakah* is given a *Mushaarakah* certificate showing the amount contributed to the pool, and which indicates his proportionate ownership in the assets of the *Mushaarakah* when the promoters or the managers have used the amounts to purchase non-liquid assets for the said company. But if the *Mushaarakah* funds have not been used to purchase fixed assets and other non-liquid assets i.e. if it is in liquid form, the *Mushaarakah* certificate issued to the investor cannot be sold more than its face value. An attempt to sell it more than its face value makes the excess to be *ribaa* (interest) which is seriously frowned at by the Quran (Q2:275). It means selling money for money.

It is to be noted that *Mushaarakah* can be of many and different variants in as much it does not go against the teachings of Islam as contained in the Quran, Hadith, *Ijma'u* (consensus of the Muslim jurists). It is wrong to assume that a form of Mushaarakah is un-Islamic because it has no precedent in the past. What it should be borne in mind when the issue of *Mushaarakah* and others are being considered by the Islamic banks is the fairness of the products and the non-violation of any aspect of *Sharii'ah*. Islam is a total way of life which provides some broad principles that can accommodate numerous forms and procedures in as much they are not against any aspect of *Sharii'ah*. This is the reason why Islam matches every period.

3.3 Ijaarah

Ijaarah means to give one's property on rent. *Ijaarah* is an Arabic word which means rent, letting, leasing, hiring out, etc (Cowan, J.M. 1960:5) to give something on rent. *Ijaarah* is divided into two in the Islamic jurisprudence; employment of the services of human beings on wages and utilization of assets and property on rent. The second is called leasing which is lending of some objects to somebody in return for some rentals against a specified period. *Ijaarah* is confirmed in Q65:6. *Ijaarah* has some rules which must be observed before it could be regarded as *Sharii'ah* compliant. Some of them are mentioned below:

- The leased item is for a definite period;
- If a lessee is negligent in the use of the asset, he should bear the loss or compensate the lessor as regards the harm caused to the leased asset;
- If the leased asset is land, the use of the land should be specified;
- It must be used for the purpose specified in the agreement or for whatever purpose it is used in the normal course;
- The liabilities referable to the use of the asset must be borne by the lessee e.g. utility bill;
- It is not allowed to penalise the lessee for late payment of rentals. This is because once due, it is a debt which cannot generate profit. If a penalty is charged to the lessee, the amount is used for charitable purposes. It must never be used by the lesser for it will amount to interest as a result of time value of money due. This is to mention but a few. (Taqi, 1999; Elgari, 1999, al-Zuhay, 2003 and Mcmillien, 2000).

- At the end of the period, the bank may sell the asset at the market value or give it out to the same lessee as a gift (Fuad & Muhammad, 1988).

3.3.2 Sale and Lease

If a client needs cash, he can sell his asset to an Islamic bank and lease it back from the bank. If it is done, the ownership papers are transferred to the bank while asset remains with the client. (Al-Zuhayl W., 2003 p.381-434).The rentals may be fixed for the lease period particularly if the lease period is short. But if the lease period is very long, market and economic conditions of the state might necessitate the review of the rental. Therefore, floating rate *Ijaarah* may be better than fixed rate *Ijaarah*.

3.3.3 Ijaarah wal-'lqtina (Hire Purchase)

Unlike hire purchase in the western setting where the interest is paid on the hired goods, this is not the case with the *Ijaarah wal-'iqtina*. The bank has to enter into agreement with its clients to buy and rent a building or other facilities for the client. There will be an undertaking that the client will pay increment payment into an account. Profits are added to the instalments paid and at the end of final instalments the client becomes the owner.

3.4. Muraabahah (Cost + mark-up)

Muraabahah is one of the kinds of sale in Islam. Being a sale, it is allowed in Islam based on the injunction of the Qur'an, Q2:275 where Allah says ….. "Allah has permitted trading and forbidden *Ribaa* (interest)". Contract for the sale of goods must possess some qualities before it is considered *Sharii'ah* compliant. The buyer and the seller must legally capable to enter into contract of sale. The subject-matter of contract of sale or trading must be shari'ah compatible. Therefore, *Mukhaadarah* (sale of fruits on tree), *Juzaf* (sale of foods stuffs at random), *munaabadhah* (throw sale), *mulaamasah* (touching), *haml* (foetus in the womb) sale of fish in water, etc are all forbidden sale contracts in Islam (Abdul Hamid; Sahih Muslim; Muhammad M.K; Sahih al-Bukhari). The items of sales must be known, owned by someone, possessed by the owner, absolute and not contingent upon future event etc. All these conditions must be fulfilled before Islamic banks can venture into trading. *Muraabahah* is a sale of goods at a price that covers both the cost and the profit. In this type, the seller will inform the buyer the actual cost including all the expenses such as custom duties, carriage inwards expenses etc.

3.4.2 Muraabahah and Musaawamah

Muraabahah is when a seller makes the total cost and the profit margin known to a buyer. It means the buyer is aware of how much the seller has incurred in acquiring the goods and how much profit is added to the cost while in *Musaawamah*, the buyer is not informed of the actual cost and the profit margin. The commodity is sold on bargaining basis (Taqi Usmani).

However, if it is credit sale, the buyer must be informed because the price for higher credit is normally higher than the cash sale. Time has value when it is related with trade transactions but it does not have any value with purely financial transactions. The buyer must be allowed to make his choice between the credit sale and cash sale. In addition to that, the transaction must not be a financial one; it must be related to a trade transaction. (Fuad & Muhammad, 1988 p.16).It must be noted that the commodity must be bought from a third party not from the client because if it is bought from the client and also resold to that client at a mark-up, it is a way of charging interest which is prohibited in Islam. This prohibited transaction is sale and buy back.

When adding profit, the seller can use any criteria to determine the actual amount to add to the total cost as a profit margin. He may use LIBOR (London inter-bank offering rate). But once decided, it can never be increased if the buyer is unable to pay as and when due. (Taqi Usman, 1999: part I p.118)

Muraabahah can be used to finance working capital such as raw materials, semi-finished products, finished products, spare parts and stocks. The bank buys them and sells them at a marked-up price to the customer or the bank appoints the client as its agents. The bank pays for the goods and then adds its own profit margin before selling them to the customer. The customer is allowed to pay for the sale price on a deferred term as it is agreed upon by both parties. *Muraabahah* is also used to finance letter of credit.

3.4.3 Murabahah Treasury Deposit

Muraabahah can be used as a treasury deposit to replace the Treasury bill. This is normally designed for corporate bodies, high net worth individuals, mosques, schools etc that have idle funds which they can spare for some time to earn some profit on them. The fixed period may be between one and 60 months. The *Muraabahah* Treasury deposit will not pay interest on the amounts deposited with the bank. The bank will specify the minimum amount say, ₦500, 000 and the minimum period the funds will be with the bank. During the agreed period, the customer cannot withdraw from the funds. The bank will agree with the client on the agreed rate or percentage not on the absolute amounts. Based on the profits made at the end of the maturity period, the profits will be shared according to the agreed ratio. For instance, it may be 20% to the client and 80% to the bank. If ₦100,000 is made as the profits on the investments, ₦20,000 goes to the client while ₦80,000 goes to the bank. If it is ₦200, 000, ₦40, 000 goes to the client while ₦160,000 goes to the bank. The bank may give preferential profit rates for huge deposits say 40% or 60% to the client while the bank takes 60% or 40% respectively. The bank invests the funds deposited in this account in *Sharii'ah* compliant goods and services.

3.5 Salam (advance payment)

In every rule, there is always an exception. This is true of *Salam* which is an exception to the rule of sale in Islam. In Islam, to sell a commodity that is not in one's possession is unlawful, and thus it is not allowed. However, Islam which literally means to advance in Arabic is a sale in which the price is paid in advance and the commodities are delivered on a specified future date (Muslihudeen M, 1990 p. 115). In other words, *Salam* is a sale with advance payment for future delivery (Saleh, 1992). This type of sale is approved by the *Sharii'ah* though the commodity is not possessed by the seller at the time of the sale. Measure, weight and time are specified in order to remove uncertainty and misunderstandings. Another condition of *Salam* is that its price must be paid in full in advance to avoid sale of debt for debt which is unlawful in Islam. The commodity defined cannot be particularized to be delivered from a particular farm or a particular tree so as to make delivery possible from whichever sources the farmer can. (Taqi Usmani, part II, p. 43-44).Another arrangement is for the financier to make a parallel *Salam* if there is a fear that the bank or the buyer will not be able to sell the goods when received. When *Salam* is used in relation to a letter of credit, the bank pays the seller in advance and takes the delivery of goods from the seller at a specified time and place .The banks, based on the letter of credit, then, assumes the role of the seller being the owner of the goods.

It should be noted that both the seller and the buyer in the contract of *Salam* sale are at advantage. This is because the seller who receives money in advance is able to engage himself and through that he gets income. The buyer also benefits in the sense that he receives the goods at a lower price and later sells it at a higher price. The difference is his profit which is the benefit he gets from the transaction.

3.6 Istisnaa'

Istisnaa' which means to order a manufacturer to manufacture a specific commodity is a sale of what is not in existence. *Istisnaa'* is a business of promise to sell on the part of manufacturer. As discussed under *Ijaarah*, promise is a debt (Q62:2-3) and its non-fulfilment without a genuine excuse earns the promisor the wrath of Allah. A promise made unilaterally as discussed earlier is binding and enforceable particularly if the promise concerns commercial dealings. The price, kinds, quality and quantity of the good to be made must be specified. The price of the *Istisnaa'* goods can be paid before, during or after manufacturing based on the agreement reached between the bank and the client unlike *Salam's* price which is paid in full in advance (Zuhayl, 2003 and Dunia, 1990).

If it is *Istisnaa'*, the materials to be used to manufacture the required goods must be owned by the manufacturer. If they are supplied by the client, the manufacturer is paid a fee (*ujrah*) for the job done as in *Ijaarah*. After manufacturing of the goods, the purchaser has the right to inspect the goods to be sure that they are of the standard and meet his specifications. (Dunia S.A, 1990). This is called (*Khiyarur-ru'yah*) i.e. option of seeing). If the goods are not made to his specifications, the client can accept or reject them. (Wa Adilatul, Al-Fqh al-Islam, 1997. Islamic Jurisprudence and its proofs I-II Damascus: Dar al-Fikr) Roads, furniture, shoe, tailoring cloths, aircrafts, vessels, commercial and residential buildings, industries are some of the subject matters of *Istisnaa'*. *Istisnaa'* creates a number of new opportunities.

3.7 Bay Mu'ajjal (deferred-payment)

In Arabic, *bay'u mu'ajjal* means a deferred-payment basis i.e. the payment for the inputs or implements, etc sold to farmers by the bank is made later. The due date of such payment must be clearly stated (a particular date or a period like 6 months, 3 months, etc). It is allowed for the bank to make the deferred price of the inputs higher than their cash price.

3.8 Sukuuk (Islamic Investment Certificates or Islamic Bond)

Sukuuk is the plural for *sakk* in Arabic language. The word *sakk* refers to an Islamic financial certificate which is devoid of interest. It does not attract paying or receiving interest as this is against the injunctions of Allah as contained in the Quran (Q2:275-279). *Sukuuk* is a *sharii'ah* complaint product which represents ownership of an asset or its usufruct. It is a form of documentation of contracts which is in line with the Quran (Q2 verse 282). According to the *fiqh* Academy, under decision number 5 of 1988, *sukuuk* entails any collection of assets that can be represented in a written note or bond. It is asserted that the written note or the bond can be sold at a market price provided that the composition of the group of assets, represented by the security, consists of a majority of physical assets and financial rights, with only a minority being cash and interpersonal debts. If one buys sukuuk, one will be interested in what is actually being financed through the *sukuuk*. This is not the case with the conventional bonds as the holder cares less as regards the activities of the company. Many of the Islamic financial products discussed earlier in this thesis can be converted to *sukuuk*.

3.8.1 Mudaarabah sukuuk

These *sukuuk* are used for big projects that are difficult to get a person to finance. Therefore, many people contribute funds for the execution of such projects through *Mudaarabah sukuuk* which represent ownership of units equal value in the *Mudaarabah* equity. The holder's name is registered with their shares of return based on their percentage of ownership of share in the project (AAOIFI). The returns are not fixed but variables according to the profits made from the project .It can be used to build school, hospital, hostels airport and various *Sharii'ah* complaint projects.

3.8.2 Mushaarakah sukuuk

Mushaarakah sukuuk is another way of structuring *sukuuk*. It is almost the same with *Mudaarabah* except in the way it is organized between its issuer and its holder. This also represents an ownership of *Mushaarakah* business. Committee is formed from the holders of the *sukuuk* to oversee the implementation of the project. In fact, AAOIFI defines *Mushaarakah sukuuk* as "certificates of equal value issued with the aim of using the mobilized funds for establishing a new project, developing an existing project or financing a business activity on the basis of any partnership contracts so that the certificate holders become the owners of the project or assets of the activity as per their respective shares, with the *Mushaarakah* certificates being managed on the basis of participation or *Mudaarabah* or an investment agency. (Standard 17, 3/6).

3.8.3 Ijaarah sukuuk

Ijaarah sukuuk refers to the transferring of the usufruct of a particular property from the owner to another person in exchange for a rental payment. The assets being leased and the amount of rent must be stated clearly. If these are done, *Ijaarah* can be contracted on existing assets and none-existing ones provided the lessor is capable of acquiring, constructing or buying the asset being leased by the time set for its delivery to the lessee (AAOIFI) 2003:140-157).

Central banks, ministries of finance, state governments, local government, *waqf* foundations, religions endowments, investment banks, companies, individuals, etc can issue *Ijaarah sukuuk*. This is because they are tradable.

3.8.4 Muraabahah Sukuuk

Muraabahah sukuuk per se is not tradable in the secondary market. It can only be feasible in the primary market because it is a debt owing from a subsequent buyer, and debt trading as stated earlier in this thesis is forbidden. This is because it is selling money below or above its face value. The excess or the reduction is riba which is frowned at in Islam. (Q2:275-279).

3.8.5 Salam Sukuuk

Salam sukuuk are issued to mobilize *salam* capital. Their buyers pay the full price of the commodity to the issuer i.e. the seller. The funds realized are used for the production of the goods by the seller. The subscribers i.e. the *salam sukuuk* holders are the owner of the goods when produced. The holders organize to sell the goods themselves or enter into a parallel *salam* to sell the goods. The sale price of the certificate or the goods in a parallel *salam* goes back to the holders. (Homoud, 1997). If they are sold below or above it, the sale amounts to *bay‘ dayn* (i.e. selling of debt) which involves *ribaa* that is prohibited based on Q2:275-279.

Salam sukuuk are used for the production of farm produce like maize, yam, beans, and rice etc. They can also be used for other manufactured goods such as aluminum, furniture etc *Salam sukuuk* can be used as a short term money market instruments.

3.8.6 Istisnaa‘ Sukuuk

Istisnaa‘ sukuuk are used to finance big projects. The manufacturers issue *Istisnaa‘ sukuuk* and the subscribers buy them. The money paid in advance is used to execute the project. When the goods are manufactured, they are delivered to the holders of the *Istisnaa‘ sukuuk* through special purpose vehicle.

3.8.7 Hybrid Sukuuk or Mixed Asset Sukuuk

As the name indicates, this is a portfolio of different classes of assets such as *Ijaarah*, *Istisnaa‘* and *Muraabahah* receivables. This affords a greater mobilization of funds. It must be mentioned that 51% of the portfolio in these sukuuk must contain tradable *sukuuk* like Ijaarah etc. When hybrid *sukuuk* are conceived, special purpose vehicle is created for the investors to contribute funds into this purse. It, then, gives out *sukuuk* certificates to the investor and receives from them funds which are used to finance the pool.

3.9 Qardu Hasan (Free Loan or Benevolent Loan)

The other arrangement mentioned in the Quran to assist a needy is to give loan without any returns in terms of interest or profit. The financier takes back his only capital without any reduction or increase in his capital. This is greatly encouraged in the Quran (Q2:245, Q5:12, Q57:11, Q57:18, Q64:17, Q73:20 etc) "Who is he that will lend to Allah a goodly loan so that He may multiply it to him many times..."Q2 ; 245. This type of loan is called *Qardu Hasan*. *Qardu* means loan while *Hasan* means good. Therefore, *Qardu Hasan* expresses the spirit of co-operation (*ta'awwun*) and brotherhood (*'ukhuwah*) (Rosly, 2005). *Qardu hasan* is also used for social activities that have religious significance. The treatment of the sick, taking care of the orphans & widows, reducing poverty in the society etc are among the social activities that carry good reward at least 700 times (Q 2: 265) for each good deed in the hereafter and endear the love of the doers in the mind of beneficiaries in this world. When the account is created, many conscious Muslims and good people would deposit part of their cash or earnings into this account for the purpose of giving free loans to the under privileged people. There must be a monitoring committee that will be in charge of overseeing the activities of the fund users in order to make sure that funds taken are used for the purposes for which they are given. The manager of the funds must be people of integrity. They must be people whose characters are not in doubt. From the Islamic perspective, the oneness and fear of Allah as exemplified by the Prophet (PBOH) and his companions could assist in the area of character building. The Prophet (PBOH) and his companions served people as if they were their servants. Therefore, the managers of the funds should fear Allah, maintain justice, be patient and tolerate insults to some extent. But they must be firm, sincere and accommodating if they really want to succeed. They should not see the funds as an opportunity to make themselves enjoy life at the expense of targeted beneficiaries. They should see themselves as trustees who will not only give their accounts of their stewardship in this world but also they are accountable to Allah on the day of judgment of everything they did in this world. The managers and beneficiaries must see one another as one family.

A special division can be created to manage the Corporate Social Responsibility (CSR) funds (Raynard, 2002; Glaeser & Scheinkman, 1998) so as to create effective community development and to give a good record of how the funds are managed. All companies will be requested to deposit their contributions into the account of the division. Men of integrity should be appointed to manage the funds for the sake of the poor. The funds can be used in two ways. Part can be used to give free loans to the poor. They can use the funds to establish micro and small businesses for the purpose of empowering the poor, strengthening their working capital or their existing businesses. The other part can be invested in a business using any of the Islamic financial products such as *Muraabahah, Mudaarabah, Mushaarakah, Ijaarah, Istisnaa'* etc. Profits realized from the investments are also deposited in the *Qardu Hasan* funds for the purpose of assisting the poor. If these two steps are taken, in no distance time, poverty will be eradicated from the Nigerian environment.

3.10 Takaaful (Islamic Insurance)

The alternative to insurance is *Takaaful* (Islamic insurance) because it is in line with the shari'ah. *Takaaful* or Mutual guarantee is an agreement among group of people called participants to guarantee jointly that, should any of them suffer a catastrophe or disaster, he would receives certain sum of money to meet his loss or damage (Tahir, 2005 p. 108).The implication is that the participants contribute to a common purse with the aim of using the funds to assist any members who suffer loss or peril. Based on the Quran 5 verse 2 and other references cited earlier, *Takaaful* is in line with sharii'ah in addition, the Hadith of the Prophet ('Tie the camel first then put your trust to the will of Allah") points to the permissibility of *Takaaful*. This Hadith implies a strategy to mitigate or reduce loss or risk. Islam supports co-operative insurance. This is when a group of people carrying on the same type of business establishing a common fund to which every one of them contributes. If anyone of them suffers loss, he is helped from the funds. If there is a time limit for the operation of the funds, at the expiration of the agreed time, the balance is shared among the members based on the percentage of their contribution. There are many ways by which *Takaaful* can be organized. *Tabarru* mode of *Takaaful*, ***Wakaalah-Waqf* model of *Takaaful*,** *Mudaarabah* mode, *Wakaalah* mode are some of them

4.0 Islamic financial products as alternatives to Nigerian DFIs' products and services

4.1 Urban Development Bank of Nigeria plc

Urban Development Bank of Nigeria is one of the development finance institutions. It is regarded as both a financial institution and a development agency. It was established by decree 51 of 1992 in order to solve the problems of urban centre in Nigeria in terms of the provision, rehabilitation and maintenance of basic urban infrastructures and services. The shareholders consist of FG 20%, SC 20%, LG 40%, NLC 10% and private investors.

Mobilization of long term funds for on-lending to states, LG and private sectors for infrastructure projects, empowerment and strengthening the capacity of Nigerian local governments to raise additional revenue through tenement rating to provide and maintain urban infrastructure for their residents are some of the objectives of the bank. It also leads state and local government to raise bonds from the capital market to urban services, establishes information base for adequate planning and decision making in conjunction with interested states and urban local governments and encourages public-private partnership in the delivery of infrastructure. Other activities of the bank include:

- The bank provides consultancy services such as pre-investment studies, project preparation services, project management and supervision.
- Other services include development planning and management, financial advisory service.
- It assists states and local government to mobilize funds for providing urban infrastructures and services from the Nigerian Capital Market.
- It establishes the Infrastructure Loan Scheme (ILS) which is a participatory fund mobilization drive to build up funds for project development through periodic contributions.
- It promotes public/private partnership scheme through equity financing of urban infrastructure on partnership.
- It provides research and data on population, land-use, and socio-economic aspect of national economic development.
- It also sources for fund from multi-national for on-lending to urban projects. (Oluyombo,2006)

4.1.1. Urban Development Bank of Nigeria Plc from Islamic finance perspectives

The need to plan and develop urban areas cannot be overemphasized. This is because a large number of people live there. Many things have to be done to make them habitable for people in terms of infrastructural facilities. The activities of UDBN that are *Sharii'ah*-compliant are consultancy services like pre-investment studies, management financial advisory service, project preparation, project management and supervision development planning. This is because they carry out these functions for a fee or a commission.

Other areas where their roles are Islamic are provision of research and data on population, land-use, and social-economic aspect of national economic development. All these roles do not involve cheating, injustice, *ribaa* etc. In fact, they can assist in redressing injustice being done to some segments of the society if properly and correctly implemented.

However, the key roles of the bank are to establish the infrastructure Loan Scheme for mobilizing funds and for developing useful projects. The loan scheme is not free of interest charges. The contributors expect interest income on their funds. This must be paid by the mobilizer of such loans. This makes this role un-Islamic based on our assertion that interest of all kinds, high or low, simple or compound is prohibited (Q2:275-279).

However, if funds sourced from multi-national agencies are interest free, they are Islamic. The bank can use the funds to develop urban projects such as road construction electricity, estate development e.t.c. But it is rare to find the loans from them free of interest.

Another function of the bank that is repugnant to the *Sharii'ah* is raising bonds for the state and local governments from the capital market. The bonds contain interest. Therefore, this role is un-Islamic.

The banks can perform all these un-Islamic roles in a better way by making use of the Islamic products discussed in this paper. They may establish special purpose vehicle to source for funds and use them to finance urban projects. *Ijaarah* can be made use of to finance some projects like estate, industries etc. *Mudaarabah*, *Mushaarakah*, *Istisnaa*, *Muraabahah* etcare some of the products that can be used to finance urban projects.

Sukuuk (Islamic investment certificates) of various forms can be made use of to carry out their mandates. This will create jobs and fetch income for the financiers and finance users. The operational details of the products have been discussed in this paper

The shareholders of the bank i.e. Federal government, State government, Local government, Nigerian Labour Congress and private investors contribute funds. Therefore, their funds can also be used in form of *Mudaarabah*. The dividends are shared amongst them based on pre-agreed ratios. If loss is incurred, this is born based on their percentage of their contributions.

4.2. Nigerian Agricultural Cooperative and Rural Development Bank (NACRD)

The amalgamation of Nigerian Agricultural and Cooperative Bank (NACB) established in 1973, (Layi, 1999) the Family Economic Advancement Program FEAP and Peoples' Bank of Nigeria established in 1990 gave birth to the Nigerian Agricultural Cooperative and Rural Development Bank (NACRDB) in 2000. The bank started full operation in July 2001. It is a registered limited liability company that is wholly owned by government of Federal Republic of Nigeria. The Federal Ministry of Finance and the CBN own 60% and 40% of the shareholdings of the bank respectively. The bank is expected to finance agriculture as well as small and medium enterprises. Most of the operators in this field are microenterprises. Therefore, the NACRD accepts deposits and gives loans to them. The interest rates charged on the loans are stratified based on the reasons for taking the loan.

Other areas where the bank involves itself are target savings, start-up loan schemes, and smallholder loan scheme. It is the duty of the bank to deliver the affordable credit to meeting the funding requirements of the teaming Nigerian population in the areas of both agriculture and non-agriculture in Nigeria. Equity takes the larger part as regards its sources of fund. The minor sources are interest based on loans and investment.

4.2.1. NACRD from the Islamic finance perspectives

As the name indicates, the bank comprises of three aspects i.e. agriculture, cooperation and rural development which are vital for human and resource developments. The importance of agriculture is well known. Without it, it will be hard to live in this world for men, trees and animals depend on it. The Prophet also encouraged people to cultivate land in his Hadith. He said, "He who develops land which has no owners has the most right to it: (Muhammad I.S.1996) part p.323).

The second aspect of the bank's name deals with cooperation. It is well known fact that nobody can develop without others' contributions in one way or the other. Most contributions come through cooperation. This is emphasized and commanded in the Holy Quran Q5:2) '… and help you one another in righteousness and piety". Many people are languishing in rural areas because of lack of social and infrastructural facilities. The bank is to assist in developing both human and natural resources in the rural areas. Therefore, all the three aspects of the bank are worth pursuing vigorously. The stand of Islam on them is clear as enumerated briefly. No effort is too small or too big to direct towards them.

If one goes through the activities of the bank, a large number if not all contain *ribaa* (interest). The bank accepts deposits and gives loans on interest. This is prohibited (Q2:275-279). The operations of the bank can better be performed through the use of *salam*. Farmers and traders whose activities are very important for the development of a nation or any society cannot produce as they would have wanted because they lack funds. Many do not have collateral securities and other requirements that could give them the opportunity of getting bank loans on interest. One of the ways by which they could be helped is through *salam*. In *salam*, farmers are paid in full in advance for specified commodities to be delivered on a specified future date. The seller receives funds in advance and is able to engage himself. Through the engagement, he gets income. The buyer's benefit is that he buys the product at a lower price and later sells it at a higher price.

The banks as well as high net worth individuals can provide funds for would-be users particularly the rural dwellers, the farmers, the poor etc in advance for goods to be delivered later. The funds should be free of interest.

All the rules of *salam* must be observed when using it. *Salam* can also be used in relation to a letter of credit. The exporter enters into a contract with the bank. The bank pays the exporter in full in advance for producing specified goods requested by the importer. The exporter produces the goods and delivers them to the bank which, in turn, sells to the importer. The bank makes its profit from the difference between the amount paid to the exporter and the amount received from the exporter. Other Islamic products that NACRD can use to carry out their operations successfully are *Muraabahah, Mushaarakah Mudaarabah, Ijaarah, Istisnaa'* etc. The bank's sources of capital should not involve interest. The capital should be in form of equity so as to avoid riba.

4.3 Bank of Industry

The reconstruction and rationalization of the Nigerian Bank of Commerce NBC (1972), Nigerian Industrial Development Bank NDIB (1964) and the Nigeria Economic Reconstruction Fund NERFUND in October 2001(Ezekezie, 2002) gave birth to Bank of Industry Limited. It went into a fundamental restructuring programme which makes it possible to carry out its mandate effectively and efficiently. Its authorized share capital is ₦7 billion while its paid up share capital is ₦1 billion. Its head office is at 63/71 Broad Street, Lagos. The shareholding of BOI is:

	Units	%
Ministry of Finance incorporated	297,688,40	59.54
Central Bank of Nigeria	201,822,645	40.36
Nigerian Citizens & Associations	488,954	0.10

It has six zonal offices and its initial capital base is ₦50 billion. It finances projects that Nigeria has comparative advantage on. It provides finance for projects that deal with efficient conversion of local raw materials into finished products. The projects that can be least cost marketed locally and or internationally are also financed by BOI. (Layi, 1999)

In addition, BOI activities cover the following grounds: medium and long term loans, working capital finance, equity finance, management of dedicated funds, loan guarantees, co-finance, investment in corporate boards, business development services, lease financing, trusteeship, stock brokerage, foreign exchange dealership, insurance brokerage

4.3.1 Examination of BOI activities in relation to Ribaa

The activities of BOI are evaluated in the light of the norms of Islamic principles, focusing our attention on the products and services involved in *ribaa*. Efforts are also made to distinguish the *ribaa* contained products from the *sharii'ah* compliant products. As regards products involved *ribaa*, medium and long – term loans are singled out. The interest rate charged by BOI on its loan range from 10 to 20% per annum. Repayment period for loans range from 3 to 7 years including one year moratorium. Since this activity is against Q 2; 275, it is not *sharii'ah* compliant. The effect of interest rate is seen in the disbursement of loan from 2000 – 2004, when N1.72b was given out as loan. It is amazing to see that, of this amount, only 0.46b was given to smaller enterprises because the farmer could not meet the stringent conditions attached to the loans. Instead of giving out loan on interest, BOI can enter into *Mudaarabah* with the finance users. BOI has monitoring and evaluating units. The roles of these units will be more pronounced and will assist in an interest free system so as to identify the viable, profitable and beneficial projects to finance. They will be mandated to monitor the users of the funds in order to make sure that the loans are used for the projects evaluated by them. This will serve as a control.

Financing working capital of a sector, BOI should enter *Mushaarakah, Mudaarabah, Ijaarah, Istisnaa'* etc. with the users of funds. BOI may co opt the beneficiary of the finance to search for the appropriate goods. Working capital finance is the money used to buy raw materials and produce the finished goods,

Equity financing as one of the activities of BOI is *sharii'ah* compliant because it shares both loss and profit on the investment. When the profit is made on the investment, it shares. When the loss is incurred, it bears part of the loss. This is totally Islamic under an interest-free system. This service will also serve effectively the organisation in channelling their resources.

If all these reforms are made in line with the Islamic principles, it is expected that the bank's contribution to the economy will grow stronger and this will widen the scope of needs for economic / business development financing. It will also provide employments for employable but unemployed. BOI can be restructured to carry out its mandate in line with the shari'ah.

The activities of BOI's subsidiaries like leasing company of Nigeria, NIDB Trustees limited etc can be re-orgainsed to follow the principles of *Ijaarah* in an Islamic economy. This provides avenue for avoidance of interest and contributes to the economy of a nation more than the conventional ways of finance. Business development services, dedicated funds entrusted by people or banks to the custody of BOI etc can be managed in line with the principles of *Mudaarabah, Mushaarakah, Ijaarah Istisnaa‘, salam, Muraabahah* etc. This is because all these products are devoid of *ribaa*. In addition, they contribute a lot to the development of industries and economy more than the conventional ways of finance. They create jobs and improve the standards of living of people.

Guarantee per se is Islamic. However, when it is attached to loan that carry interest, it is unlawful. Instead of guaranteeing loan, the bank can enter into *Mudaarabah* mode of finance with the financiers. Co-finance is another activity of BOI. It can co-finance big projects with other financiers. They can make use of Islamic financial techniques such as *Mudaarabah Mushaarakah, Ijaarah, Istisnaa‘, salam* etc as the case may be .Investment in corporate bonds by BOI is un-Islamic because the bonds involve interest which is forbidden in an Islamic economy (Q2:275-279). Business development services provided by BOI attract service charges. This is Islamic as it does not involve interest. If BOI should provide finance or source for finance for developing businesses of their client, such funds should not include interest. Otherwise, it will violate the injunctions of Allah as contained in Q2:275-279 and Q3;130. Lease financing can be made to follow all the principles of *Ijaarah* as discussed in this thesis as this will make the activity devoid of riba. Trusteeship can be provided free of interest. The clients can be made to pay for services rendered to them by BOI. Foreign exchange dealership can be made to follow the principle of *sarf* (bureau de change) whereby the exchange is done on the spot. That is the exchange of one currency for the other must be done on the spot. Insurance services can be made to follow the principles of *Takaaful* (Islamic insurance) as enumerated in this paper.

4.4 Nigeria Export Import Bank

With the establishment of NEXIM by act 38 of 1991, it replaced the Nigeria export credit guarantee & insurance corporation earlier set up by act 15 of 1988. The Bank’s authorized capital as at December 31 2008 was N50.0 billion with a fully paid-up portion amounting to N13.59 billion with an outstanding balance of N36.41 billion. As the name indicates, this is the bank that deals with both importation and exportation of goods and services. The bank provides export credit guarantee, export credit insurance facilities and credit in local currency to its clients in support of exports. It also establishes and manages funds connected with export .Maintenance of foreign exchange and revolving funds for the purpose of lending the funds to exporters who have to import foreign inputs which they will use for export production are other activities of the bank. It establishes information related to export business. In addition, short and medium term loans are provided by the bank to Nigerian exporters. The bank serves as a guarantor for both the banks and the government as regards loans provided by Nigerian Banks to exporters if eventually foreign buyers do not pay. Political and commercial risks are also covered by the bank if eventually foreign buyers do not pay. The bank also grants a line of credit or gives a guarantee to facilitate the purchase by an ECOWAS importer of Nigerian goods.

4.4.1 Nigeria Export Import Bank from Islamic finance perspectives

As the name indicates, NEXIM is in charge of exportation and importation of goods and services into the country. The bank provides export credit guarantee, export credit insurance facilities credit in local currency, short and medium-term loans and other forms of credit. All the above-mentioned forms of credit charged by the Bank to its client involve riba. For this reason the bank's activities are repugnant to the *sharii'ah* for they violate the injunctions of the Quran against charging and taking of riba (Q2;275-279, Q3:130 etc) .There are many ways by which the bank can avoid riba in its activities. One of the ways is to make use of the Islamic forms of letter of credit instead of ECOWAS Trade Support facility. This facility used by NEXIM involves interest. Islamic banks have different ways of dealing with the letter of credit so as to avoid *ribaa*. They are operated in the normal conventional ways if the bank's funds are not involved. They collect charges for their services. Where the bank's funds are involved, letters of credit are operated in form of *Kafaalah* (Guarantee mode) *wakaalah* (Agency) mode, *Muraabahah* (cost+mark-up) mode and *Mushaarakah* (partnership) mode. The other ways by which the bank can carry out its activities are to make use of *Mudaarabah* mode finance, *Mushaarakah* mode of partnership, *Ijaarah, Istisnaa', salam* etc. The details of each of these products have been given in this paper.

One of the products of the bank is Export Credit Insurance Facility (ECIF).The objectives of the facility are to encourage exporters to diversify their export markets without fear of the risks inherent in dealing with new buyers; to attract new enterprises into export business; to encourage exporters to extend credit terms to their buyers in order to enhance their competitiveness in the international markets etc. These services can be financed through *salam* and *Istisnaa'* instead of giving loans on interest. Foreign Input Facility (FIF) which NEXIM is used to grant short, medium and long term fixed rate loans in foreign currency, to participating banks on behalf of their export clients for the importation of raw materials, packaging materials, capital equipment and spare parts needed for the production of goods for export can be performed effectively through *Istisnaa'*, *Mushaarakah Mudaarabah* etc. Other fees and charges taken by the bank such as commitment fee of 1.0% p.a; administrative fee of 0.75% flat paid once; legal fee charged only when the service of external legal counsel is used in the preparation of loan document, stamp duty, other duties or taxes payable in relation to the loan documentation are *sharii'ah* compliant and can be taken if the banks wants to give exporters interest-free loans

Salam, *Istisnaa'*, *Mushaarakah*, *Mudaarabah*, *Ijaarah* etc can be used to finance new export projects; revitalisation, acquisition of additional assets for modernisation, and/or expansion of existing production units for exports; acquisition, rehabilitation and/or expansion of plantations/farms for the production and processing of exportable products; acquisition of spare parts and packaging materials for the manufacture of exportable products etc instead of giving loans on interest. Any other activity that may be acceptable to NEXIM and provided it is shari'ah compliant can also be financed in an Islamic economy. Local Input Facility (LIF) is used to finance the above-mentioned products by NEXIM through loan on interest

Qardu hasan (interest free loan) which has to be repaid can be given to qualified unemployed Nigerian Graduates who have undergone tutelage with established exporters under the Start-Your-Own-Business (SYOB) Programme. National Directorate Employment Facility (NDEF) is the facility used by NEXIM to give them loans on interest. This can be done through *Qardu Hasan.* They have to be monitored. If they pay it back, that will give others the opportunity to benefit from the scheme. Stocking Facility (SF) (which is used by NEXIM to assist manufacturing exporters to have adequate working capital to stock local raw materials that are mainly seasonal in nature, and achieve optimum levels of production all year round) and Special Cassava Export Credit Facility (SCECF) can be done through *salam* instead of giving loans on interest. Rediscounting and Refinancing Facility (RRF) involves *ribaa* and it should be avoided or replaced by any of the Islamic financial products.

4.5 Federal Mortgage Bank of Nigeria

It was the Nigerian Building society which was established in 1956 that changed to FMBN on 20th January, 1977. The latter took over the assets and liability of the former. In the first instance, the FMBN"s activities covered financing functions and regulatory rules. From 2002, the FMBN has been reorganised to perform mainly secondary mortgage and capital market. It is empowered to link the capital market with the housing markets. It is also to encourage the emergence and promote the growth of viable primary mortgage loan originators to serve the needs for housing delivery in Nigeria. The bank is also to mobilize domestic and foreign funds into the housing sector. It is to collect and administer or manage the NHF in accordance with the provisions of the NHF Act. National housing trust fund is the source of funds for FMBN and for its wholesale mortgage lending. It is to collect fund and disburse them as loans to the finance users.

The ownership structure of FMBN consist of FGN 50%, CBN 30% and NSITF 20%. NSITF is fund collected from employees of Nigerian private sectors. This fund was established to replace the defunct National provident fund (NPF). It is a compulsory pension scheme for non- pensionable public servants and employees in the organised sector. Funds collected from NSITF are a non- pensionable public servants and employees of the organised private sector. They and their employees are to contribute 2.5% and 5% of the gross monthly emoluments to NSTIF respectively. It is a compulsory pension. Scheme for the said employees and any enterprise having more than 25 people must register and participate in these contributory funds. FMBN sources its funds from NHF contributions, bonds and mortgage.

4.5.1 Islamic evaluation and substitutes of FMBN

The importance of having a shelter where one can relax and sleep with two eyes closed is very great as Allah commands a man to give his wife a relative befitting accommodation as contained in Q 65:6.“Lodge them where you dwell, according to your means, and do not treat them in such a harmful way that they be obliged to leave…”One of the ways by which an arrangement can be made in a conventional way is to get loan from mortgage banks. Many people who get such loans are finding it extremely difficult to pay it back. Many may even die without paying the loans because of the interest that has escalated the total charge. In fact, some who want to enter into commercial housing services are also finding things extremely difficult to make the business viable and profitable as a result of the burden of interest.

Interest on loan given either for a dwelling or a commercial purpose is forbidden (Q2: 275). Instead, an arrangement can be made with the bank to enter into *Ijaarah* and diminishing *Mushaarakah* which is interest-free. *Ijaarah* is a lease. Both the bank and the applicant contribute capital to build an estate or a dwelling place. The capital contributed by the bank and the applicant may be in, say, the ratio 70% and 30%. After the completion of the project, and instead of giving the estate or the dwelling place to a third part, the applicant takes over the building. The rent that is supposed to be collected will be shared between the two. If the rent is ₦10, 000, the bank takes ₦7000 while the applicant is the one using the building; he needs only to pay the bank ₦7,000 every month. In addition if the bank’s capital is N8m and the applicant’s share of the money is ₦2, the applicant may decide on how he can be paying the bank its capital gradually. If he decides to be paying ₦1,000,000 every year, it means at the end of first instalment, the bank's percentage of ownership has reduced to 70%, while that of the person has increased to 30%. The arrangement continues until the applicant pays the bank all its capital. At the end of the 8th year from our hypothetical case, the applicant becomes the full owner of the estate or the dwelling place, and right from that time, the bank cannot collect any rent again.

The second arrangement may be to give the estate to a third party who pays rent to the owners. The second owner may be using his own share of rent to reduce the bank's capital by paying its own share of rent to the purse of the bank. This may be in addition to the part payments of the bank's capital contribution. If the rent is ₦100,000 the bank receives all the rent. This reduces bank's capital by ₦30,000 every month making ₦360,000 every year. At the end of about 22 years, the applicant becomes the only owner of the property as the bank received all its own share of capital.

5.0 Conclusion

Risk management

Nobody is sure of what is going to happen in the future. Therefore, there is the need to take time to understand, plan and strategise prior to selecting any specific investment products. The Prophet (PBOH) is reported in one of his sayings to have advised an Arab who had left his camel untied because he said he put his trust in God to tie his camel first; and then put his trust in Allah. This shows how risks are managed to reduce risk of loss or calamities. There are many Quranic verses and Hadiths which can serve as a lesson for Muslims and Non-Muslims who wish to reduce risk. The history of Prophet Muhammad, Prophet Yaqub, Prophet Yusuf, etc is full of lessons on how risks can be managed.

As a way of reducing risks, periodic progress reports, say, weekly, monthly, quarterly, yearly etc to minimize information asymmetries must be given. To reduce risk associated with *Salam* and *Istisnaa'*, parallel *Salam* and parallel *Istisnaa'* respectively can be contracted or arranged so as to avoid the risks of having unsold stocks in one's warehouse. Another way by which risks are reduced is to have a strong monitoring committee to oversee the implementation of the contract In order to ensure that the seller or the creditor gets his claims back safely and with ease, *Kafaalah* (guarantee), *hawaalah* (assignment of debt) and *rahn* (collateral security) are allowed in an Islamic economy. The implication of *Kafaalah* is that if an obligor is unable to pay a debt or deliver a property, the liability falls upon the guarantor to pay up the amount guaranteed. The Quran(Q12:72 establishes the concept of *Kafaalah* as regards the story of prophet Yusuf when his brothers were promised a camel load for any person who produced the missed (golden) bowl of the King (Q12:72). Virtually, all Muslim jurists supported the issue of *Kafaalah* on the basis that that would prevent or reduce defaulting on the part of the debtors and give creditors the rest of mind of getting their funds back intact. *Hawaalah* (Assignment of debt) is another way of guarantying a debt in Islam. It means transferring of debt from the liability of original debtor to the liability of another person. (Zali F, 1318). *Hawaalah* is like negotiable instruments in the sense that it guarantees the payment of debt to the creditor. *Ar-Rahn* (Collateral Security) is one of the ways by which a seller is assured of getting his money as and when due. The legality of Ar-Rahn is confirmed in the Qur'an (Q2:283 ;Q52:21 and Q74:38) and Hadith. One of the ways by which risk is managed in an interest free system is to appoint one's client as one's agent to purchase the commodities the client wants the Islamic bank to finance to avoid the risk of rejection. Another ways by which risks are managed in an interest free system is to ensure credit worthiness of the users of the fund and their proven records of successful business experience. The Islamic bank can also invest in highly credit-rated businesses in as much as such businesses are *sharii'ah* compliant and are devoid of charging interest. Another measure to discourage clients from defaulting is to ask them to pay some amounts into the purse of a charitable organization for the purpose of taking care of indigent people. The funds should not be used by the bank (Zaidi, 1983).

If the Islamic financial products are used, they can have a more positive impact on real macroeconomic aggregates, such as the growth rate, the product mix of the GDP or the income distribution than credits modes. Therefore, to choose credit modes as a way of financing or investments is suboptimal (Siddique, M.N. 1991). They can boost the economy of a society and create employments for employable people, who are unemployed, generate income, eliminate criminal activities in our society and give rise to all the good multiplier effects of such an arrangement.

REFERENCES

AAOIFI.2003.Shari'ah Standard, No. (17). ISBN999-01-23-06-03.

Abdul Hamid Siddiqi .n.d.. Sahih Muslim. Volume 3. Beirnt. Dar Al-Arabia. P. 827

Al-Zuhayl, W. 2003. Financial transactions in Islamic jurisprudence trans. Mahmud al-Jamal, Damascus. Dar al-Fikr, p. 386-388.

Ali Ahmad al-Saloos. 1423/2002. Protection of investment accounts in Islamic banks.

Anyanwu, C.M. 2004.Microfinance institutions in Nigeria: policy, practice and potentials Paper presented at G24 workshop on 'constraints to growth in sub-saharan Africa' Pretoria,South Africa,November, p. 29-30, 2004.

Cowan, J.M. 1960. The Hans Wehr of dictionary of modern written Arabic .Modern Language Services India, p. 5.
Duni and S.A. 1990. Al-Ju'ala wal 'Istisnaa' . tahlil .fiqhi wa iqtisadi, Jeddah. IRTI, p. 35.
Elgari, M,A. 1999. "Some recurring shari'ah violations in Islamic investment agreement used by international banking institutions. The proceedings of the second Harvard University forum on Islamic finance, Cambridge, M.A. Harvard University Press, p. 153.
El-Gousi, A.M. 1982. Riba Islamic law and interest. Department of Religion. Temple University, p. 214-215
Ezekezie, E.S. 2002. The elements of banking. Onitsha. African FEP Publishers Limited 6.
Fuad al-Omar and Mohammed, A.H. 1988. Islamic banking. Karachi Oxford University Press, p. 13.
Glaeser,E.Land Scheinkman,J.A.1998.'Neither a borrower nor a lender be: an economic analysis of interest restrictions and usury laws',Journal of Law and Economics, 41(1), p. 1-36.
Hammad, N.K. 2002. Diminishing partnership and its rules in the light of recent contract regulations. The Islamic fiqh council journal, p. 23.
Homoud, Sanni. 1997. Islamic financial instruments based on intermediary contracts.
Islamic Fiqh Academy.2000. Resolutions and Recommendations of the Council of the Islamic Fiqh Academy. Jeddah,Islamic Research and Training Institute, Islamic Development Bank.
Jhingan, M.L. 2006. Advanced economic theory. Delhi. Vrinda publication (p) limited. 1060.
Layi Afolabi, 1999. Monetary economics. Ibadan. Heinemann Educational Books. (Nigeria) Plc., p. 206.
Makkah Majallah. The Islamic Fiqh Council Journal issue no. 15, p. 124-130.
Mcmillien, Michael, J.T. 2000.'Islamic shari'ah-compliant project finance. collateral security and financing structure case studies'. The proceedings of the third Harvard University forum on Islamic finance. Local challenges, Global opportunities. Harvard Islamic
Muhammad, b. Ismail I. 1996. Bulughul Marami part I. Riyadh Dar-us-salam publications: p. 323.
Muhammad Muhsin Khan. Sahih al-Bukhari Arabic-English. Volume III. Beirut. Dar al-Arabia, p. 266.
Muslehud-Din, Muhammad. 1990, Insurance and Islamic law. Lahore Islamic Publication Limited, p.103
Nwoji, B.I. 1999. Corporate finance, guide to application in banking and financial services in Nigeria. Lagos. Malthouse Press Limited. 36-37.
Oluyombo, O.O. 2006. Fundamentals of finance money and banking. Lagos. Vival – O. and Associates, p. 149.
Raynard, P. and Forstater, M. 2002. Corporate Social Responsibility: Implications for Small and Medium Enterprises in Developing Countries. United Nations Industrial Development Organization (UNIDO): Vienna.

Saleh, N.A. 1992. Unlawful gain and legitimate profit in Islamic law, 2nd edition, Arab and Islamic Law Series, London. Graham and Trotman, p. 89.
Siddiqi, M.N. 1983. Banking without interest. Leicester. The Islamic foundation, p. 44-45.
Siddque, M.N.1991. "Some economic aspects of Mudaarabah ', Review of Islamic Economics Leicester. The Islamic Foundation, p. 21-34.
Soludo C.C, 2007 "Nigeria Financial System Strategy 2020 Plan *"our Dream"*".
Taqi Usmani, 1999. An introduction to Islamic finance part I. Lagos. Ad-Daawatu-Islamiyah, p. 47-54.
Tahir Mansur, 2005. Islamic law of contracts and business transactions. Pakistan. Shariah Academy International Islamic University Islamabad, p. 108.
Taqi Usman 1999. BK II, p. 15-19.
The 1976 Federal Government of Nigeria Budget.
The Central Bank of Nigeria.1971 Bulletin.
The Nation Newspaper, 19th April, 2010.
Wa Adilatuh, Al-Fiqh al-Islami. 1997. Islamic jurisprudence and its proofs, p. 1-11. Damascus.Dar al Fikr.
www.boinigeria.com ; official website of Bank of Industry
www.cenbank.org ; official website of Central Bank of Nigeria
www.fmbnigeria.org ; official website of Federal Mortgage Bank of Nigeria
www.neximbank.com.ng ; official website of Nigerian Export Import Bank
www.udbng.com; official website of Urban Development Bank of Nigeria Plc.
Zaidi, N.1983. Islamic banking. agriculture and ushr, an article on the United Bank limited, House Journal, May-June, Karachi, Pakistan.
Zail'i, F.U. 1318. A.H. Tabyin al-haqaiq. bulaq. Al-Matba'ah al-Kubra., 1717.

SUMMARY

Nigeria got her independence in 1960 and since that time various DFIs were established at both the national and state levels in Nigeria to cater for economic development of some specific sectors. The anticipation was that the DFIs would be able to cover the areas neglected by the commercial banks because of the huge financial requirements of the different sectors in the economy. It is also believed the DFIs would become specialist in their various fields to the extent that they exert greater positive impacts on the standard of living of people, infrastructural facilities, socio-economic development, etc than the commercial banks. However, hope has not been met up till today. Our roads are full of pot-holes, power supply is epileptic; most of the population live in de-humanizing housing environment while those that have access to average housing do so at abnormal cost.

This paper set out to answer the question "why has DFIs in Nigeria remained passive and irrelevant in the drive towards development of the Nigerian Nation despite all restructuring and reforms of the institute over the years?" In this paper we reviewed the evolution and development of DFIs in Nigeria between 1964 and 2010 as well as the overview of the structure of the Nigeria financial industry. We discussed the major Islamic financial products and services such as *Mudaarabah, Mushaarakah, Muraabahah, Ijaarah, Istisnaa', Salam* etc. in relation to national devel-

opment. Alternatives ways by which Nigeria DFIs products and services could be carried out from the Islamic perspective were proposed. From our study, all the products and services of the five DFIs in Nigeria (BOI, NEXIM, NACRDB, FMBN, and UDBN) can be financed through the Islamic financial products successfully, efficiently and effectively. All these Islamic products can be used to execute all the various forms of infrastructure such as power, plants, high ways, sea-port, airports, canals, dams, hydro-electrics water supply, health facility et.c and a host of others mention in the “Infrastructural Concession Regulatory Commission 2005 (ICRC).

Kafaalah (guarantee), *hawaalah* (assignment of debt) and *rahn* (collateral security) are allowed in an Islamic economy to manage risks associated with the Islamic financial products. Other ways of managing risks are periodic progress reports, strong monitoring committee, parallel *Salam*, parallel *Istisnaa‘* etc. If all these reforms are made in line with the Islamic principles, it is expected that the banks’ contributions to economic development will grow stronger and this will widen the scope of the needs for economic/business development financing.