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ISLAMIC FINANCING AS TOOL OF ECONOMIC TRANSFORMATION

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Abstract
Islamic financing is no doubt long overdue in Nigeria; Nigeria is a democratic country where we have freedom to do everything that is lawful according to the constitution of the country. The uniqueness of Islamic financing is to put into consideration to thrive and to consider while making policies that will guide the economy of the country to Favour everybody interest in the country. When this institution is put in place to thrive, the economy of Nigeria will grow at a very high speed, we cannot over emphasized the fact that Islamic financing will aid the economy of Nigeria to develop and make the people very hard working to achieve a common goal of making every Nigerian to get them self-busy to be able to make a living, as we all know, Islam do not encourage laziness or dependent on people, in other words Islam as a religion urges everybody to get involved in the creation of wealth for each and everyone in the country. Finally, Islamic financing would be very beneficial in the growth of Nigerian economy, if well implemented by the managers of our economy in the next five to ten years. As a matter of fact, the economy will be what we all what it to be, the vision 20:20:20 of our great country can be articulated with great policies that will aid this Islamic financing in Nigeria. Growth and Global Developments in Islamic finance industry has evolved to become an essential part of the international financial system, witnessing tremendous growth both in terms of assets and geographical spread.

Keywords: *Islamic financing, Nigeria and Economic transformation*

Introduction
Kabir M. Hassan and Issouf Soumare' (2007) said that the foundations of Islamic finance are described in the Muslim Holy book and the traditions of the Prophet Muhammad (Peace be upon him). Under Islamic law (Sharia), making money from money, such as charging interest, is usury and therefore not permitted. Wealth should be generated only through legitimate trade and investment in assets. All forms of interests are forbidden. Moreover, investment in companies involved with illicit activities or goods such as alcohol, gambling, tobacco and pornography is strictly off limits. Islamic financing contracts should be designed to avoid risk-free return and money from money (riba), uncertainty (gharar) and gambling (maysir).

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Meanwhile, Islamic financial instruments have to be carefully structured so that the exchange involves goods for money or partnership shares for money over time. The crux of the Islamic financial system is based on risk-sharing not on risk-trading. Islamic banking is growing at a rate of 15% to 20% per year (Esty 2004). Some African countries and even the West African countries such as Nigeria are changing their tax codes to accommodate Islamic finance, (BBC News, 2004). In furtherance, the singularities of Islamic finance require the conventional finance approach to be redesigned in order to satisfy the criteria of Islamic financing. These restrictions impose financing constraints on entrepreneurs seeking funds to undertake large scale investments based on Islamic principles.

El-Gamal, Mahmoud, (Islam Finance- The New Palgave Dictionary of Econmics; 2009) expressed further that Islamic economics refers to the economic system that conforms according to Islamic scripture and traditions. Moreover, Islamic finance belongs to the category of religious ethical finance, like Christian finance. The central features of an Islamic economy are summarized as the following:
(1) "behavioral norms and moral foundations" derived from the Quran and Sunnah;
(2) Zakat tax as the basis of Islamic fiscal policy, and
(3) prohibition of interest.

Subsequently, the concept of Islamic finance is rooted on the above three ideologies. It is noteworthy that Islam is one of the fastest growing religion in the world. This may be recorded as the strict and understandable religious concept. Moreover, Islam are highly respected for their believe in Allah and Blessed Mohammed (to whom peace be unto).

Islamic finance is not a relative term because there is enough evidence to measure its utmost reliability and validity that is why the scholars did not have different perspectives despite the angle each of them is looking at it. However, these entities are governed both by Islamic law and the finance industry rules and regulations that apply to their conventional counterparts. Although the Islamic finance industry itself is quite young, Islamic theories of economics have existed for more than a millennium; by the mid-12th century, in fact, many Muslims scholars had presented key concepts of Islamic economics that are still relevant today. But political and social turmoil put the brakes on Islamic finance for a very long time; only in the 20th century did Muslim scholars and academics seriously begin to revisit these topics (and, in doing so, set the stage for the modern Islamic finance industry to emerge in the 1970s). Islamic economics is based on core concepts of balance, which help ensure that the motives and objectives driving the Islamic finance industry are beneficial to society Balancing material pursuits and spiritual needs.

Interestingly, a core concept of Islam is that Allah is the owner of all wealth in the world, and humans are merely its trustees. Therefore, humans need to manage wealth according to Allah's commands, which promote justice and prohibit certain activities. At the same time, Muslims have the right to enjoy whatever wealth they acquire and spend in sharia-compliant ways; they don't need to feel shame about being wealthy as long as their behavior aligns with Islam.

A Muslim believes that Islam doesn't restrict economic activity but instead directs it toward responsible activity that benefits other people, protects the earth, and honors Allah. In other words, Islam allows for a free-market economy where supply and demand are decided in the market not dictated by a government. But at the same time, Islam directs the function of the market mechanism by imposing specific laws and ethics.

Furthermore, Islamic financing in Nigeria has been over flogged and Nigerians seem to be paying lip service to its practical implementation. A lot of theories have been postulated as to the challenges and prospects of Islamic financing in Nigeria. There seem to be no practical approach to its implementation. According to sule Ahed Gusau, there is nothing new about the implementation of Islamic finanicing in the country Nigeria. It has been in the literature over 60 years and many volumes have been written in that respect(gusau 1993). To him, what is new is applying the concept to a vast territory like Nigeria with its diverse ethnic groups, race, colour and religion. A few attempts which have been made to initiate little practical operations have been stalled by Nigerian government policies which are not favourable to the whimps of islamic financing for caprice of islamic financing. For instance, jaiz investment made a great stride about nine years ago to make a bold move in this direction. Jaiz went as far as selling shares to Nigerians, individual and corporate bodies to raise fund to meet the central bank of Nigeria condition which has been changed over time. Up till this moment, jaiz is yet to commence operation because of the Nigerian environment which is believed not suitable for Islamic financing. Some of Nigerians looks at Islamic financing as a way to Islamize the country. it is my opinion that people which this kind of conception will change their opinion towards this institution.

Conceptual Background

Kabir M. Hassan and Issouf Soumare' (2007 pd.3) expressed further that Islamic financing need to be slated to avoid risk-free return and money from money (riba), uncertainty (gharar) and gambling (maysir). Also, they have to be carefully structured so that the exchange involves goods for money or partnership shares for money over time. The Islamic financial model works on the basis of risk sharing. Farrell, L. M. (2003, pd.549) stated the following as the main financial instruments used in Islamic finance are:

1. ƒ Qardh Hasan is a risk-free asset with a nominal rate equal to the inflation rate. Therefore the real rate of return is zero.

2. Murabahah (cost plus financing and deferred installment sale) is a form of credit facility which enables customers to purchase equipments/goods without having to take out an interest bearing loan. The bank buys an item and then sells it on to the customer on a deferred basis.

3. Ijara (operating lease) is a leasing agreement whereby the bank buys an equipment or productive asset for a customer and then leases it back over a specific period. The client avoids initial capital outlay. In some cases, the customer is able to buy the item at the end of the contract.

4. Mudarabah is a profit-and-loss sharing Islamic income or revenue bond contract. It offers specialist investment in which the project owner(s) and the investor share any profits. It does not guarantee any fixed rate of return (ribawi), instead, the investor receives a share of the profit or bears the losses generated by the business venture, and the principal is paid (in real terms) at the termination of the contract.

5. Musharakah is an investment partnership in which profit sharing terms are agreed in advance, and losses are pegged to the amount invested. It is an equity participation or stock ownership contract.

Proponents of Islamic finance have repeatedly argued for its adoption chiefly because it can promote higher real investment and growth rates by encouraging risk and return sharing. However, Islamic financial institutions have so far focused mainly on debt financing rather than equity financing precisely because of concerns over risk. Equity financing may be represented by Mudarabah and Musharakah, the main profit-and-loss sharing instruments of Islamic finance. These instruments can be highly flexible as they allow projects to be partly or fully financed by lenders/shareholders, but they are considered as high risk instruments because of: (1) high uncertainty of return to financial institutions since returns depend on project performance; and (2) in addition to credit risk, they involve business risk.

Accordingly equity financing by Islamic financial institutions requires a high degree of trust in entrepreneurs and implies larger cost to financial institutions in terms of project evaluation, monitoring and supervision.

In view of the above there is a need for policies and interventions to help both fund providers and entrepreneurs to reduce investment risk in Mudarabah and Musharakah. Thus the paper addresses an important projects from an economic and social viewpoint. As the paper explains, the government has an incentive to provide project guarantee since project success will mean increased tax revenue. Entrepreneurs will have greater access to finance with government guarantees and shareholders will be willing to finance more projects. Government project guarantee is justified as far as the return exceeds the cost of providing the guarantee.

In the views of Faleel Jamaldeen 2013 Islamic finance is a financial system that operates according to Islamic Law (which is called sharia) and is, therefore, sharia-compliant. Just like conventional financial systems, Islamic finance features banks, capital markets, fund managers, investment firms, and insurance companies.

Siddiqi (1993) advocated that Islamic finance is the business of financial intermediation, mobilizing savings from the public on the basis of partnership and profit and advancing capital to entrepreneurs on the same basis. Islamic financing therefore is a system of banking that complies with the principles of Sharia (Islamic law) and its practical application through the development of Islamic economics. Sharia forbids the payment or acceptance of interest fees for the lending and accepting of money respectively. This is known as *riba* (usury).

More so, the Central Bank of Nigeria governor Sanusi Lamido Sanusi in his recent speech on 5th July 2013 advocated the need for Nigeria to tap into opportunities provided by Islamic financing to fund infrastructural development in Nigeria. Sanusi, who spoke at a conference on Islamic banking/financing, stated that Islamic bonds called Sukuk, serves as a financing tool which also complement government's efforts in infrastructural development. Thus, Islamic financing in this aspect is a depository institution of financial intermediary that specializes in providing finance on sale, lease or sharing bases; therefore, Sharia is a criterion for financial transaction, with its tenet of non-profit modality that help in economic transformation in Nigeria (Sanusi Lamido Sanusi 2013).

Consequently, it has been realized that Islamic finance has evacuated the problem of interest payment in recent years. This financial relief has contributed to a greater extent in the augment in the business world within the pretty short and long span of inconvenience interest payment. More often, the financial crisis among Nigerian businessmen and the world at large has been as a result of collateral rendered to financial institutions while raising fund.

On the national scale, market operators including banks, insurance companies and asset management entities are busy exploring this alternative financial model and its potentialities, and most recently regulators, are gearing up to the role that they have to play in regulating and supervising this innovative financial service industry, whose entry into the Nigerian economic arena is only a matter of time for the system to be accepted and recognized by Nigerians.

In other words, with the global financial crisis raising doubts over the world's conventional financial system, and our recent experience in the Nigerian banking and Capital Markets, and the facts that the financial crisis is having no negative impact on the development and performance of the Islamic financial industry, it makes sense for Nigeria to exploit the opportunities offered by the Islamic financial industry. The potentiality of the Islamic financial services is evidently very high in Nigeria.

Abubakar Buba The Managing Director of Jaiz International Bank, Alhaji Mustapha Bintube anticipated that the solution to the current global financial meltdown lies with the Islamic financial system. Bintube offered the advice in Abuja while delivering a lecture entitled: 'Global Economic Meltdown: Islamic Perspective and Solution' at the second Mawlud Nabiyy public lecture organised by the Muslim Media Practitioners of Nigeria (MMPN), Abuja branch. Hence, he stated that islamic Financial system was capable of minimizing the severity of the financial crisis and economic meltdown. He attributed the global economic meltdown to huge loan interest charges, corruption and fraud which the ideal Islamic Bank frowned at. "The Islamic finance system therefore does not allow creation of debt through direct lending and borrowing on interest," Bintube said, with all this it leads to economic transformation.

Conversely, "The Islamic financial system can engender greater discipline, equity and justice in the system through risk/reward sharing, moral screening and providing affordable finance to the poor," (Bintube). He said that though the Islamic finance industry was still about 30 years old in the global financial system, its consistent growth, was capable of solving the economic recession, if fully applied.

Furthermore, Bintube enumerated that Islamic financing was capable of attracting foreign direct investment worth of $1.5 Trillion and at a growth of 15 per cent to 20 per cent in a year. Bintube said that Jaiz Bank, a proposed Islamic Bank in Nigeria, had a delay of operation due to the sudden increase in capital base of banking operation from N2 billion to N25 billion by the Central bank of Nigeria.
Therefore, from the above assertion, it clearly states that Islamic finance if properly intiated and utilized will transform the economy of Nigeria.

The Impact of Islamic Finance in Nigerian Economy
Invariably, due to the financial crisis experienced in Nigeria, Islamic financing has helped eradicate some of the declining factors in Nigerian economic system outlined as follows:

1. Economic Viability
   Consequently, Islamic financing/banking will always be able to address financial concerns of its clients, because it has different financing options that will address all people from different backgrounds. It is also noteworthy that Islamic financing implies direct linkages between financing flows and real flows in the economy, i.e. fund will flow from Islamic banks only against real economic activities (Sani Aminu Dutsinma 2013).

2. Risk Sharing and Spread Risk
   Sani Aminu Dutsinma (2013) analysized that Islamic financing/banking is based on risk sharing and spreads risk between bank depositors and bank capital, it is inherently more stable. If this inherent quality is coupled with prudential regulations and supervisions, transparency and good governance, Islamic financing in Nigeria can practically become an ideal alternative to conventional system in achieving equity, stability and efficiency in the economy.

3. Mopping-Up Excess Financial Liquidity
   Furthermore, mopping-up excess financial liquidity in the Nigerian economy appears to be a major prospect of the Islamic financing and banking system in Nigeria. It is on record that liquidity management is of great concern to the Central Bank of Nigeria. Part of the reasons why the Apex bank finds it difficult to direct the growth/development of the economy is because there is excess liquidity outside the banking system. In the Northern part of Nigeria the banking system is not highly patronized because of interest which is an integral part of the conventional banking system. The truth is that our current banking system contravenes the belief of most people, Muslims and Christians alike. (Onuoha Emeaba 2010). The result is excess liquidity [owing to low patronage of the banks] outside the banking system, hence the problem of liquidity control and management. With Islamic banking in Nigeria a greater number of these monies outside the banking system

will be channeled back to the system and as such control will be more effective (Onuoha Emeaba 2010).

4. Economic growth:
Islamic financing helps in furthering trade and businesses among Muslims and non-Muslims within the country. This process has enhanced the performance of the real sector of the economy. Thus, it is noteworthy, to state that when a business succeeds, it opens the door of employment opportunities, human capacity development as well as productivity of the gross domestic product (GDP). Therefore, Islam financing has aided in the development and growth of the gross domestic product (GDP) in Nigeria (professor Momoh s. 2010).

5. Creation of Job Opportunity
Islamic financing create more jobs for the teeming population this is because, before loans are granted, the bank which is not after interest alone but also after the utilization of loans and after easy ways of paying back will guide and advice loanees before taking up loans. Hence, it improves and enhances the economy of the county through job creation.

6. Building of Trust/Transparency
Islamic financing is aimed at building of trust in the economy of the country and this can be guaranteed where transparency is exhibited in the country's economy.

7. Tranquility of Mind
Islamic financing helps promote tranquility of mind in the sense that loans will have little anxiety which characterize interest loans of the western finance.

8. Reduction on Inflation
The possibility of hiking price will be reduced to the bearest minimum. This is because loans taken if invested on a business, the loanee will not have to pay a dime above the amount of loan collected.

9. Circulation of Wealth Among Many People
Islamic financing will take care of low income traders since the priority is not to make interest but to build the citizenry economically. It will make the economy grow because the individual economy contributes to the societal economy. It will assist in getting in touch with people at the grassroots level, it will discourage monopoly of business transactions, breaks up hoarding of essential commodities by a few individual and it will make development direct to all and sundry.

Findings and Discussion

Islamic finance refers to the financial arrangement in which services, instruments and transactions are done in accordance with sharia principles and injunction. The inclination is for people to see Islamic finance as simply being Islamic banking and the avoidance of interest. It goes beyond that. Indeed Islamic financing is only an aspect of Islamic injunction. The bigger picture of Islamic finance includes such other areas as Islamic insurance, Islamic capital market, Islamic asset management. It also includes or involves other important principles, which encourage entrepreneurship, risk-taking, transparency, preservation of property rights and ethical values such as justice, fair dealing and fair pricing, mutual cooperation and respect of the other contracting parties. Thus, I want to assume that the focus of the organizers is perhaps not on Islamic finance in its entirety but on Islamic banking because that is one of the most current issues in our world today, Another observation I would want to make in this regard is that Islamic finance or Islamic banking as the case may be as conceptualized and operated in the modern time have not started operating fully in Nigeria yet. Therefore, there isn't much to talk about it now. This write up will therefore highlight basic operational issues of Islamic financing as practiced in other jurisdictions that have started it and as will be expected to be practiced in Nigeria subject to whatever modifications that might be effected. It will also provide a short overview of the regulatory framework that will facilitate its operation.

Subsequently, the essential feature of Islamic financing is that it is interest-free. Islam prohibits Muslims from taking or giving interest (riba) regardless of the purpose for which such loans are made and regardless of the rates at which interest is charged. Riba is a predetermined excess or surplus over and above the loan received by the creditor conditionally in relation to a specified time Period. The prohibition of riba is mentioned in four different revelations in the Qur'an. The first revelation emphasizes that interest deprives wealth of God's blessings (Al-Rum: 30: 39). The second revelation condemns it, likening it with wrongful appropriation of property belonging to others. The third revelation enjoins Muslims to stay clear of interest for the sake of their own welfare. The fourth revelation establishes a clear distinction between interest and trade, urging Muslims to take only the principal sum and to forgo even this sum if the borrower is unable to repay. It is further declared in the Quran that those who disregard the prohibition of interest are at war with Allah and His Prophet.

Conclusion / Recommendation

Islamic financing is no doubt long overdue in Nigeria; Nigeria is a democratic country where we have freedom to do everything that is lawful according to the constitution of the country. The uniqueness of Islamic financing is to put into consideration to thrive and to consider while making policies that will guide the economy of the country to favor everybody interest in the country. When this institution is put in place to thrive, the economy of Nigeria will grow at a very high speed, we cannot over emphasized the fact that Islamic financing will aid the economy of Nigeria to develop and make the people very hard working to achieve a common goal of making every Nigerian to get them self-busy to be able to make a living, as we all know, Islam do not encourage laziness or dependent on people, in other words Islam as a religion urges everybody to get involved in the creation of wealth for each and everyone in the country.

Finally, Islamic financing would be very beneficial in the growth of Nigerian economy, if well implemented by the managers of our economy in the next five to ten years. As a matter of fact, the economy will be what we all what it to be, the vision 20:20:20 of our great country can be articulated with great policies that will aid this Islamic financing in Nigeria. Growth and Global Developments in Islamic finance industry has evolved to become an essential part of the international financial system, witnessing tremendous growth both in terms of assets and geographical spread.

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