ISLAMIC MODE OF FINANCING: A PANACEA TO THE NIGERIA'S EXTERNAL DEBT BURDEN

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Abstract

From Paris to London Club, Nigeria looms into debt crisis as a result of inefficiencies in the current borrowing policies. Interest based borrowing policies put the country in the mess of debt crisis with very unbearable repercussions. For Nigeria to be free from this turmoil there is the need to change these policies to more appropriate and acceptable ones. The paper attempts to present an alternative way of financing, i.e. Islamic interest-free financing. The paper highlighted successful and failed effort made by government in tackling the debt crisis. Nigerian Debt statistics and the debt servicing for the period of 1999-2013 are presented in this paper. In addition, the paper presents scenarios of a number of countries that adopt Islamic Mode of Financing and its consequences on their national development. The paper concludes that in as long as Nigeria wants to be out of this debt problem, it must to resort to Islamic Interest free financing. It has finally recommended the appropriate way of tackling the debt crisis through various instruments of interest free financing.

Keywords: *Islamic Financing, Interest free financing, External Debt, Nigeria*

Introduction

The current situation where Nigeria is made to pay billions of dollars and pounds in servicing her debts but has no way of providing the citizens with basic services is clearly morally and ethically wrong. Frequently Nigeria is spending more on debt repayments and servicing than on providing for her citizens' most basic needs. The fact that these unjust debts have not been changed in full by fair and transparent methods means that the Nigeria is trapped in a cycle of poverty unable to invest in education, healthcare, provision of safe drinking water and the preservation of precious environmental resources etc. Hence, Debt is one of the root causes of poverty in the country. Islamic Finance is an alternative form of financial intermediation that is based on the profit motive. It is market driven but with a moral dimension based on the Islamic value system. It is the type of profit and loss sharing financing based on non-interest principles and it is one of the most developed form that has international acceptance and appeal. Although based on a religious law, it is nevertheless, not a religious product or service that is the exclusive preserve of people of a particular faith or religion. It is universally accessible to and enjoyed by people of diverse religious persuasions or ethical beliefs across the globe. (Sanusi 2011)

Nigeria as well as all African countries in general are seriously indebted by interest-based financing. Therefore, the paper attempts to present a mode of financing which is free from interest to provide succour to Nigerian debt crisis. Nigeria, as well as other African nations, need to make use of the opportunities provided by Islamic financing to fund growth and development.

Review of related literature

According to Boboye and Ojo 2012, Nigeria has been classified by the World Bank among the severely indebted low income country since 1992. The nation inability to meet all it debt service payment constitute one of the serious obstacles to the inflow of external resources into the economy. The accumulation of debt service arrears which is being compounded with penalty interest has not permitted reduction in the debt stock, despite the fact that government has been servicing it external debt annually. This section therefore,, will dwell on reviewing related literature on debt and debt servicing, theoretical underpinnings, empirical investigation and the conceptual framework.

Theoretical Framework

This paper, attempts to employ and apply the dependency theory in order to demonstrate how it helps in the accurate analysis and explanations of the debt crisis in the developing countries, particularly Africa and especiallyNigeria. The theory seeks to establish the factors that have propelled or contributed to the development of the underdeveloped countries. It states that the poverty of the countries in the periphery is not because they are not integrated or fully integrated into the world system as is often argued by free market economists, but because of how they are integrated into the system. (Todaro, 2003; Amin, 1976).

Dependency theory and Africa's debt crisis

According to Ikejiaku (2008), Proponents of the dependency theory contend that the debt crisis in Africa could be perceived from the extreme dependence of Africa's economies on international competitive economic conditions over which they had little control. Dependency theory is predicated on the notion that there is a 'centre' of wealthy states and a 'periphery' of poor, underdeveloped states. Resources are extracted from the periphery (developing nations) and flow towards the states at the centre (developed nations) in order to sustain their economic growth and wealth. The major contention here is that the economic development of the developing countries (the Global South) was rendered impossible by the domination of the global economy by the already industrialized capitalist powers ('the Global North', Offiong, 1980). The implication is that poverty; including indebtedness of the countries is the result of the manner of their integration of the world system. The historical incorporation of dependent territories into global division of labour entailed a tendency toward economic stagnation in the colonies and neo colonies (Sandbrook, 1982).

The developing countries go for loans hoping that this will help improve their situation, but the conditions tied to these loans always spell trouble and doom for these less developed countries (LDCs). Thus dependency tightens its grip; as the LDCs go for more loans from the financial institutions and donor countries. This is the phenomenon which Cheryl (1974) called 'debt trap'. At this point, dependency becomes inescapable.

Other theories

Debtcum – Growth Model

The first stand of thought in the debtcum – growth theory is the substituting school of thought. It considers external debt as a substitute for domestic savings and investment and therefore domestic savings and investment are crowded out as a result (Krugman, 1988; Alesina & Tabellini, 1990; Tornell & Velusco 1992). The thinking is that the returns from investing in a country are seen as being subjected to a high marginal tax by creditors and this may discourage domestic and foreign investors. This is the familiar debt overhang theory. It is also argued that foreign savings may be used for consumption rather than for investment. However, studies by Cohen and Sachs (1986) and Cohen (1992) present endogenous growth models where capital accumulation is the driving force for growth.

Threshold School of Thought (Debt - Latter Curvethesis)

The burden of external debt is the concern of threshold school of thought which emphasizes the non-linear relationship between debt and growth (Calvo, 1998). It links debt and growth to problem of capital flight where at high debt levels growth falls. According to the threshold theory, the fall in growth is due to the higher distortionary tax burden on capital required to service the debt. It leads to lower rate of return on capital, lower investment and, hence, lower growth. It maintains that low debt regimes have higher growth rate and lower strand of thought in the debt – growth nexus sees external debt as capital inflow with positive effect on domestic savings and investment and thus on growth which leads to poverty reduction via appropriate targeting of domestic savings and investment (Calvo, 1998). Such foreign capital inflows help to finance a chronic shortfall of domestic savings over investment, the gap in the current account. There should be no problem with the theory as the funds are channeled into production investment which allows the country to grow and generate future export earnings to repay the loan.

Profligacy Theory

The profligacy thesis attempts to correct the weakness of growth – cum debt theory by focusing on the institutional arrangement under which a loan was contracted. The profligacy thesis, a component of the system stability theory, recognizes that the debt crisis arose from weak institutions and policies that have wasted resources through unbridled official corruption and damaged living standards and development. These policies led to distortions in relative prices and encouraged capital flights – as seen in substantial external liquid funds of private citizens of debtor countries in foreign banks. (Nyong, 2005)

Empirical literature

Clements et al, (2003) examined the channels through which external debt affects growth in low-income countries. Their results suggest that the substantial reduction in the stock of external debt projected for highly indebted poor countries (HIPCs) would directly increase per capita income growth by about 1 percentage point per annum. They noted that reductions in external debt service could also provide an indirect boost to growth through their effects on public investment. They argued that If half of all debt-service relief were channeled for such purposes without increasing the budget deficit, then growth could accelerate in some HIPCs by an additional 0.5 percentage point per annum.

Ajayi and Oke (2012) investigation of the effect of external debt burden on economic growth and development of Nigeria using regression analysis of OLS showed that external debt burden had an adverse effect on the nation income and per capital income of the nation. They observed that the magnitude of the external debt outstanding mounted pressure on the economy since the eruption of the oil crisis in 1981 due to the rapid accumulation of trade arrears from 1982 the debt problem had been traced to the fall in the crude oil prices, collapse in commodity prices and the protracted softening of the world market since 1981 with the resultant decline in foreign exchange earnings and pressure on the balance of payment. Ezeabasili et al (2011) investigate the relationship between Nigeria's external debt and economic growth between 1975 and 2006 applying econometric analyses. The result of the error correction estimates revealed that external debt has negative relationship with economic growth in Nigeria. They stated that Nigeria must be concerned about the absorptive capacity noting that consideration about low debt to GDP, low debt service/GDP capacity ratios should guide future debt negotiations.

Muhtar (2004) also stated that, the service of these debts have direct negative impact on economic development. He says "a debt service encroaches on resources needed for socio economic development and poverty reduction. It also contributed to negative net resources flow". Anyanwu et al (1997) was of the opinion that whole scale of white elephant development project in the country is the root cause of our external debt problems. He said instead of emphasis being placed on small rural development project so as to reverse the chaotic trend of urbanization and lessen the opportunity for corruption. According to Nweke (1990) a correct analysis of external debt in a third world countries such as Nigeria must be replace in the content of the country's forceful integration into the western structural and dominated world capitalist economy as a peripheral appendage that provide natural resources and cheap labour for the industrialization process in the west include lucrative markets for surplus of the advanced country's manufacturers and the advance countries get a very high cost of the manufactured product of the west.

Empirical results by Ezeabasili, Isu and Mojekwu (2011) indicates that there is a negative short-run relationship between economic growth and the present level of external debt in Nigeria. In addition, there exists a negative short run relationship between two lag levels of external debt service payment and economic growth. The empirical result of external debt and debt service payment and economic growth is in agreement with the findings of Iyoha (1999), Essien and Onwuoduokit (1998), which confirms that large stocks of external debt tend to lower the rate of economic growth in the Nigerian economy. Uma, Eboh, and Obidike (2013) Study the influence of total domestic debt, total external debt cum servicing of external debt from 1970-2010 on the economic development of Nigeria. Using ordinary least square to analyse the data, their results show that total domestic and total external debts are inversely related to real gross domestic product, a proxy for economic development, but at an insignificant level. Interest on total external debt relates positively on real gross domestic product contrary to our expectation but at an insignificant level.

Michael and Sulaiman (2012) examines the impact of external debt on the level of economic growth and the volume of investment in Nigeria between 1980 and 2008. We adopt the Debt Cum-Growth model along with the Investment model while the econometrics analysis techniques of multiple regressions were employed. The result of the analysis indicates that there exists a positive relationship between external debt, economic growth and Investment. While the findings reveal that the current external debt ratio of GDP stimulates growth in the short term, the Private Investment which is measure of real and tangible development shows a decline. Chowdrg (1994) argued that, external debt burden leads to bad management in highly indebted countries such as exchange rate mismanagement. The expectation of currency devaluation leads to speculative capital flight. Devaluation also causes the currency cost of debt service obligations, deteriorates budget deficit and affect money supply and inflation.

Umaru, Hamidu and Musa (2013) investigate the impact of external debt, and domestic debt on economic growth in Nigeria between 1970-2010 through the application of Ordinary least square method. The results of OLS also revealed that external debt possessed a negative impact on economic growth while domestic debt has impacted positively on economic growth (GDP). Fosu A.K (2007) explores the impact of a binding external debt-servicing constraint on the sectoral composition of government expenditures in the economies of Africa, where this constraint has traditionally been most prevalent. Applying seemingly unrelated regression (SUR) to 1975-94 five-year panel data for 35 countries, He finds that the implied debt service burden adversely affects the share of public spending in the social sector, with similar impacts on education and health. Despite evidence that such a burden might also negatively influence public investment, the deleterious implications of debt servicing appear to be primarily a social-sector phenomenon. Udoka (2012) examined the extent of public debt crisis and its consequences on economic development using data from Nigerian economy for the period 1970 to 2010. He employed the error correction framework and co-integration techniques to test the relationship between per-capita gross domestic product and macroeconomics variables. The test reveals that there is long relationship between dependent and the independent variables he suggest that, to avoid the crisis of economic development in Nigeria, public debt should be reduce to a minimal level

Conceptual framework

For the past two decades, Nigeria has borrowed large amount, often at highly confessional interest rates with the hope to put them on a faster route for development through higher investment, faster growth and poverty improvement but on the constant economic growth and poverty situation are staggering at the door admit excess debts albeit that was the initial intention.

Islamic Interest-free Financing

Interests is considered an unjust and exploitative instrument of financing since the lender is assured a return without doing any work or sharing in the risk, while the borrower in spite of hard work, is not assured of a positive return. Furthermore, if the borrower's investment is unsuccessful through no fault of his or her own, it is unfair for the lender to demand repayment. The prohibition

of interest is therefore a mechanism to establish justice between the lender and borrower (Khan and Mould 2008) Islamic finance rests on the general idea of extending the tenets of Islamic religious beliefs to economic activity in a way that enhances social welfare. As one of the key features of Islamic finance, Islamic contracts are asset-based and transactions have to comply with shari'ah law, which prohibits (i) the trading of debt contracts to earn a profit (riba), (ii) profit taking without a real underlying economic activity, and (iii) activities that are not considered halal (shari'ah compliant). Moreover, the contractual relationships between financiers and borrowers are governed not by capital- based investment gains arising from the time value of money but by shared business risk (and returns) from entrepreneurial investment in lawful activities.

Islamic finance is a financial system, the fundamental aim of which is to fulfill the teaching of the Holy Quran, as opposed to reaping maximum returns on financial assets. The basic principle in the Sharia (Islamic Common Law) is that exploitative contracts based on Riba (interest or usury) or unfair contracts that involve risk or speculation (Gharar) are unenforceable. However the Holy Quran contains no condemnation of morally acceptable investments that yield fair/legitimate profits and economic/social "added-value" (Siddiqi 1999). Two principles are fundamental to understanding Islamic finance. First, the Islamic law reflects the totality of Allah' (God's) commands that regulate all aspects of the life of a Muslim. Second, Islamic finance is directly involved with spiritual values and social justice. (Nicolas 1994). The Islamic banking and financial system is based on three main ingredients; Replacement of the interest mechanism with a system of real asset-based finance, putting controls on gambling like transactions and on financing of unethical goods and services, and having a greater reliance on risk-sharing types of contractual relations wherever possible.

Islamic finance was practiced predominantly in the Muslim world throughout the middle ages. European financiers and businessmen later adopted many concepts, techniques, and instruments of Islamic finance. In contrast, the term "Islamic financial system" is relatively new, appearing only in the mid-1980s. In fact, all earlier references to commercial or mercantile activities conforming to Islamic principles were made under the umbrella of either "interest free" or "Islamic" banking. This, no doubt, prohibits the receipt or payment of interest as the nucleus of the system, but is supported by other principles of Islamic doctrine advocating risk sharing, individuals' rights and duties, property rights, and the sanctity of contracts. Similarly, the Islamic financial system is not limited to banking, but covers financial instruments, financial markets, and all types of financial intermediation. (Zaher and Hassan 2009). According to Khan and Mould 2008, the core belief in Islamic finance is that money should not in itself be an earning asset; therefore Islam prohibits any and all forms of interest. There are several passages in the Qur'an which clearly condemn the practice of interest (referred to in Arabic as riba):
"Those who devour interest will not stand except as he stands who has been driven to madness by the touch of Satan … Allah has permitted trade and forbidden interest … Allah will deprive interest of all blessing" (2:275-6)

"O ye who believe! Fear Allah, and give up what remains of your demand for interest, if you are indeed believers. If you do not, take notice of war from Allah and his Messenger. But if ye turn back,

ye shall have your capital sums: deal not unjustly and ye shall not be dealt with unjustly" (2:278-279)

Debt in Islam

The taking of a Debt is not something that a respectable individual would do without necessity, to create a burden upon themselves. When it is a necessity, then people should seek to assist their relatives and brothers, according to ones capability. (Yaqoob 2010) Debt has its strict rules and regulations in Islam. For one, interest is completely forbidden. Additionally, while debt is discouraged, for cases where a person must borrow money, the debtor and lender must enter into a contract, the rules of which are clearly stipulated in the Quran, and should be paid back without involving injustice between the debtor and creditor. Islam encourages Muslims to help each other. In Islam to give loan is better than to give charity. If the debtor is unable to repay, the creditor is encourage to forgive it by way of charity. (Yaqoob 2010)
"If the debtor is in difficulty, grant him time till it is easy for him to repay. But if ye remit it by way of charity, that is best for you if ye only knew" (Qur'an 2:280)

Islamic Modes of Finance

Islamic financial system is based on Shari'a (Islamic law) whereby interest charging in a loan transaction is Haram (unlawful). In order to adhere to this Shari'a constraint Islamic Financial Institutions (IFIs) do not provide finance in cash for a charge rather transect business by using trading, rental and equity based modes of financing. Trading and rental modes of financing are used excessively by IFIs in provision of financing as compared to equity financing due to lesser/zero uncertainty about the outcome of investment; however deposit collection is fully based on equity modes of financing. Generally Islamic banks provide financing through Murabaha (deferred sale of a commodity on profit), Salam (spot payment with deferred delivery of subject matter), Istisna'a (order to manufacture a product, payment may or may not made on spot), Ijara (leasing or renting an asset for use ending in transfer of ownership), Musharaka (participation in profit and loss of a project or a business for a particular period), DiminishingMusharaka (a mortgage transaction whereby stake of bank decreases and that of customer increases over the period ending in transfer of ownership to customer) and Mudaraba (partnership of skill and capital) 1. Three of the modes are based on sale/purchase of an asset, one on renting an asset, two on partnership and one is mixture of partnership and leasing. Any customer who needs bank loan for any of its need can opt one or other mode of financing to transect business with Islamic banks. (Hanif, 2011)

Islamic modes of finance according to Al-Jarhi 2004 can be grouped into three categories: (i) equity and profit sharing, (ii) credit purchase, and (iii) leasing.
Equity finance as popularly known implies that savers would provide funds to enterprises in return for a share in its prospective net returns as well as a share in its management. Meanwhile, profit sharing finance implies that finance providers would provide finance, not for the whole life of the financed enterprise, as in case of equity, but for shorter period, as in the case of providing working capital finance.

Credit purchase implies that the financing institution provides goods and services for spot delivery in return for a debt instrument that promises payment of their value at a specified future date. That value differs from spot prices by a certain margin called mark-up. Leasing (operational lease) finance implies that the financing institution purchases a durable asset and leases it to a customer in return for regular payments reflecting the cost of holding, maintaining the asset in addition to transferring the property of the asset from the financing institution to finance recipients.

Nigerian Debt Profile

The 'debt' of world's poorest countries is estimated to currently stand at $2.7 trillion. Since 1996, the world's poorest 66 countries have paid a total of more than $230 billion between them to service their foreign debt - this amount far exceeds any aid they have received in return. Indeed, indebted countries are paying approximately $118 million every day in interest and principal payments to rich countries - although payments far greater than the original loan amount have already been made. Ahmed Khan and Mould (2008). The issue of debt burden in Nigeria cannot be overemphasized. Debt burden is in fact a complex interrelated problem. Despite the government continuous effort on managing debt, by embarking on several measures such as debt rescheduling, debt conversion, debt equity, debt forgiveness or cancellation, etc, Nigerian debt crisis is still lingering which means therefore, there is the need for other initiatives and effort to tackle the crisis. (Boboye and Ojo 2012)

Nigeria, is ranked as the highest global indebted country and has gone back to the highly indebted poor country status (HIPC) which she exited via "Iweala Magic" in 2006; that the country's current total public debts are approximated at $100billion or N15.5trillion; that by the end of the 2013 fiscal year, the country's federal civilian governments would have made total budgets of N37.665trillion or $240billion from 1999, a period of fourteen years, out of which N21.7trillion would have gone for recurrent, N4.5trillion or $28billion for domestic and foreign debts servicing (excluding $12billion paid to liquidate $18billion foreign debts in 2006) and N11.3trillion for capital development. (http://nigeriamasterweb.com 2012). The origin of Nigeria's external debts dates back to 1958 when a sum of US $28 million was contracted for railway construction. Between 1958 and 1977, the level of foreign debt was minimal, as debt contracted during the period were the confessionals debts from bilateral and multilateral sources with longer repayment periods and lower interest rates constituting about 78.5 percent of the total debt stock. From 1978, following the collapse of oil prices, which exerted considerable pressure on government finances, it became necessary to borrow for balance of payments support and project financing. This led to the promulgation of Degree No 30 of 1978 limiting the external loans the federal government could raise to 5billion Naira. The first major borrowing of US $1 billion referred to as jumbo loan was contracted from the international capital market (ICM) in 1978 increasing the total debt to US $2.2 billion.

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Thereafter, the spate of borrowing increased with the entry of state governments into external loan contractual obligations. While the share of loans from bilateral and multilateral sources decline substantially borrowing from private sources also increased considerably. Thus by 1982, the total external debt stock was US$13.1 billion. Nigeria's inability to settle her import bills resulted in the accumulation of trade arrears amounting to US $9.8 billion, between 1983 and 1988. The insured and uninsured components were US $2.4 and US $7.4 billion respectively. A reconciliation exercise which took place between 1983 and 1988 with London and Paris club reduced amount to US $3.8 billion with an accrued interest of US $1.0 billion bringing the total to US $4.8 in 1998. The external debts rose further to US $33.1 billion in1990 but decreased to US $27.5 billion in 1991 and increased steadily to US $32.6 billion at end of Dec. 1995.

The total debt outstanding at the end of 1999 was US $29.0 billion with Paris club constituting the highest source with a share of 73.2 percent in 1999 prior to the canvass made for debt cancellation. Contrary to the illusory- image of "oil-rich" country, Nigeria is a heartily indebted poor country. Its total external debt stock, as at December 2000, is estimated by the Nigerian government at about $28.3 billion, it includes arrears amounting to $14.7 billion and late interest of over $5 billion. In spite of lifting of the embargo on foreign loans, no new loans were contracted. However, some categories of debt were not serviced; particularly those owed to the Paris club Creditor Country as well as arrears on post cutoff date debt. In spite of the resources constraints, the sum of US$1.5 billion was set apart to service external debt in year 2000 while arrangement continues on debt reduction negotiation with creditors.

In 2004, prior to the Paris Club debt relief, Nigeria's overall debt stock was very high. External debt stood at US$31 billion while the stock of the domestic debt amounted to US$10.3 billion resulting in a total of about US$46.2 billion or 64.3% of GDP excluding contractor and pension arrears. After the successful debt relief initiative, Nigeria's stock of foreign debt declined dramatically. Indeed, in August 2006, Nigeria's foreign and domestic debts amounted to US$3.5 billion and US$13.8 billion respectively – a total of US$17.3 billion or 11.8% of GDP. By August 2011, the domestic debt stock had grown substantially to US$42.23 billion, while the external debt was still a modest US$5.67 billion. This implied a total debt stock of US$47.9 billion or 21% of GDP.

Methodology

The objective of this study is to examine the devastating effect of debt on the growth and development of Nigeria with the view to propose the interest free financing to gauge against the inconsistencies and inefficiencies in the current borrowing policies of the conventional financial institutions. The paper used the debt and debt servicing data obtained from CIA world fact book and world bank fact book to show how debt and debt servicing has seriously affected the Gross Domestic Product (GDP) and Per Capita Income. The study would cover the period of 15 years 1999 -2013 of democracy in Nigeria.

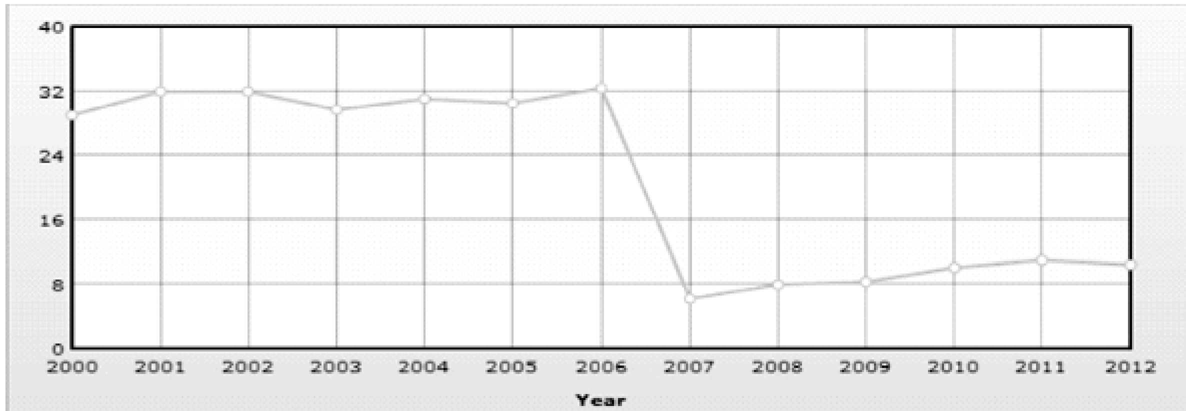
SN	Year	AMOUNT OF DEBT
1	1999	$29,368,030,000.00
2	2000	$29,581,800,000.00
3	2001	$32,259,360,000.00
4	2002	$32,712,910,000.00
5	2003	$29,778,660,000.00
6	2004	$31,070,100,000.00
7	2005	$30,558,930,000.00
8	2006	$32,952,416,000.00 $7,955,416,000.00
9	2007	$6,286,817,000.00
10	2008	$8,019,910,000.00
11	2009	$8,321,790,000.00
12	2010	$10,119,140,000.00
13	2011	$11,027,620,000.00
14	2012	$10,437,230,000.00
15	2013	$6,670,000,000

Source: CIA World Fact Book 2012 and World Bank Fact book 2012

SN	Year	DEBT SERVICING
1	1999	$1,023,115,000
2	2000	$1,781,769,000
3	2001	$2,519,845,000
4	2002	$1,472,799,000
5	2003	$1,627,893,000
6	2004	$1,705,136,000
7	2005	$8,800,310,000
8	2006	$6,700,516,000
9	2007	$1,002,005,000
10	2008	$427,512,000
11	2009	$426,304,000
12	2010	$306,841,000
13	2011	$370,226,000
14	2012	$3,470,263,566
15	2013	$3,669,854,263
	Total	$35,304,388,829 ₦5,684,006,601,543

Source: CIA World Fact Book 2012 and World Bank Fact book 2012

Debt - External (Billion US$)



Country	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Nigeria	29	32	32	29.7	31.07	30.55	32.45	6.28	8.01	8.32	10.11	11.02	10.43

Source: CIA World Fact Book 2012 (http://www.indexmundi.com/nigeria)

The table above shows that in fifteen years, Nigeria paid $35,304,388,829 or N5,684,006,601,543 to her creditors as debt servicing which is higher than the amount borrowed in each year and the 2013 budget of N4,924,604,000,000. Therefore, should Nigeria Borrowed from Islamic Financial Institutions, or any country that adopt Islamic Finance, the huge debt servicing figure would have been used for other developmental project.

Countries that Adopt Islamic Mode of Financing

Over the past three decades, the Islamic finance industry has emerged as one component of a competitive and comprehensive market, consistent with the conventional financial system in contributing to economic development. Although in early development the Islamic financial system is concentrated just in the country, but its growth internationally has seen a positive trend with the creation of growth in the number of Islamic financial institutions, with shareholders from various countries. First decade of twenty first century witnessed an unprecedented growth and expansion of Islamic financial system world over in spite of crisis in world leading economies. Global Volume of assets under Islamic financial system has cross the figure of one trillion- US $ 1,041 Billion by the end of December 2009 (IFSL-2011). Middle East is the centre of Islamic finance with global share of about 80% followed by South and Far East Asia 15%. In Pakistan Islamic banking has grown and expanded at an average annual rate of 71% in the last seven and half years -01/04 to 06/11- (Hanif, 2011).

Today Islamic finance has evolved into a complete and competitive form of financial intermediation that serves both Muslim and non-Muslim consumers and businesses. The Islamic finance industry is currently worth more than $1 trillion and growing at a rate of 15-20 percent annually, with projected growth to reach $2 trillion in the next 3 to 5 years, as more countries around the world seek to further develop Islamic finance within their jurisdictions. The appeal of Islamic finance has led a number of established conventional players to enter the industry, thus widening the diversity of Islamic financial institutions and its product range. The impressive

growth however is not confined to the Muslim world, but spans across the West and the Asia Pacific region where the growth is driven by commercial and business considerations. (Zeti Akhtar Aziz, 2008) Islamic finance is one of the most exciting areas of the global financial sector at the dawn of the 21st century, and today, beside the Gulf Cooperation Council (GCC) and Malaysia, other financial centers like London, Luxembourg and Hong Kong are positioning themselves to play a vital part in the industry's development in the new century. (Lallmahamood 2011)

There are many countries that adopt Islamic interest free finance especially after the 2008 financial crisis. Some of these countries are discussed below.

Islamic Finance In Asia

Although the continent is home to more than 60% of the world's Muslim population, Islamic financial assets are largely confined to a single country, Malaysia, which has a smaller Muslim population than Indonesia but accounts for more than 60% of global Sukuk (Islamic Bond) issuance. However, interest in Islamic financing is spreading across Southeast Asia, and it is not confined just to countries with large Muslim populations. Secular countries like Singapore, Hong Kong and Australia are modifying local laws and tax regulations to permit shariah-compliant investments (Hawser 2011)

Islamic Finance In GCC

Islamic Banking and Finance (IBF) has enjoyed unprecedented growth in recent years in the world, while the GCC remains a main hub of IBF activities. This is mainly due to the large wealth and capital accumulated in the region, which has provided the required liquidity for the IBF industry to enjoy double-digit growth in recent years, at least until the impact of the global financial crisis hit the region.

According to Zaqout 2012:1, "Gulf States and Asia are leading the growth in Islamic finance, which is being considered most credible alternative to conventional banking in the wake of global financial crisis. Standard & Poor's expects the $1 trillion global Islamic finance industry is set to double in size between 2011 and 2015, recording an annual 20 per cent growth driven by increasing demand for this "credible alternative" to conventional banking in the GCC and Asia. Young, fast-growing Muslim populations, robust macroeconomic environments, and large infrastructure projects that require financing are the main drivers of this increasing growth"

Islamic Finance In Malaysia

Malaysia's commitment to developing a complete Islamic banking system began in 1983, when the first Islamic bank commenced operations (Ahmad and Haroun 2000). The early history of Islamic finance in Malaysia has been affected by external and internal factors. External factors began with the establishment of the Mit Ghamr Local Savings Bank of Egypt in 1963 that sparked the development of modern Islamic banking system, followed by the establishment of the first Islamic Bank of Dubai UAE and the Islamic Development Bank (IDB) in Saudi Arabia in 1975.

Internal factors played an important role in promoting Islamic banking system is the mission, the strengthening and consolidation of religious knowledge among the Muslims through the institutions of formal and informal education. In addition, awareness among the Muslims is also influenced by the success of the Tabung Haji as a respected financial institution. (Zin, Ishak, AbdulKadir and Abdul Latif 2011). The Islamic financial system in Malaysia comprises of banking institutions and companies offering discount schemes takaful, leasing companies, leasing, institutional development costs, savings institutions, cooperatives, mortgage institutions, the Pilgrims Fund Board, the management of the institution of zakat, the national endowment institution, agency credit, rating agencies and fund management companies. The system also includes financial markets, accounting for offshore financial markets, money markets and foreign exchange, Islamic government securities , Islamic private debt securities, shares, unit trusts, insurance agencies and financial security.

Malaysia is the largest Islamic banking and financial market which valued RM113.5 billion (US$30.9 billion) in Islamic banking assets, RM6.2 billion (US$1.7 billion) in Takaful assets and the largest Islamic Private Debt Securities (IPDS) market attained RM125 billion or US$34 billion (45.5%) of domestic corporate bonds. Active Islamic money market channelling about RM30 billion - RM40 billion monthly. (Central Bank of Malaysia, 2008)

Islamic Finance In Africa

Modern Islamic finance was born in Egypt when a commercial bank opened its Cairo branch to process the financial transactions relating to the construction of the Suez Canal in 1890 and the notion of interest or riba was criticized by the then Islamic scholars. Consequently, the Muslim world witnessed the establishment of its first Islamic commercial bank. Islamic finance extended quickly to other parts of the world, most of which during the past thirty years or so. Other Maghreb countries, Morocco and Tunisia began the experience of Islamic finance by allowing conventional banks to offer certain Islamic products but these institutions are faced with strong competition from the region's conventional banks. Remarkably, Sudan only established its first Sharia-compliant bank in 1977 and the country's Islamic economic system has since then been continuously developing. Sudan is the only country in this part of the world to have a wholly Islamic financial sector. Belath (2012). Within Sub-Saharan Africa, South Africa led the way, with one of the largest international Islamic banking conglomerates namely Al-Baraka Banking Group having been present there for the last 20 years alongside other institutions conducting Islamic finance in the country. More recently, other countries have joined the league namely Kenya, Tanzania, Botswana and Nigeria. Governments of Ghana, Uganda, Ivory Coast, Somalia, Malawi and Zambia are working towards introducing Islamic banking in their respective countries. Belath (2012)

Presently, the African continent hosts over 250 Islamic financial institutions that offer Islamic financial services including Islamic banks, Takaful companies, Islamic funds, Mudarabah and Islamic microfinance. Noteworthy also is that over the last two years, the African continent has

demonstrated interest in creating an Islamic capital market via initiatives for issuance of Sovereign Sukuks in a few countries including Nigeria, Kenya, South Africa and Senegal. As of date, two countries have successfully issued their Soveriegn Sukuks namely Sudan and Gambia. Belath (2012)

Islamic Finance In Australia

The Muslims are considered as the largest religious minority in the highly diversified multicultural Australia (ABS, 2007). Naturally, the Muslims in Australia like Muslims in any other countries wish to conduct their financial activities in accordance with the tenets of their Islamic belief. Given this, there is a necessity for the establishment of Islamic financial institutions (IFIs) that would cater for the needs of its observant Muslims. The establishment of these institutions would enhance competition in the financial market by offering an alternative to the traditional interest based banking which ultimately would benefit the consumers. Consequently, this would help the Australian economy through creating an opportunity to bring in significant foreign direct investments into Australia and also help expand its existing trade and economic ties with other Muslim countries. (Ahmad, Osmani and Karim 2010)

Despite the remarkable growth and development of Islamic banks (IBs) and financial institutions over the last few decades in other comparable developed countries with minority Muslim population, their expansion in Australia is very slow though steady (Al-Salem, 2008). Currently there are two IFIs, the Muslim Community Cooperative Australia Limited (MCCA) and Islamic Cooperative Finance Australia Ltd (ICFA), which operate on the principles of co-operative. The Iskan Finance Pty Ltd. has also been providing Islamic financial services in the country. Although another financial institute namely Kuwait Finance House (Australia) Pty Ltd. which is recently licensed to provide financial services in the country it did not commence its operation yet (NST, 2009). Neither of the above mentioned IFIs has a banking licence to operate as a bank. (Ahmad, Osmani and Karim 2010)

Islamic Finance In Europe

Islam all too often resonates negatively in Europe, with a great part of non-Muslim public opinion uncomfortable with Islamic culture and values. Secular and Christian opinion is at best suspicious of shariah, Islamic law, and indeed often antagonistic. The notion of wanting to apply shariah principles to banking and finance is treated with scepticism if not outright hostility, especially as there is no concept of Christian or Jewish banking, even if there are some parallels between shariah financial principles and the teaching of the Old Testament. Yet Islamic finance is thriving in Europe, and many major European banks perceive it as a profitable opportunity to generate new business rather than as a threat to existing business. Although Islam is sometimes viewed as prescriptive and concerned with restricting choice, Islamic finance is about widening choice, and in particular about providing alternatives to interest based finance. Wilson R. (2007)

Top 10 Global Banks into Islamic Finance– Actively involved

UBS	Switzerland
Citigroup	USA
Mizuho Financial Group	Japan
HSBC Holdings	UK
Credit Agricole Groupe	France
BNP Pariba	France
JP Morgan Chase & Co	USA
Deutsche Bank	Germany
Royal Bank of Scotland	UK
Bank of America	USA

Source:http://www.learnislamicfinance.com

Conclusion

Debt is in one of the principal causes of poverty; it has hampered the economic development of Nigeria and has prevented the country from investing in essential services such as healthcare and education. The reality is, therefore, that Nigeria and many poor countries are spending more on debt repayments and servicing than on providing the most basic needs for their own people. Therefore, there is the need for these countries to explore other options as per as debt is concern, thus, Islamic Interest Free Financing

Recommendations

The huge debt that currently burdens poor countries like Nigeria, has arisen from loans that have charged interest and have not shared risk between the lender and the borrower and have, therefore, contravened the two most fundamental principles of Islamic finance. Islamic commands to refrain from charging interest and to share financial risk seek to avoid the concentration of wealth and the economic exploitation of the weak and thereby prevent situations such as the current debt crisis from arising.

The study therefore on the basis of the foregoing discussion recommends that:

1. The interest charge on loans given to poor countries like Nigeria, has clearly had negative effects, keeping countries locked into debt. Therefore, study supports that any loans that are provided in the future should be done on the basis of equitable risk-sharing in order to prevent a replication of the current debt crisis. To achieve this therefore, the Nigerian Government should Borrow from Interest free financial institutions –bilaterally or multilaterally.
2. Being the most religious country on earth, people should respect the rules and regulation governing the two state dominant religions by allowing their followers to employ what is good in their religion for the economic development of the country. They should understand that development is the priority in Nigeria and it does not matter who brings It. If religion bring development let it be.

3. There should be integrity and justification in the government borrowing process. Thus there should be no odious debt by any government

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