

EMBRACING ISLAMIC BANKING TO SUSTAIN POLITICAL STABILITY OF NIGERIA

BY

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Abstract

This paper investigated if Islamic banking could contribute meaningfully to political stability in Nigeria. The method used was analytical approach. The paper starts with an introduction, stating how Muslims have endured using the conventional banking for over a century before the coming of the Islamic banking. Then, concept of Islamic banking is examined, followed by the concept of conventional banking. The differences between the Islamic banking and the conventional banking are highlighted. The political instability of Nigeria is discussed. The paper then discusses the factors contributive to Islamic banking and political stability of Nigeria. The paper concludes that Islamic banking in Nigeria can contribute positively to the political stability of the country if well-managed aligning with Shari`ah compliance. Finally, it recommends that the principles of Islamic banking should be strictly followed. Islamic banks are to shun imitation of conventional banks and to adhere strictly to Shari`ah compliance in all operations and activities.

Keywords: Islamic banking, Shari`ah compliance, political stability, Nigeria.

Introduction

For over a century, Nigerian Muslims have endured the dominance of conventional banking systems and their un-Islamic facilities in the absence of *Shar`ah*-compliant banks. However, with the unprecedented global Islamic banking in some European financial power houses such as the United Kingdom, the tremendous upsurge in Muslim developing countries such as Malaysia, and the Nigeria banking reform and recapitalization policy of 2015, the dawn of *Shari`ah*-compliant banking in Nigeria began in 2012 at the Federal Capital Territory, Abuja under the designation of Non-Interest Financial Institutions (NIFIs), since then spreading to other states of the federation. Islamic banking practises Islamic economics, a financial system which is laudable, reputable and capable of economic sustainability that can guarantee political stability. It is noteworthy that during the global economic melt-down, it was only the countries that practised Islamic economic banking that survived economically.

Banking is a concept that has been used in our society in different forms and shapes. The history of banking is very old and can be traced to when there were trading systems and the gold coins. There are different banking systems in the world but the most famous ones are the conventional and Islamic banking systems.

The main function of a conventional banking is to borrow money in the form of deposits and lend this money in order to earn interest. On the contrary, an Islamic banking system is based

on the principle of partnership. In Islamic banking, the shareholders, the depositors and the borrowers – all would participate on profit/loss sharing basis. *Shari`ah* is the basis of Islamic banking (Roszaini & Muhammad, 2020).

Ibn Al-Qayyim establishes thus:

The basis of *Shari`ah* is the wisdom and welfare of the people in this world as well as in the hereafter. This welfare lies in complete justice, mercy, well-being and wisdom. Anything that departs from justice to oppression, from mercy to harshness, from welfare to misery, and from wisdom to folly, has nothing to do with *Shari`ah*.

In the same vein, Al-Ghazali (1937), asserts that:

The very objective of the *Shari`ah* is to promote the welfare of the people which lies in safeguarding their faith, their life, their intellect, their posterity and their property. Whatever ensures the safeguard of these objectives, serves the public interest and is desirable.

Al-Hashimi (2007), establishes that *Shari`ah* is like a fence that permits the factors of development and progress to have their effects on the Muslim society. It also guides the society from being assimilated or lost. Though, Islamic law (*Shari`ah*) is founded on fixed basis, it is flexible and more resilient to the needs of new development in human life than all the new systems that man has invented and dubbed “progressive”.

He further explains that Islamic law that shapes Muslim society has many features that enable the Muslim society to grow, develop, and meet the ever-changing needs of mankind. Islamic law is suitable to the basic features of human nature because it was enacted by Allah Who knows the nature of His creatures and what is best suited to this nature. (Q. 67: 14).

He stresses further that the man-made systems make the aim of economy, accumulation of wealth which is then spent on luxuries and pleasures. This enjoyment is the ultimate aim for which they strive, because they are focused entirely on this world and the pleasures it offers. On the contrary, Islam regards the economy as a means, not an end, of guaranteeing a good and free life for greater purpose, which is to seek the life of the hereafter.

Muslims believe that Islam is a religion revealed by Allah to His Last Prophet, Muhammad. (S.A.W.) It is a complete religion, embracing all facets of a Muslim's mundane activities in this world and his state of affairs in the hereafter. The teaching of Islam encompasses the essence of economic well-being and development of Muslims at the individual, family, society, state and *Ummah* (Islamic Universal Community). (Roszaini & Muhammad, 2020).

Concept of Islamic Banking

Islamic banking is also *Shari`ah*-compliant banking. It refers to financial activities that adhere to Islamic law. Two fundamental principles of Islamic banking are the sharing of profit and loss, and the prohibition of the collection and payment of interest by lenders and investors. Islamic banks make a profit through equity participation, which requires a borrower to give the bank a share in their profits rather than paying interest (investopedia.com>isl...)

Doi (1990), establishes in his work titled: “*Shari`ah: the Islamic Law*” that:

Money or property which is acquired through unfair means, is positively uclean or unlawful, and anyone who makes use of it or spends it on his needs does himself a great harm. As the Holy Prophet has warned, his prayers will not be answered, his petitions will not be granted, and in case he does good deeds, they will avail him nothing. In the next world there will be no share for him in the special favours of Almighty Allah.

“Allah does not bless usury, and He causes charitable deeds to prosper, and *Allah* does not love any ungrateful sinner.” (Q.2: 276).

Hanson (1974), asserts that:

The idea of usury is quite evident in the concept of modern bank interest. The rate of interest as defined by modern economists is the price of money, the price at which money can be borrowed and determined like other prices by the interaction of the forces of supply and demand.

However, the correct and clear definition of usury is any amount of interest on capital loan. In classical doctrine, the term covers many forms of gains or profits which accrue as the result of a transaction and which were not precisely calculable at the time of the transaction being concluded.

Usury was not in practice in Muslim banks. Indeed, cheques go back to the time of Caliph `Umar bn Al-Khattab. He was the first to draw cheque (634 – 644 A.D.). Al-Yaqubi, an eminent scholar mentions it in his history.

There are more than 560 banks and over 1900 mutual funds around the world that comply with Islamic principles. Between 2015 and 2021, Islamic financial assets grew to about 4 trillion dollars from 2.17 trillion dollars and are projected to rise to roughly 5.9 trillion by 2026 according to a 2022 report by the Islamic Corporation for the development of Private Sector (ICD). This growth is largely due to rising economies of Muslim countries (especially those that have benefited from oil price increases). (https://www.investopedia>isl...)

The global Islamic banking industry grew in 2021 and 2022 due to increased bond issuance and continuing economic recovery in the financial markets according to S & P Global Ratings. Islamic assets also managed to expand over 10% in 2020, despite the pandemic . (https://www.investopedia>isl...) Islamic banking is grounded in the tenets of

transactions. The principles of Islamic banking are derived from the *Qur'an*, which is the central religious text of Islam. In Islamic banking, all transactions must comply with *Shari'ah* (the Islamic Law) or the legal code of Islam (based on the teachings of the *Qur'an*). The rules that govern commercial transactions in Islamic banking are referred to as *fiqh al-muamalat*.

Employees of institutions that abide by Islamic banking are trusted and they do not deviate from the fundamental principles of the *Qur'an* while they are conducting business. When more information or guidance is necessary, Islamic bankers turn to learned scholars or use independent reasoning based on scholarship and customary practices. One of the primary differences between conventional banking systems and Islamic banking is that Islamic banking prohibits usury and speculation or gambling (*maysir*). *Shari'ah* also prohibits taking interest on loans. In addition, any investments involving items or substances that are prohibited in the *Qur'an* – including alcohol and pork are also prohibited. In Islamic banking terminology, this is referred to as principles of Islamic banking. In this way, Islamic banking can be considered a culturally distinct form of ethical investing.

To earn money without the typical practice of charging interest, Islamic banks use equity participation systems. Equity participation means if a bank gives money to a business, the business will pay back the capital without interest, and instead, give the bank a share in its profit. If the business defaults or fails, then the bank also does not benefit. In general, Islamic banking institutions tend to be more risk-averse in their investment practices. As a result, they strictly avoid business that could be associated with economic bubbles.

Concept of Conventional Banking

Hornby (2015), in his *Oxford Advanced Learner's Dictionary*, defines the word “conventional” (adj) as “tending to follow what is done or considered acceptable by society in general”. Therefore, conventional banking means “the banking system which is tending to follow what is done or considered acceptable by society in general”. Conventional banking also means the business of receiving money in current, saving or deposit account, paying and collecting cheques drawn by or paid in by customers, and providing business or personal loan to customers against fee/interest. (afghanunitedbank.com...). Conventional banking is essentially based on the debtor-creditor relationship between the depositors and the bank on one hand and between the borrowers and the bank on the other hand.

Differences Between Islamic Banking and Conventional Banking

1. The major difference between Islamic banking and conventional banking system is that Islamic banking is an ethical banking system, and its practices are based on Islamic (*Shari'ah*) laws while conventional banking system is regulated by man-made laws.
2. In conventional banking system, money is a product besides medium of exchange and store of value. On the contrary, in Islamic banking system, real asset is a product, and money is just a medium of exchange.
3. In conventional banking, time value is the basis for charging interest on capital, while in Islamic banking system, profit on exchange of goods and services is the basis for earning profit.

4. In conventional banking, interest is charged even in case the organization suffers losses, and no concept of sharing loss. Opposite is the case in Islamic banking. Loss is shared when the organization suffers loss.
5. In conventional banking, due to non-existence of goods and services behind the money while disbursing funds, the expansion of money takes place which creates inflation. But in Islamic banking, due to existence of goods and services, no expansion of money takes place, and thus, no inflation is created.
6. In conventional banking, due to inflation the entrepreneur increases prices of his goods and services due to incorporating inflationary effect into cost of product. But in Islamic banking, due to control over inflation, no extra price is charged by the entrepreneur.
7. In conventional banking, real growth of wealth does not take place as the money remains in few hands. On the contrary, in Islamic banking, real growth in the wealth of the people of the society takes place, due to the multiplier effect, and real wealth goes into the ownership of many people.
8. In conventional banking, due to decrease in the real GDP, the net exports amount become negative. This invites further foreign debts and local currency becomes weaker. In Islamic banking, due to increase in the real GDP, the net exports amount becomes positive. This reduces foreign debts burden, and local currency becomes stronger.

Political Instability of Nigeria

The political crises which had happened in this country had shown clearly that both military and civilian regimes have failed since Nigeria got its independence in October 1, 1960. There had been coups and counter coups. Military regimes are clearly not distinguishable from the civilian regimes in terms of competence, honesty and rationalistic ethics. They are very much alike in terms of corruption and incompetence. (Ya'u: 1987).

These tendencies are the inevitable consequences of running a capitalist state. Despite the money and energy being spent on ethical revolutions such as Jaji Declarations, War Against Discipline (WAI), Economic Financial Crimes and other related offences Commission (E.F.C.C.), and Independent Corrupt Practices Commission (I.C.P.C.), nothing has changed on the part of both the rulers and the ruled.

Despite the fact that Nigeria is abundantly blessed with both natural and human resources, majority of the people of this country are suffering in silence. Most of them do not have access to basic necessities of life. On the contrary, the rich and our political leaders live and enjoy extravagant life. They even travelled abroad to enjoy the social and medical amenities that are not available here.

In comparing Nigeria to other countries with good governance, Nigeria is just like a hell where the majority of its citizens are suffering in the midst of plenty. The elected officers want to perpetuate themselves in office, making politics "a-do-or-die affair". This type of behaviour is as a result of much love for money, greediness, self-centredness and unpatriotic act against one's country.

Islamic Banking and Political Stability of Nigeria

At this juncture, one needs to consider whether Islamic banking can bring about political stability in Nigeria or not. The following factors are examined to look into this.

1. Material Well-being

The objective of Islamic banking is to ensure that adequate basic materials are provided for the people. Allah has provided all necessary resources for human beings for their material well-being. The Glorious *Qur'an* says:

Do you not see that Allah has made what is in heaven and earth
subservient to you, and made complete to you His favours outwardly
and inwardly? And among men is he who disputes in respect of Allah
though having no knowledge nor guidance, nor a book giving light. (Q.31:20)

From this verse of the Holy *Qur'an*, two fundamental principles can be derived, (i) that God-given resources are meant for general human welfare, and (ii) for eradicating poverty and fulfilling the basic material needs of all people such as education, clothing, shelter, food and other necessary facilities. If this objective is achieved in Nigeria, certainly there will not be only political but also economic stability.

2. Financial Inclusion

Islamic finance brings about financial inclusion. According to World Bank (2017), “Financial inclusion” means “that individuals and businesses have access to useful and affordable financial products and services that meet their needs – transactions, payments, savings, credit and insurance – delivered in a responsible and sustainable way”. Through Islamic banking, financial inclusion can be promoted and bring a larger pool of savings in the local and global economy. This results in eradication of poverty and satisfaction of all basic needs, full and efficient utilization of all human and material resources to attain an optimum rate of economic growth and improve the standards of living of all people, avoidance of all conditions generating deficient or excess demand, leading to unemployment or inflation. This is one of the efforts of Islamic banking towards building political stability in Nigeria.

3. Accelerating Economic Development

Islamic finance certainly has profit creation and growth as one of its objectives. Islamic banks choose to invest in businesses based on their potential for growth and success. Thus, in the Islamic banking industry, each bank will invest in promising business ventures and attempt to perform better than its competitors in order to attract more funds from its depositors. This eventually results in a high return on investments both for the bank and the depositors, and investment in physical capital leads to the development of an economy. In this manner, Islamic banking contributes meaningfully for political stability. Without economic stability in any country, there can be no political stability.

4. Social and Economic Justice

Social and economic justice is a requirement that helps Islamic banking products function in a *Shari'ah*-compliant way. The western financial system makes profit through interest payments and make the beneficiary liable for any risk. Islamic banking paves way for the sharing of profit/loss and risk involved in a proportional manner. Islam considers mankind as one family. There is to be no discrimination due to race, colour, creed or

position. The only criterion for man's worth is character, ability and service to Islam and humanity. The Holy Prophet said: "Certainly, God does not look at your faces or your wealth. He looks at your hearts and your deeds." (Muslim). "The noblest of you are the best in character." (Bukhari). The Glorious *Qur'an* urges Muslims to "withhold not what is justly due to others". (Q.26:183).

This warning against injustice and exploitation is designed to protect the rights of all individuals in society (whether consumers or producers and contributors, and whether employers or employees) and to promote general welfare, the ultimate goal of Islam. Islamic banking, being *Shari'ah*-compliant considers it as obligation and necessity to carry out social and economic justice. That is why the Islamic banks avoids taking interest, exploitation of its customers; and that is why they are committed to doing things that would please God and enhance welfare of people. This type of behaviour creates love and peaceful coexistence in the society and leads to political stability.

5. Reducing Economic Disparity

Islam does not prohibit accumulation of wealth. However, he made payment of *zakat* compulsory for the rich to be given to the poor annually so that the gap between the rich and the poor can be bridged. This leads to eradication of poverty and hardship among the poor in the society. This also reduces the rate of crimes in the society, and makes possible peaceful coexistence and political stability.

6. Avoiding Economic Bubbles and Bursts

It has been established that the Islamic banking industry has an element of anti-crisis that eliminates economic bubbles. One evidence is that there is 25% increase in the value of assets held within the Islamic banking industry from 2007 and 2008, when much of the world was battling the worst of the financial crisis. An element of this anti-crisis code is the financial screening process Islamic investment funds employ before determining whether a company is *Shari'ah*-compliant. A company that is too greatly leveraged is shut out of the Islamic investment market altogether.

Conclusion

The factors mentioned above are some of the ways through which Islamic banking can contribute meaningfully to political stability in Nigeria. It has been proved beyond reasonable doubt that political stability cannot be achieved without economic stability. Islamic banking practises Islamic economic behaviour and a financial system which is laudable, reputable and capable of economic sustainability and political stability.

Recommendations

To improve the performance of Islamic banking in order to sustain political stability in Nigeria, the following recommendations are made:

1. That principles of Islamic banking are strictly followed.
2. Islamic banks should make use of standard Islamic financial accounting for their financial transactions.
3. They should also have *Shari'ah*-compliant soft-ware.

4. They should shun imitation of conventional banking in as much as it goes contrary to *Shari`ah*.
5. They should make use of *Shari`ah* courts or bodies for dispute resolution of Islamic bank cases.
6. Government should give financial support to Islamic banks to serve as an incentive.
7. Islamic banks should make training and re-training of their workforce a matter of priority for effective performance.

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