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Non-Interest Financing a Tool for Poverty Alleviation in Nigeria

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Abstract

Non-interest financing in Nigeria has generated a lot of controversy along religious divided and this and its roles towards poverty alleviation motivated the study. It was a descriptive study that relied on secondary sources of data and adopted content analysis method. It observed that Nigeria is a secular State and issues bordering on religion are sensitive and explained why the opposition to it assumed religious dimension. The study found that the principles of Islamic banking that originated from Q30:39, 4:161; 3:130-132 and 2:275-278 is biblical as contained in Exodus 22:25, Leviticus 25: 35-38 and Proverb 19:1 and may challenge sharp practices in Commercial banks thereby enhancing avoidable access to facilities. The study concludes that Christian bodies have slept too long over the welfare of the active needy as free interest banking scheme predated Islam. Since the services cannot be compelled on unwilling individuals, the regulatory institutions must be alert that unscrupulous elements will not use the channel for funding terrorism. The study recommends the adoption of productive engagement with diverse religious elements to minimize its misrepresentation and avoid diverting public fund into the exercise. In addition, the operators of the banks should avoid excessive discrimination in service delivery to justify that the services are people oriented while critics could embark on such venture. When all these are achieved, as the study highlight it will help to alleviate poverty in our country Nigeria.

Keywords: *Islam, Christianity, Bank, Non-interest Banking and Poverty Alleviation*

Background to the Study

One of the agonizing experiences that one can encounter in Nigeria is the decision to transact business with most commercial banks in Nigeria particularly if it has to do with loan. The experience is more excoriating the lower you are on the rung of the socio-economic ladder. The first challenge is that of getting attention and the cut throat conditions associated with borrowing money from banks that range from provision of collateral to lack of sufficient interest in the banking sector to see to the success of the venture provided the collateral is strong enough to swallow the loan obtained. In addition, there were recorded cases of fraudulent practices and other sharp practices that significantly eroded the confidence of the customers. However, one of the most efficient obtainable from banks in Nigeria is that the interest on transactions is hardly under-charged.

The establishment of non-interest financing was to correct the shortfall associated with inaccessible banking services to the active poor but the issue of the interest rate chargeable on operation significantly eroded the gains and the fraudulent and sharp practices by the Directors of some of the banks in addition to weak institutional mechanisms to bring to book such people involved in unwholesome bank operations is still a serious challenge. The bad attitude of many individuals to fund management, poor feasibility study and unstable business climate added to the challenges of managing non interest finance Banks efficiently as to fill the wide gap created by the commercial banks.

In addition, the manner that the commercial banks competes with non interest that the regulatory bodies perceive as healthy might in the long run serve as death sentence to many that are not owned by the commercial banks or the people connected to them, while it seems as if the CBN is still experimenting with the banks.There is no doubt that the public outcry concerning the poor services in the banking sector in the past has led to various reforms, and the need for a non-interest financing which will ameliorate the financial ordeal of the poor. The improvement is equally noticeable in the establishment of non-interest bank like the Jaiz bank. The above scenario motivates this study to examine how non interest financing can serve as a tool for poverty reduction in Nigeria. The study was descriptive and data were collected from secondary sources consisting of relevant text books, journal, circulars and newspaper while content analysis was adopted in presenting the findings.

Having observed the way economies is being operated in most of Islamic countries contrary to the Islamic injunction; some Muslim Intellectuals in Islamic countries especially in Egypt and Pakistan started studying the aspects of Islamic economy according to the instructions, injunction and guidance from Qur'an, Sunnah and Fiqh (Islamic Jurisprudence) in order to get alternative to the conventional banking. As a result of this arduous effort, according to Abdullah (1999), Islamic banking started to spring up. It started in Egypt with debut of 'Bunukil – idkhar this followed by another one in Pakistan. Bank Nasir Al-Ijtmahiy came up in Egypt in 1971; it was followed by the birth of Islamic Development Bank in 1974 in Saudi-Arabia. Dubai Islamic Bank in 1975, Faisal Islamic Bank, Sudan came to being in 1977. BaitulTamuwily Kuwait in 1977, Faisal Islamic Bank, Egypt 1977, Jordanian Islamic Bank for Financing and Investment started operation in 1978. Over the last forty years there has been a rapid expansion of financial institutions that can be characterized as Islamic in that they do not deal in interest-based transactions. At present 60 countries, encompassing most of the Muslim world has some type of Islamic banking or non-financial institution (Iqbal and Mirakhor, 1987).

Difference between Islamic Banking and Non-Interest Banking

It will be useful, before proceeding further, to distinguish Islamic banking from interest-free banking. Islamic banking has been defined as banking in consonance with the ethos and value system of Islam (Masri, 1981); Interest-free banking, by contrast, is a narrower concept denoting a number of banking instruments or operations which avoid interest. Islamic banking, the more general term, is expected not only to avoid transactions on the basis of interest but also to participate actively in achieving the goals and objectives of an Islamic economy (Al-Omar & Abdel-Haq, 1996).

In Islamic banking, it is expected that all the transactions and financing operations must be in consonance with Islamic law, Shari'ah. It does not involve in any forbidden contracts, sale and trading of certain commodities, such as wine or alcohol products, pork products etc are prohibited (haram) to Muslims, and thus are no go areas of business to the Islamic banking, while it may be a profitable business for non-interest banking. Because of that, in this study non-interest financing is a part of Islamic banking and the two must be used interchangeably in this study.

Literature Review on Islamic Banking

Islamic banking otherwise known as participant banking is a banking activity that is based on the principles of Sharia law and a derivative of Islamic economics. It is to be acknowledged that Sharia prohibits the fixed or floating payment or acceptance of specific interest or fees that in Christian principle is referred to as usury and *riba* (surplus value) in Islam for loans granted. Any act contrary to this principle in Islam is regarded as sinful or *haram*. The concept of Islamic capitalism was developed between eight and twelfth century according to Saheed (1996) and it was based on the then widely circulated currency the gold dinar that tied together regions that were previously economically independent. Samir (1978) noted that currencies that were based on guarantees by a government to honor the stated value or based on other materials such as paper or base metals were allowed to have interest applied to them.

The foundation of modern Islamic banking was laid on the notion that commercial banks are needed but inherent challenges that are man-made accounted for a modified banking system that is based on the concept of *mudarabha* or profit and loss sharing that Uzair (1955) in some of his writing advocated being an interest free banking system. The Conference of the Finance Ministers of the Islamic Countries held in Karachi in 1970, the Egyptian study in 1972, the First International Conference on Islamic Economics in Mecca in 1976, and the International Economic Conference in London in 1977 were the result of institutional involvement in Islamic banking. The involvement of institutions and governments led to the application of theory to practice and resulted in the establishment of the first interest-free bank. It is noteworthy that the first modern experiment with Islamic banking was the Myt Gamit experience in Egypt in 1963 followed by that of Dubai in 1975. The pioneering effort of Egypt was led by Ahmad Elnaggar while it took the form of a savings bank based on profit-sharing.

The Islamic banking has recorded success beyond Arab nations as there are five wholly Islamic banks in London while Eze and Chiejina (2011) reported that more than 250 Islamic banks (90 institutions of them are in the Middle East) are operating from China to the US.A. Through their Islamic Units in U.K, Germany, Switzerland, and Luxembourg and according to the conservative estimates of the Islamic Banker in October 2008, Islamic financial assets globally exceeded $500 billion. The Islamic Bank of Britain for over four years has attracted over 40,000 customers while HSBC Amanah, the Islamic finance subsidiary of HSBC, has been operating for ten years in London, focusing mainly on institutional clients and business finance. Wilson (2009) notes that in contrast to conventional banks, no Islamic bank failed and needed government recapitalization as the process of government bail out at the end turned out to be a burden on already over burdened taxpayers. The Islamic banks are said to have adopted a classical banking model, with financing derived from deposits, rather than been funded by borrowings from wholesale markets. Islamic banks are also not free from criticism as it has been observed that the principle of Mudarabah has not been implemented in an acceptable manner. Sait, Siraj; Lim, Hilary (2006) observed that Mudarabah stressed the sharing of risk but these banks were more concerned with profit-sharing but mostly try to avoid risk. In addition they noted that in Muslim community, these banks were only trying to comply with strict legal interpretations of Sharia but jettisoning the intent of the law establishing the banks. Furthermore, it has been alleged that Islamic banking is of little benefit to the citizenry as majority of financial institutions that offer Islamic banking services were largely owned by Non-Muslims as this made the veracity of these institutions and their services viewed with suspicion. The study by Sait, Siraj; Lim, Hilary (2006) also revealed that one Malaysian Bank offering Islamic based investment funds was found to have the majority of these funds invested in the gaming industry and the managers administering these funds were non Muslim. These types of story contributed to the general impression within the Muslim populace that Islamic banking is simply another means for banks to increase profits through growth of deposits and that only the rich derive benefits from implementation of Islamic Banking principles.

Eze and Chiejina (2011) reveal that recent studies show: "several challenges facing Islamic financial institutions include shortage of experts in Islamic banking, uncertainty in accounting principles involving revenue realization, disclosures of accounting information, accounting bases, valuation, revenue and expense matching to Islamic banks". The implication therefore as rightly observed by Eze and Chiejina (2011) is that the results of Islamic banking schemes may not be sufficiently defined with specific reference to profit and loss shares attributed to depositors while it was further noted that there was no appropriate standard of credit analysis. Nonetheless, it is not sufficient to dispose the idea of Non-interest free banking system whether in the name of Islam or Christianity. There is no doubt that the ongoing controversy surrounding Islamic banking globally may not be expected to doze off quickly but the study argued that no human institution is perfect but there is always room for improvement. The living condition in Africa especially Nigeria has greatly declined particularly the last decade. Real disposable income has deteriorated, malnutrition rates have increased, food production has hardly kept pace with population growth, the quantity and quality of the health and education services have also declined.

Despite its abundance potentials, Nigeria remains poor. This is mainly because its market has not been explored adequately. Nigeria is ranked among the poorest countries in the world, the clean bill from Paris club not withstanding (Obi, 2006). Although the country is blessed with enormous resources, the citizens are living in penury. The Non-Governmental organization (NGOs), which is an informal financial sector, serves 65% of the population in Nigeria. The informal financial services include moneylenders, friend relatives and credit union. While 65% are excluded from access to financial services only the remaining 35% of the economically active populations have success to the formal financial system (CBN, 1999). Though, the Nigeria (Central Bank of Nigeria, (CBN thereafter)) faces difficulty in carrying out one of its most important duty that is promoting monetary stability and sound financial system because of the non-regulative activities of some of those informal financial institutions (Enwere, 1996). According to Ogwumike (2001), poverty is a situation where a household or an individual is unable to meet the basic necessities of life, which include consumption and non-consumption items, considered as minimum requirement to sustain livelihood. Following the work of Ogwumike (2001), Odusola (2001) referred to poverty as a condition of deprivation which could be in form of social inferiority, isolation, physical weakness, vulnerability, powerlessness and humiliation. Babashola (1997) opined that poverty is relative to country, people and continent. Ojo (1995) perceived poverty as manifestation of hunger which when protracted results in famine, but Desai (1992) believed lack of capabilities to carry out certain activities which may include capabilities to live long and ensure reproduction, capabilities for healthy living and social interaction and capabilities to have knowledge and freedom of expression and thought, Demery and Squire (1996) described poverty as inability to meet basic nutritional needs, lack of good education, health, life expectancy and high child mortality rate. In other studies, Oladunni (2001) and Englama and Bamidele (1997) defined poverty as a state of lack of adequate basic necessities of life such as food, clothing, shelter; inability to meet social and economic obligations, lack of gainful employment, skills, assets and self-esteem, limited access to social and economic infrastructure such as education, health, portable water and sanitation. The major target for employing non-interest financing as poverty alleviation strategy is to assist the poor who cannot otherwise make savings, accumulate assets or invest in any meaningful income generating activity that would help to break the circle of poverty. The possibilities for the commercial involvement have increased. We need to transform it into a viable and truly developmental effort on a mass scale that meets the people's business and micro institution that need it. In many countries, non-interest financing programs have proved to be an effective tool in freeing people from the poverty and have helped to increase their participation in the economic and political processes of society. It is also important by improving access to credit for small rural or urban producers, landless farmers and other people with low or no income, with special attention to the needs of woman, disadvantages and vulnerable groups by giving them loan without interest.

Ajekaiye, et.al (2003) believed that non-interest financing simply is about providing specialized credit savings and other financial services of both high and small amount to entrepreneurs and business drive individuals to enable them expand their business opportunities, increase income and consequently improve their living conditions and well-being overtime or it is the extension of every small and large loan to the unemployed, to poor entrepreneurs and to others living in poverty that are not bankable. Islamic banking is a way to extend the same rights and services to low income households that are available to everyone else. Non-interest financing is seen as the answer to poverty reduction in any country. This is because it has been proven in some studies (see, Oladunni et.al 2001; Akerele, 1997; Babashola, 1997) that when poor people especially women receive credit they can play a big part in economic development. It is through the dissemination of information about the present scenario of financial situations in most countries that we are able to take one little steps in uplifting their way of life. Non-interest financing still have a long way to go, especially in third world countries but knowing that people are now able to have access to a little credit is already a big step. A little credit could mean the difference between life and death in the third world (Obi, 2006).

The occurrence of non-interest funding in Nigeria is culturally rooted to Islamic injunctions and is dated back to several years. The traditional non-interest finance institutions provide access to credit for the rural and urban low income earners in other to enhance the flow of financial services to Nigeria rural areas: The government has in the past initiated a series of publicly-financed micro/rural credit programmes, sectoral allocations of credit, the National Directorate of Employment (N.D.E), the Family Economic Advancement Programme (F.E.A.P) etc. These policies have benefited from wide consultations through the conduct of a base line surveys on the activities of non-interest finance institutions (Jaiz bank) in Nigeria, national and international consultative stakeholders for, as well as study tours to Indian, Pakistan, Indonesia, Philippines and Uganda.

Out of 155 million Nigerians, 70 million are able-bodied, which means they can work to earn a living about 18.5 million of these number is unemployed, while 28 million are underemployed. With all the noise about communications, bank and oil companies employing people as well as other organization, the total numbers of Nigerians that are employed are 2 million. The rest able-bodied men and women are in small medium business scattered everywhere. It is good to note that 45 million of the active Nigerians live in the rural areas (Obadan, 1996). Only about five percent of the Nigerian economy is controlled by non-interest financing unlike other Islamic world. Despite all these, Nigeria is still considered the third largest micro-finance market in the world in terms of potentials. (Obi, 2006) .The aim of this paper is to examine the role of non-interest financing as a tool for poverty alleviation in Nigeria taking cognizance of experiences on other countries. The dominant concern of Nigeria is the issues of poverty and ways in which it could be eradicated. Many programmes re-established by the Nigerian government in an attempt to address the issue of poverty one of which is the Islamic banking system. With the different programmes established and has failed, the fastest means of reducing poverty is to create productive assets through gainful employment, especially in agricultural and micro business sectors. Foreshadowing our findings, non-interest financing in its own little way has enhanced the general welfare of rural citizens. The implication of these findings is that Islamic banking scheme can be well designed and conscientiously implemented; it can serve as a veritable and reliable option for reducing the high poverty level evident in rural Nigeria. Over the years, nations, especially the Islamic world has recognized the vital roles non-interest financing can play in ensuring meaningful and sustainable economic growth. Towards the end, a number of policies and programmes (like evolving a new financial policy aimed at developing non-interest banking from the grass roots to have access to larger financial institutions and also the scheme should be divorced from politics so as to achieve the set goals of the programmes) have been introduced to assist the growth of non-interest financing organizations. They present a great potential to advance the national goal of economic self-reliance through increased usage of funds and local resources.

Research Findings

Impact of Islamic Non-interest Financing and Poverty Alleviation

There are a number of key Shari'a principles which distinguish Islamic finance from the conventional forms. These principles have led to the creation of a separate finance industry are the prohibition on usury and interest (riba), prohibition on realizing a gain from speculation (may seer), absence of uncertainty in commercial transactions(gharar), in addition to the requirement that all activity must be for permitted purposes (halal).

Islamic financing represents the confluence towards rapidly growing industries: non-interest financing. It has addresses the unmet non-interest demands and also satisfies the Islamic social principle of caring for the less fortunate with non-interest funding power to provide financial access to the poor (Karim et al., 2008).Islamic financing in its framework could help improve the standard of living of low-income earners and the poor because it discourages exploitation and achieves an objective of social justice. The philosophical basis of the Islamic financial system according to Dogarawa (2008) is in the addle (social justice) and ishan (benevolence). In view of these principles the positive impact of Islamic financing, on poverty reduction is manifested in the inclusion of those that have hitherto been excluded from financial services. There are a variety of Islamic products that can be adapted to non-interest financing in order to reduce the scourge of poverty in the country. In various countries in the Middle East where the non-interest finance concepts have been implemented, non-interest financing has successfully opened economic opportunities improving the social economic condition of the poor, which attests to the fact that non-interest financing reduces poverty through accelerated employment rate and increase in real wages.

Awojobi (2011), noted that the comparative advantage of Islamic finance is that there is a close link between real economic activities and Islamic finance, which creates value for financial activities. In this light, there will be creation of more jobs, which will have a positive impact on unemployment and a greater long term effect on sustainable development of the economy and this will in turn help to attack severe poverty and enable alleviation to it.

However, Islamic finance has no religious inbuilt discrimination and its products are available to anybody regardless of belief. Several models of Islamic non-interest finance can be found in the literature. Three main instruments Islamic Finance models were identified by Dhumale and Sapcanin (1999). Mudaraba is the profit and loss model where the bank provides money and entrepreneur acts as the manager with the bank bearing the loss. In the Musharka model, a joint venture arrangement exists wherein both the bank and entrepreneur participate in capital and share profit and loss. The Murabaha is a cost plus markup sale with the banks buying some products, selling them to entrepreneur and adding a markup. The model propounded by Hassan and Ashraf (2010) provide for the creation of a Zakat fund (one of the five pillars of Islam and is meant to finance the poorest of the poor) with which to cover the losses arising from the default by very small microenterprises. The fund also covers part of the project evaluation costs of the commercial banks. Qardhasan loans are also provided for funding micro insurance to reduce vulnerability of the non-poor from becoming poor due to external shocks.This is in addition to the creation of mutual guarantee funds to pay for accidents, losses of property. In addition, loans are also provided to build the productive capacity of the households as part of inclusive growth programmes. Dasuki (2006) recommends the group-based lending scheme and Ibn Khaldun's concept of 'Asabiyah which as a unifying force is analogous to the modern concept of social capital. In the Qardhasan savings/lending model, the loan depositor receives saving points instead of interest for the size and duration of the funds provided. After achieving a sufficient number of those points, he should be edible for taking out a loan himself. The model which is a form of cooperative finance practice has been professionally applied by non-Muslim banks JAK Medlem, Nordspar (Sweden and Denmark) and by Strohalm Foundation (The Netherlands). The other group members are likely to repay the loan on behalf of the defaulter since they would want to retain their beneficial membership of the bank. In effect, they are will, in the face of possible collateral liability be careful in admitting a group member. This is useful to micro-lenders in overcoming "adverse selection" problem. If the non-interest financing banks considers the business project too risky despite the various risk mitigation techniques available, Wilson (2007) recommends that it should adopt or adapt the wakalah model which is acting only as an agent whereby non-interest fund would be provided from zakat fund or Non-Governmental Organization (NGO) donor agency. This may become necessary since Islamic non interest finance institutions do not intend to go into bankruptcy occasioned by massive repayment defaults. The role of non-interest financing in poverty alleviation in Nigeria has been over-flogged in this study.

The need still lies close to home. Usury has led to widening the gap between the rich and the poor. The non-interest financing or Islamic banking has to be recognized as an effective was through which this gap could be adjusted. The impact of the study still show that if we adopt non interest financing it will help the young entrepreneurs who are money poor, women who are poor but has some required skill that needs non interest financial for its establishment to have access to loans without interest, which will help to reduce poverty by increasing the profit of the entrepreneurs and increasing their living standards, thus poverty reduction is to be assured. More so, some of our youths are unemployed, and even if the concept of entrepreneurship is advocated, without the support of non interest financing it will not be carried out optimally. How influential this study has been in educating us that the use of non interest financing will help reduce severe penury and in turn trigger economic growth development. Government should therefore be sensitized towards the establishment of non interest finance banks for the benefits of the poor especially to alleviate poverty. Lets us adhere the Qur'anicverse which reads that "Allah has permitted the trade and forbidden usury"

Conclusion

Over the years, government has recognized the vital roles non-interest financing plays in ensuring meaningful and sustainable economic growth. Towards the end, a number of policies and programmes (like evolving a new financial policy aimed at developing non-interest banks (Jaiz bank) from the grass roots to have access to larger financial institutions and also the scheme should be divorced from politics so as to achieve the set goals of the programmes) have been introduced to assist the growth of non-financing organizations. They present a great potential to advance the national goal of economic self-reliance through increased usage of funds and local resources. The study revealed that proper financing of non- interest banks goes a long way in determining the trend on which poverty has been reduced in the Nigeria economy using some Islamic countries as a study area. It was observed that finance is a key instrument to the development of non-interest banks or organizations. It was shown that apart from other problems that affect the effectiveness of non-interest banks in alleviating poverty, this study still believe that finance act as a catalyst to economic development.

Furthermore, in a democratic setting like Nigeria, there is the need for the Central Bank Governor not to exhaust his patience in explaining the rationale behind the laudable goals of Non-interest Banking system and do not allow critics to lead him to making comments that might challenge his position as an umpire as the initiative is one of the best mechanisms to guarantee speedy socio-economic development irrespective of religious affiliation. Finally, just as Dogarawa (2009) observes, "Poverty does not only depend on resource endowments, population size, economic and social policies, but also on the kinds of economic activities that are being undertaken. What is significant is the sort of policies, which are formulated to eradicate poverty, and to what extent their implementations are sufficiently successful in meeting the objectives". Thus, non-interest financing or Islamic Banking, based on its economic activities such as Zakat, establishment of Jaiz bank etc., is capable of reducing or alleviating poverty in Nigeria.

Summary/Recommendation

This study has come to a summary that the use of non interest financing as a tool for poverty alleviation in Nigeria is the main work of this study. The aim of this paper is to examine the role of non-interest financing as a tool for poverty alleviation in Nigeria taking cognizance of experiences on other countries. The dominant concern of Nigeria is the issues of poverty and ways in which it could be eradicated. Many Programmes re-established by the Nigerian government in an attempt to address the issue of poverty one of which is the Islamic banking system. With the different Programmes established and has failed, the fastest means of reducing poverty is to create productive assets through gainful employment, especially in agricultural and micro business sectors. Government should therefore follow up the use of Islamic banking just like other countries has done, to reduce the rate of poverty in Nigeria. Therefore, this study therefore recommends that non interest financing is a means of catering for the need of the neglected downtrodden and helpless majority who may never have access to fund for developmental purposes. It can go a long way to address youth restiveness and crime as long as its operation is not discriminatory. Like the Himalayan kingdom that has evolved a new measurement of national prosperity based on "gross national happiness" by focusing on people's well-being rather than economic productivity alone, the idea of Non-interest banking system in Nigeria can bring about speedy socio-economic development and political stability, and reduction in poverty given sincere implementation and the ability to minimize religious sentiment. This issue involved should be seen beyond religious bigotry but welfare centered that Christian, Muslim and others should happily embrace.

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