

RELEVANCE OF ISLAMIC BANKING TO THE ECONOMIC GROWTH AND DEVELOPMENT IN NIGERIA: PROSPECTS AND IMPEDIMENTS

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Abstract

Leaders of contemporary thought inform us that western civilization must be right because it is 'modern' 'advanced' 'progressive' and it always looks to the future while Islamic civilization is hopelessly backward, medieval and obsolete because it depends on the past for guidance. They were never tired of reminding us that since the conditions and problems of modern life are so utterly different today from what confronted the prophet in the 7th century Arabia, the specific doctrines, commandments and exhortations of the Quran and Hadith were valid only for the particular time and place so, consequently, could not possibly be of any practical value to us now. Thus, western orientalisists argue that the sooner we Muslims either adopt atheism and materialism or secularize Islam itself the sooner our people can be liberated from misery and backwardness and enjoy full participation in the modern utopia. But reverse is the case. An-made laws were unable to find solution not only to world economic problems but to social and political problems as well. It is on this note that the thrust of the paper is to look at

the operational framework of Islamic banking and how the system can help tremendously in the economic growth and the adaptability of which will be of great benefit to the Nigerian economic system.

Over the last few decades, Muslims have been trying to restructure their lives on the basis of Islamic principles. They strongly feel that the political and economic dominance of the West, during past centuries, has deprived them of the divine guidance, especially in the socio-economic fields. Therefore, after acquiring political freedom, the masses are striving for the revival of their Islamic identity to organize their collective life in accordance with the Islamic teachings.

Islamic banking has nowadays, become an undeniable reality. The number of Islamic banks and the financial institutions is ever increasing. New Islamic Banks with huge amount of capital are being established. Conventional banks are opening Islamic windows or Islamic subsidiaries for the operations of Islamic banking. Even the non-Muslims financial institutions are entering the field and trying to compete with each other to attract as many Muslim customers as they can⁽²⁾. However, one of the main objectives of modern Islamic state is to achieve rapid economic growth³. The Economic backwardness of the present Nigeria is seen as a hindrance to the fulfillment of individual and collective desired needs.

General Performance of the Nigerian Economy

The Nigerian economy has had a truncated history. Between the period 1960-70, the Gross Domestic Product (GDP) recorded 3.1 per cent growth annually. During the oil boom era, roughly 1970-78, GDP grew positively by 6.2 per cent annually-a remarkable growth. However, in the 1980s, GDP had negative growth rates. In the period 1988-1997 which constitutes the period of structural adjustment and economic liberalization, the GDP responded to economic adjustment policies and grew at a positive rate of 4.0. In the years after independence, industry and manufacturing sectors had positive growth rates except for the period 1980-1988 where industry and manufacturing grew negatively by 3.2 percent and 2.9 percent respectively. The growth of agriculture for the periods 1960-70 and 1970-78 was unsatisfactory. In the early 1960s, the agricultural sector suffered from low commodity prices while the oil boom contributed to the negative growth of agriculture in the 1970s. The boom in the oil sector lured labour away from the rural sector to urban centres⁴.

The contribution of agriculture to GDP, which was 63 percent in 1960, declined to 34 percent in 1988, not because the industrial sector increased its share but due to neglect of the agricultural sector. It was therefore not surprising that by 1975, the economy had become a net importer of basic food items. The apparent increase in industry and manufacturing from 1978 to 1988 was due to activities in the mining sub-sector, especially petroleum. Capital formation in the economy has not been satisfactory. Gross domestic investment as a percentage of GDP, which was 16.3 percent and 22.3 percent in the periods 1965-73 and 1973-80 respectively, decreased

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to almost 14 percent in 1980-88 and increased to 18.2 percent in 1991-98. Gross National Saving has been low and consists mostly of public savings especially during the period 1973-80. The current account balances before official transfers are negative for 1965-73, 1980-88 and 1991-98⁵.

The economy never experienced double-digit inflation during the 1976, however, the inflation rate stood at 23 percent. It decreased to 11.8 percent in 1979 and jumped to 41 percent and 72.8 percent in 1989 and 1995, respectively. By 1998, the inflation rate had, however, reduced to 9.5 percent from 29.0 percent in 1996. Unemployment rates averaged almost 5 percent for the period 1976-1998⁶.

However, the GDP as at year 2002 was about 350 Billion Naira, 2003, 430 B.N, 2004 N360 B.N, 2005 N330 B.N, 2006 300 B.N. Thus, it can be vividly observe the declining nature of the country's Gross Domestic product geometrically⁷. The most surprising, however is the country's budget performance of only 23% for year 2009. What then can make a country's GDP more declining than a failed budget.

In the same vein, it has been observed that the Economic performance in the first two months is worrisome. General GDP growth for 2010 was projected at 7.53 percent an improvement over the 6.9 percent recorded in 2009. According to the CBN, the non-oil sector especially agriculture, wholesale and retailed trade and services will remain the major driver of growth following the sustained growth in the Niger Delta region. It is also said that inflation outlook for 2010 remains uncertain, due to combination of both domestic and international economic development namely; the plan fall deregulation of petroleum product prices, the expansionary fiscal outlay for 2010 and the visiting international commodity prices⁸.

Economic Growth and Development in the Islamic Context

Economic growth and development in an Islamic framework has recently attracted much attention, having noted the crisis and revaluation through which Development Economy is presently passing. Ahmad opines that man is the active agent of change and change in the hearts of man is no less important than change in the environment⁹.

He further admitted that it includes human personality as well as continues sustained increase in national product with correct product mix in goals of development in Islam. The goal which includes production of necessities, defense goods and capital goods; improvement to quality of life involving distributive justice and employment, balanced development, evolution of indigenous technology and re-education on national dependency on the outside world and greater integration within the Muslim world¹⁰. Other scholars regard increase in production, distributive justice,

environment balance and improvement in the quality of life in the cultural sense as the four necessary dimension of development in an Islamic economy¹¹.

If the fore mentioned are the basis of growth and development in the Islamic context then it is crystal clear that banking system in Islam will not go out of the economic growth established by Allah in the Qur'an, Sunnah and other Islamic legal frameworks. This takes us to the modality avails us by Shari'ah through the concept of Islamic banking.

Islamic Banking and its Operational Principles

Islamic bank has been defined as banking in consonance with the ethos and value system of Islam. On the more general term, it is expected not only to avoid transacting on the basis of interest but also to participate actively in achieving the goals and objectives of an Islamic economy¹².

It was the theoretical discussion of, and articles on Islamic economics and banking that led to the pioneering experiment in Egypt begun in 1963 in Mit-Ghamr a town about 80kilometres from Cairo. At present some countries have been implementing Islamic Banking. There are currently five categories of operating Islamic banks.

1. The Islamic Development Bank
2. Those banks which operate in countries where the whole banking system has been converted to operating on Islamic principles and whose activities are over-seen in some way by religious bodies.
3. Those banks which operate in Muslim countries and which co-exist with interest based ones for example Jordan, Egypt, Malaysia.
4. Islamic banks in non-Muslim countries whose monetary authorities do not recognize their Islamic Character (for example the Al-Barka International Bank in London and the Islamic Bank in Durban, South Africa); and
5. Islamic banks which exist in non-Muslim countries whose monetary do recognize their Islamic character (for example, the Faisal International Bank (FIB) based in Copenhagen, Denmark registered under Danish Banking Supervisory Board¹³. At this Juncture, it should be noted that this paper is not considering the terminological jargons and professional complications in Islamic banking but intends to look at some aspects of Islamic banking that cater for social economic and general welfare of the masses. Also, some economic, ethical values which will not only promote banker-customer relations but stimulates new idea for gross domestic product growth as the corner stone of economic growth in Islam.

Importantly, Islamic banking to be operated in Nigeria is assumed to fall under the 4th category. The reason had been that Nigeria claims to be a secular state. However, no matter condition under which Islamic banking finds itself, it will still rear its head in contributing to the national growth and development of that country.

Banking without Interest

A key element in understanding the theoretical framework of Islamic banking is understanding how Islamic banks can operate without paying or receiving interest (riba). Islamic banks can earn profits in three areas; trading, leasing; and by direct financing in PLS contracts¹⁴.

The rationale of the principles that there should be no profit sharing without risk sharing is that the justification for earning profit is having engaged in an economic venture and thus contributed to the economy. Depositors are regarded as shareholders of the banks or shareholders in a particular deal. Consequently, they are not guaranteed a nominal value or a predetermined rate of return on their deposits. If the bank makes profit, the depositors are entitled to a share corresponding to their investment; if the bank incurs a loss, the depositors share it and receive a negative rate of return. To remain consistent with religious strictness, banks can not charge interest on their operations but must use other modes of investment and financing also based on profit and loss sharing¹⁵.

A cursory look at conventional banking operation reveals that through interest a lot of havoc have been caused on the economy as people continue to service interest against the capital borrowed. Consequently, they may not be able to make a head way in their establishment.

The prohibition of *Riba* in the Qur'an is very strict. The prophet in his saying warned that *Riba* is more sinful than committing adultery. Qur'an also preaches against *Riba* in four different revelations; that interest deprives wealth of God's blessing (Q30:34); placing interest in the position of wrongful appropriation of other property (Q2:275-280); enjoins Muslim to stay clear of interest for the sake of their own welfare (Q3:130) while the fourth establishes a clear distinction between interest and trade (permitting profit and prohibiting interest)

Economic Rationale behind the Prohibition of *Riba* (Bank Interest)

This paper looks at four (4) main arguments with which the implication is mirrored.

First, it is argued that the interest system is inherently incapable of allocating available liquid funds among firms and considerations of efficiency, productivity and growth. An Islamic system based on profit and loss sharing financing methods will offer an efficient substitute.

Secondly, the interest free system brings about and effectively maintains a pattern of income distribution fairly correlated to economic efficiency, productivity and actual factors contributing to the total value added.

Thirdly, the interest system encourages passive behaviour to develop among people having liquid funds by helping them relinquish responsibilities and risks into investment activities. Lastly, the prohibition of interest will not affect savings and their mobilization provided that Islamic ethics prevail¹⁶.

Poverty Reduction through Islamic Microfinance

Poverty is identified as the number one archenemy of mankind in present times. Most of human problems be it social, political or economic are largely attributable to it. For this reason, combating the problem of poverty has remained the top priority of virtually all governments. The federal Government of Nigeria under President Umaru Musa Yar'adua has made the crusade against poverty as one of the cardinal items of its seven point agenda¹⁷.

Poverty is multi-dimensional as it affects the physical, psychological and moral aspects of human condition. There is no precise definition of poverty; however, most analysts define it as the inability to meet basic needs of goods and services. It is also seen as a function of education, health, life expectancy and child mortality. Some view it as a level of expenditure and consumption, which are either not met due to non-availability of resources or when resources are available basic goods and services are not in place to satisfy demands. Some other analysts define poverty as inability to meet up with physical and non physical basic necessities for a meaningful life¹⁸.

Poverty can be either chronic or temporary due to natural or man-made causes. The poor can further be divided into non-destitute and the destitute. These last are further distinguished based on irregularity of income and how far-off below the poverty line¹⁹.

Globally around 40% of human race are encircled in the net of poverty²⁰. It is interesting to note that poverty is not evenly distributed in the world. Asia, Middle East and North Africa have reduced the number of the poor in sharp contrast to other regions. The Global distributions of extreme poverty in 1998 are 43.5% in South Asia, 23.3% in sub-Saharan Africa, 23.3% in East Asia and pacific, 6.5% in Latin America and the Caribbean, 0.5% in the Middle East and North Africa and 2.0% in Europe and Central Asia²¹.

The United Nations Development Programme (UNDP) Report of 1992 based on Human Development Index ranked Nigeria as the 13th poorest country in the world. Similarly, the United Nations Human Development Index of 1999 placed Nigeria among 25 poorest countries of the world. Furthermore, the Nigerian Federal Office of Statistics (FOS) in 1996 described the poverty situation in Nigeria as severe and wide-spread ranking below Kenya, Ghana, and Zambia²².

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Analytically, poverty level in Nigeria rose by 50% between 1980 and 1985 from 28.15% to 46.3% then dropped by 4% to 42.7%. In 1996 it again rose to 65.6% making the estimated number of people below poverty level rise from 18 million in 1980 to 35 million in 1985 and also to 29 million in 1992. It again rose to 67 million in 1986 and finally to 74.2 or 70.6% by 1999²³.

In 1996, 73% of the poor people reside in the rural areas while 95% of the chronic poor reside in the rural areas. The northern part of the country has 45% of the poor while 39% goes to the central zone and 24% goes to the south²⁴.

Micro-finance on the other hand is a need-based initiative to cater for a target group (including the poor) who are usually discriminated against in the society. The mechanism of micro-finance is that if the poor is provided with capital to finance some productive activities that will increase income (Promotional finance) or provided with credit at the time of need (consumption smoothing finance) he will be able to live well over the poverty boarder line²⁵. However, the chronic poor who borrow for consumptions smoothening loans is aversive when it comes to promotional loans,²⁶ due to high interest rates involved.

Micro-finance has a number of features, which includes mobilization of clients into groups, weekly installmental payment of loans for one calendar year, the establishment of branches in the rural areas and the involvement of non-material collateral. Islam aims at providing every opportunity for good living both at the individual and societal levels. It has its own unique philosophy of human welfare which is comprehensive and consistent with human realities. Islam views all matters that will enhance the welfare and standard of living of people as imperative utilities. (al-Musalih) and the opposite as dis-utilities (al-mufasid)²⁷.

Therefore, Islamic microfinance is an economic growth initiative that caters for people who are usually discriminated against in the society. The mechanism of microfinance is that if the poor is provided with capital to finance some productive activities that will increase income (promotional finance) or provided with credit at the time of need, he will be able to live well over the poverty boarder or line²⁸.

Islamic banks would provide capital to dynamic entrepreneurs who have good projects but can not offer collateral, and so create new business and thus contribute to the community's economic development growth.

Religious Regulations

Islamic banks are being supervised by a religious committee. The reason for this is to ensure that the banks statutes, deeds and all other conform to *Shari'ah* injunctions. The committee members and the counselors are chosen among senior specialized religious scholars. Their opinions (rulings) are binding. They give opinion

on every financial instruction used by banks as well as on any innovation in instruments or operations. These people legislate within the ambit of Islamic law and will not compromise what will bring down the economic growth if their people.

Economy and the Ethics

Islamic bank has its own ethical values that are meant for the economic growth of a society. The duty of Islamic banks towards the society in which they operate is contained in the public statement of the International Association of Islamic Banks (IAIB) as quoted by Fuad Al-Oman and Muhammed Abdul-Haq.

The Islamic banking system involves a social implication which is connected with the Islamic order itself, and represents a special characteristic that distinguishes Islamic bank from other banks based on their philosophies. In exercising all its banking or development activities, the Islamic bank takes into prime consideration the social implications that may be brought about by any decision or action taken by the bank. Profitability despite its importance and priority not therefore the sole criterion or the prime element in evaluating the performance of Islamic Banks, since they have to match both between the material and the social objectives that would serve the interest of the community as a whole and help achieve their role in the sphere of social, mutual, guaranteed social goals are understood to form an inseparable element of the Islamic banking system that can not be dispensed with or neglected. (IAIB 1992)²⁸

Government and Economy

Over the last few decades, the Muslims have been trying to restructure their lives on the basis of Islamic principles. They strongly feel that the political and economic dominance of the west, during past centuries, has deprived them of the divine guidance, especially in the socio-economic fields. Therefore, after acquiring political freedom, the masses are striving for the revival of their Islamic identity teachings²⁹

The role of government in economic growth and development through banking system is inexhaustible. The duty to act morally is primarily that of every individual and the business of the Ruling Agencies is to act in aid of the individual to assume the possibilities of a moral life for him. In an Islamic state, the national legislative would be concerned primarily with discovering ways and means for implementing the Qur'anic values in accordance with their priorities as made clear by the Qur'an and the Sunnah.

Therefore, the focus of government should be to protect human life, dignity, honour and property, all in accordance with the dictates of the Shari'ah – in other words it should participate actively in, and aid all activities to establish 'Adl (justice) in the community³⁰ and yet leave room for *Ihsan* (righteous action). Also from the Islamic point of view, the government has to take responsibility for certain

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fundamental economic goals, such as the eradication of poverty, the creation of growth, the establishment of an equitable distribution system and of social justice and the creation of an environment conducive for economic activity. The welfare functions of the government include moral and spiritual education³¹ as well as the material development of the economy. All the fore mentioned are not only obligatory but they are necessary ingredients for adequate growth and development.

Impediments

We have tried as much as possible to examine Islamic Banking system and its fortune for economic development and growth. However, there are some factors that may not help the system to bring its fortune down to the people particularly in Nigerians.

1) Difference in belief

The foremost belief around which all the Islamic concepts revolve is that the whole universe is created and controlled by one, the only One God. On the one hand, it has left a very wide area of human activities to man's own rational judgement where he can take decision on the basis of his reason, assessment of facts and experience. On the other hand, Islam has subjected human activities to a set of principles which have eternal application and can not be violated on superficial grounds of expediency based on human assessment.

Therefore, if the above is the position of Islam, it is not to other religions who claim that religion should not be mixed with mundane affairs. Religion apart and world issues apart

In relation to the above, the profit motive or private ownership are given unbridled power to make economy. It is observed that in a secular capitalist economy, a certain economic activity may not be in the interest of the society, yet, it is allowed to be continued because it goes against the interest of some influential circles who dominate the legislature on the strength of their majority. Since every authority beyond the democratic rule is totally denied and 'trust in God' has been practically expelled from the socio-economic domain, no divine guidance is recognized to control the economic activities³²

2) Lack of Government Support

Islamic banks and financial institutions are not normally supported by the governments, legal and taxation system and the central banks of their respective countries. Under these circumstances, they are given certain concessions on the ground of need or necessity, which are not based on the original and ideal principles of Shari 'ah³³.

It is asked whether is it valid or not to argue that in the Nigerian (and generally in the African) context, the original and hence the resolution of the crisis of

development lies ultimately in the social character of the State and her strategic policy role?³⁴

Government policy does not help people as man made law is meant to serve human beings and could be manipulated to serve their whims and caprices. Generally, lack of the cultural, philosophical and technological foundation policies are the bane of economic development³⁵.

- 3) Lack of legitimate economic government because of corrupt practices³⁶. Financial fraud has characterized the Nigeria banking system as it is apparent to everyone. An American who was swindled by a young Nigerian of nineteen said;

*'We Americans rob banks with guns and grenades, but you Nigeria rob them with pens'*³⁷

Therefore, it may be difficult if not frustrating for Islamic bank to strive in this corrupted environment.

- 4) Lack of well-rooted professional and institutional think-tanks with focused objectives and adequate resources for performance
- 5) Lack of faith in ourselves, in our government, in our institutions, in our country and above all the missing spirit of volunteerism and professionalism³⁸.

Suggestions and Recommendations

Having discussed so much about Islamic Banking, its value to economic growth and development and some major obstacles that may not assist smooth realization of the development, it is imperative at this juncture to offer some suggestions and recommendations to the appropriate bodies in preparation for the establishment of the said banking and in order to have a hitch free operation.

Although, Nigeria is a multi-religious society and not a secular one as claimed by the Nigerian constitution. Therefore, Nigerian Muslims should be allowed to conduct their economic life in line with their believes. It is a direct command from Almighty Allah to judge or administer with what Allah has revealed.

*Whoever does not judge by what Allah has revealed
(then) such (people) are the fasiqun i.e. disobedient to Allah*

Judge among them by what Allah has revealed

*And so judge (you O Muhammed) among them by
what Allah has revealed and follow not their vain desire'*³⁹

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Importantly, interest in the conventional banking should be abolished. It is noted that the government is trying its effort to make sure that interest payable on any loan should not be more than one digit. But our argument is not in the number of digit but a complete eradication of interest as it has done more harm than good. Islamic financial system of *Musharakah* is the most ideal. *Musharakah* in the context of business and trade means a joint enterprise in which all the partners share the profit or loss of the joint venture. Allah warns:

“Those who take usury shall rise up before Allah like men whom Satan has demented by his torch. For they claim that usury is like trading. But Allah has permitted trading and forbidden usury⁴⁰.

“O! believers, have fear of Allah and waive that what is still due to you from usury, if your faith be true..... then take a note of war from Allah and his messenger⁴¹.

Acting contrary to Allah’s directive has been a major course of the wrath of Allah. Despite all interest the world economy is still in shambles. Why can’t they surrender to Allah and his directives on economic regulations.

Government should give full support to the establishment and operation of Islamic Banking. Therefore, central bank regulation of Islamic banks should take into consideration the special nature of these banks as to be formulated in their statutes.

In line with the above, from the Islamic point of view the government has to take responsibility for certain fundamental economic goals, such as the eradication of poverty, the creation of employment, the maximization of economic growth, the establishment of an equitable distribution system and of socio-economic justice and the creation of an environment conducive to economic activity.

There is a consensus among Muslim economists that the Central Bank should supervise the Islamic commercial bank. One of the aims of this supervision is to protect the clients who have put their money into investment account against avoidable losses.⁴²

As it has been said earlier that the welfarist function of the government include moral and spiritual education, hence the need to give people Islamic, economic, ethical teachings. It has been the agitation of Islamic scholars that Islamic moral values should be taught up to university level so that students can be well developed intellectually and morally. How can we describe the spate of corruption in the Nigerian Banking system today. Professor Charles Soludo did his own reforms in the banking sector and people thought that the problem was over. However, recent

audit of banks by the C.B.N has also revealed the unimaginable level of corruption in the banking system. No doubt, it has become a cankerworm to economic growth and development. With moral and spiritual education it is hoped that corruption will be reduced to the barest minimum if not totally eradicated.

To some people, Islamic finance is a new discipline with a shortage of scholars sufficiently qualified in both the relevant disciplines, Islamic jurisprudence (fiqh) and conventional finance. Therefore, efforts should be geared towards having professionals and institutional think-thank with focused objectives and financial base for effective performance.

It should be reiterated that the motive force for economic development must, emerge from religion itself. Nourished by a desire to recapture the past glory of Islam, its mode has to be collective rather than individualistic, in consonance with the nature of the desire and the temperament of the Muslim Ummah⁴².

Nigerians should ensure that credible leaders are elected to govern their affairs. Not only this, they should build trust in the leaders and vice versa. To some Nigerians, they believe that no system can work perfectly in this country no matter good things embedded in the system. Frankly, there should be a general attitudinal change. Nigerians should imbibe economic and moral ethics of transparency, honesty, truthfulness in words and deeds. They should abhor insincerity, favouritism, ethnicism, tribalism and god fatherism. Importantly they should not give false impression of buoyancy and liquidity

Conclusion

This paper will be concluded by the submission of Sayyid Abul- Ala-Maududi in his book of 'the Economic Problems of Man and its Solution' he affirms:

The economic problem of man which was, indeed, a part of the larger problem of human life has been separated from the whole and looked at as if it were an independent problem by itself. Gradually, this attitude has taken such a firm root that the economic problem of life. This is even a greater mistake which has made its solution infinitely difficult. This attitude is, however, utterly unscientific. It is as if an expert in liver disease isolates the liver from the whole bodily system and disregarding the position allotted to and occupied by the liver in the human body and its relationship with other bodily organs, starts looking at the liver in isolation; and then becomes so much absorbed in its examination that ultimately the whole bodily frame and physical system appears to him as a vast liver and nothing else. You can very well understand that if all the problems of bodily health were sought to be solved by this "liverish" attitude, how impossible of solution they would become and to what extreme dangers will human life be exposed. In the same way if economics is isolated and

segregated from the whole of which it is a part and an attempt is made to solve all the problems of life by means of economic panacea as if man were no more than an economic animal and his moral and spiritual tendencies have no reality apart from his economic endeavours, you should not be surprised if chaos and confusion are the final result⁴⁴.

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