

AHMADU BELLO UNIVERSITY ZARIA
FACULTY OF ADMINISTRATION
DEPARTMENT OF BUSINESS ADMINISTRATION.

TOPIC: TYPES AND METHODS OF INVESTMENT
IN ISLAM - AN ANALYSIS.

BY:-

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BEING

A PROJECT PRESENTED TO THE DEPARTMENT
OF BUSINESS ADMINISTRATION IN PARTIAL
FULFILMENT OF THE REQUIREMENT FOR THE
AWARD OF A MASTER OF BUSINESS ADMINIS-
TRATION (M. B. A.) DEGREE.

DECLARATION

I hereby declare that this project has been written by me, and it is a record of my research work. It has not been previously presented in any application for a higher degree.

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Date

The above declaration is confirmed.

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CERTIFICATION

This project entitled: "Types and Method of investment in Islam" by Al-Amin Sabo Abdulhamid meets the regulations governing the award of the degree of M B A of Almadu Belle University and is approved for its contribution to knowledge and literary presentation.

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A C K N O W L E D G E M E N T:

I must admit that the interpretation of the divine message is not an easy task. I seek Allah's guidance and pray for His forgiveness for any short-coming.

I wish to record my gratitude to my supervisor Dr. Sheik Abdullahi, the Head, Department of Business Administration. The draft of the project was also reviewed by a number of scholars whose detailed and penetrating comments helped in clarifying many points in improving the quality of the work.

I also acknowledge with gratitude all financial, assistance and encouragement given to me by the Iere Local Government Council and Kaduna State Local Government Audit Department much of the credit for the publication of this project must go to Mxx Rxxx Hashim Mr. Bawa Sami Auditor General Local Government Inspector, Dalhatu Hashimu, Iere Local Government and Gambo Mohammed Bikko, Head of Works Department, Iere Local Government for their effective logistical back-up which finally makes the project a success.

Finally I wish to thank my wife Azima whose support encouragement and forbearance played a major part in the production of this project. However, the views expressed in this project are my own and I alone bear responsibility for them.

ABSTRACT

Islam is a religion and a unique way of life based on the commandments of Allah contained in the Holy Quran and the sunnah of the Holy Prophet of Islam Muhammad. The idea that Islam is a unique way of life distinct from all other "Isms and ideologies". naturally extends to the economic life of the Muslim community. A determination to reshape the economy on distinctive Islamic line has been an important dimension of Islam, visible all over the World. The area of investment or trade "Al-Tijara" is regarded as one of the most crucial to the process of Islamisation of an economy. The Islamic emphasis on co-operation as the key concept in economic life had led the reliance on profit—sharing and participation as the alternative bases for banking and investment in the Islamic framework.

Considering the secular nature of this country, and its heterogeneous features, this project aims at analysing the type and methods of investment in Islam which could supplement the existing interest base investment methods of the so-called developed Western nation.

Accordingly, a survey has been carried out using two separate questionnaires, Type 'A' and 'B'. The type A was addressed to a stratified sample of 100 people (consisting of 65 Muslims and 35 non-Muslims) drawn from four sample states randomly selected. This questionnaire facilitates the gathering of public opinion on the idea of interest-free Islamic bank. While the Type B was addressed to a sample of six selected Muslim scholars who are knowledgeable in Islamic economic system and the experience of Islamic Bank existing in other parts of Africa,

This questionnaires focused attention on the experience of the existing islamic banks and the viability of such banking .system in Nigeria considering the enviromental factors that may have influence over it- The responses received are presented and analysed accordingly, which led to the conclusion that the prospect of islamic banking in Nigeria is bright.

For easy presentation, the projnet is divided into five different chapters. Chapter One only deal with the introduction of the project, the scope objective and methods of data collection Chapter two analyses the types and methods of investment in islam such as Mudarabah, Shirakah, Bai Muajjal, Bai Salam and Al-Hawala. Chapter three focus attention on concept of islamic banking which include how loan is given and ways of repayment of loan while Chapter four look at the efforts made. toward the establishment of Islamic bank in Nigeria and the prospect of such bank in Nigeria, and Chapter five form the concluding part of the project which include some recommendation and ways to solve some of the problems identified in the course of the analysis.

MayAllah guide us to the right path- Amen.

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CHAPTER ONE
INTRODUCTION

Islam is a religion and a way of life based on the commands of Allah contained in the Holy Qur'an and the Sunnah of the Holy Prophet of Islam, Muhammad (SAW). Every muslim is under an obligation to fashion his entire life in accordance with the dictates of Qur'an and sunnah. So he has to observe at every step the distinction between what is right (Halal) and what is wrong (Haram). This highlights the need and importance of his acquaintance with the knowledge and principles guiding investment in Islam. (Al-Furqan)

(Al-Fijarah).

Every muslim should live his life as if ^{he} is always in the presence of Allah. We have to think that we hold all the property as a trust from Allah, whether the property is in our own name or in someone else's name or belongs to the entire community. All investment should be such that in the process there should be an exchange of benefits as profit without exercising any unlawful pressure or fraud on another party.

The Qur'an verse emphasises on good will in investment which means that there should be no displeasure or disagreement between the parties in business relationship.

In bribery or usury one often thinks that, there is no harm practising bribery and usury, in fact there is still a great deal of concealed "pressure" to enter into such an agreement just as it happened in gambling where there is seemingly an agreement between the gambling parties but in reality that sort of tacit agreement has come about as a result of false hopes in their minds that they are going to win, one will not participate in gambling with the hope of losing.

I must admit that the interpretation of the Divine message is not an easy task. I seek Allah's guidance and pray for his forgiveness for any shortcoming in undertaking it, but I am doing so with the hope that this project may stimulate further thought and research in this fascinating area and be of use to those interested in the subject.

1.1 OBJECTIVE OF THE STUDY

I was completely disenchanted with the high sounding theories of synthetic interest banking system and investment and this conditioned my thinking on other aspects of man made theories. I therefore began thinking that in order to save others from falling into the same error I owed a duty that I must not only acquaint them with the injunctions scattered throughout the Holy Qur'an and the Sunnah which form the basis of non-interest investment but also enlighten them about the rational and comparative importance of such injunctions.

1.2 THE SCOPE AND JUSTIFICATION OF THE STUDY

As the topic implies the project aims at determining the methods of investment in Islam. It analyse the desirability of such methods, its effect on the economy and the problems, it is likely to face in view of the secular nature of the country vis-a-vis the religions background on which the system is based. It should be borne in mind that method of investment in Islam is viewed here as an alternative to the so called progressive and modern methods of investment and not as a supplement to be incorporated by the existing investment methods.

The Islamic emphasis on co-operation as the key concept in economic life has led to reliance on profit sharing and participation as the alternative bases for banking and investment in the Islamic framework such as the Al-mudarabah Al-Shirakah and Al-Murabah.

The project examine some of the factors that should always be kept in mind when dealing with Islamic economic. Such as the Islamic financial conception of life affecting individual and the community which evolved a period of fourteen hundred years preceding from foundation. Its conception rejects and gives its decision in accordance with its own legislative system (Shari'a).

To justify the study all the Topics presented are supported by some verses of the holy Qur'an and the Sunnah (Hadith) of the Holy Prophet Mohammad (S.A.W.).

1.3 RESEARCH METHODOLOGY

The data necessary for the completion of this project has been sought through various means that ensured an adequate treatment of the topic.

The Secondary data is obtained from the existing literatures on methods of investment in Islam as developed by Islamic economist and the review of seminar papers presented by different Scholars on the concepts and Islamic approach not only to investment but to the entire financial system sanctioned by Shari'a as against those of modern progressive interest based economy.

The primary data was obtained through survey of public opinion as well as the views of some muslim Scholars on the subject. Two Separate questionnaires were prepared accordingly. One was addressed to the public while the other to the muslim scholars who are versed in Islamic economics.

1.4 METHOD OF DATA COLLECTION AND ANALYSIS

The method of random sampling has been used to select the state where the research has been conducted as a representation of the whole country, four States have been considered adequate size of the sample and the States that happened to be chosen are Kaduna, Sokoto, Kano and Plateau States.

The first sample of respondents, that is the one representing the public opinion was selected using stratified Sampling. The criteria used, is the type of occupation which is expected to have a bearing on the extent to which each sub group is likely to have dealings with investment and hence the relative importance of their views. This sample has a size of one hundred respondents 65% of whom are Muslims and 35% Christians which include businessmen and women, lecturers, Civil Servants and farmers. Eventhough the size of the sample has not been scientifically arrived at.

The size of the sample covering the whole of the country runs into thousands, In view of financial and time constraint, it is not feasible to treat a sample of that size in this project. However the project is still considered very useful in that it set the ball rolling for a more elaborate survey to be carried out in this area.

A list of muslim scholars very versed in Islamic economic system was also compiled and a sample of the scholars from each State was randomly selected. The second questionair was address to this sample.

The response received are studied and analysed. The advantages of Islamic banking and investment have been perceived through the analysis. suggestions have been made accordingly on ways to resolve the issue identified.

15. LIMITATION OF THE STUDY

The work is limited to the methods of research described in the other page. A sample of four States was taken to represent the whole country. In view of the higher muslim population of the State that happened to be chosen in the sample substantial part of the project reflect more about the views of the State where the muslim population is predominant. However the sample reflecting the public opinion which includes non-muslims residing in the sample States.

The stratification used in sampling of the public would have been more appropriately based on annual in-come category which is a better indicator of the extent to which an individual is likely to have dealings with banks, and there is likelihood of making some kind of investment. However, due to some foreseen difficulties in obtaining factual information on people income level, the stratification was based on occupation, which to some extent can be approximated to serve the same purpose.

The size of the public sample being 100, limits the extent to which the finding could be used. However, the projects remains useful since it set the foundation for a more elaborate survey to be conducted to this area.

METHODS OF INVESTMENT IN ISLAM

Islam being a complete ideology has its own establishment guidance as to how monetary transactions should be conducted to ensure co-operation and economic development to the society. There are two important factors that should always be kept in mind when dealing with Islamic economic. First, the Islamic financial system is an integral part of the whole Islamic conception of life affecting individuals as well as the community. Secondly, Islam allows adaptation in accordance with the need of a changing society and physical environment. Since it is natural that Muslims nowadays use modern economic terminology. The Islamic financial system has evolved over a period of fourteen hundred years, preceeding from simple foundation it accepts, rejects and gives its decision in accordance with its own legislative system (Shari'a).

There are a number of Qu'ranic injunctions which have encouraged Muslims to engage themselves in lawful and wide range of trade and commerce and there are a number of Ahadith of the Prophet which also support the Qu'ranic injunction. In order to do successful trade, Muslims have been asked to undertake travelling and long journey.
"Some people will travel in seeking bounties of Allah (through trade) and some people will travel to fight war of defence (Jihad) in the path of Allah".¹

1. Quran ch 73:20

In Surah - Al-Jumah Muslims have been warned that their engagement in trade and business must not make them negligent of their duties to Allah, their creator. As soon as the call for Jumah prayer is given and likewise call for other prayers as well, we are asked to close our business and answer the call earnestly and loyally and submit to Allah²

We are reminded that business and trade must not make us forget our responsibility toward Allah and His Servant while counting capital and profit at all times.

The messenger of Allah himself had engaged in trade on behalf of lady Khadijah and has encouraged business through his own practise. He once said:

"A trustworthy and an honest and truthfull businessman will rise up with martyrs on the day of resurrection"³

The wise words of the prophet has given honest trading such a high status that those engaged in it are likened with the Martyrs who fought and gave their lives in Jihad Fi-Sabil Allah (War in the path of Allah). These means that if he continued his trade without deceiving people and without practising usury and adhered to other principles of lawful trade, then it would be construed as if he passed his life waging Economic Jihad.

2. Qur'an ch. 62:9

3. Qur'an Ibn Majah and Al-hakim

Accordingly, the Islamic investment system is based on the following principles.⁴

1. Human life depends on material resources and God provides man with the means of living.
 2. Islamic emphasises investment and prohibits monopoly or hoarding.⁵
 3. Investment should be allocated in such a way as to ensure the fulfilment of legitimate needs thus there should be balance in the development of economic life covering all aspects of life.
 4. The Islamic policy of distribution of wealth through Mirath, Zakkat, sadat etc helps a lot in discouraging accumulation and concentration of wealth in the hand of few which is an essential part of the Islamic economic system and these is an important stimulus to economic development of the Islamic society.
 5. Islamic economic system depends on strict objective of moral standard which are within the Islamic Social system but not in accordance with is prohibited and commanded.
 6. Interest is prohibited in Islam. These evil means of acquiring wealth has been discribed in the Holy Qur'an as "Akkh Al-Riba" the usury, some people in order to satisfy their lust and gain more wealth say, trade is like usury and see no difference between the two but the former is permitted in Islam and the latter is forbidding completely.
4. Islamic Banking: Progress and obstacles-Islamic finance a monthly review of Islamic Banking & economic July, 1993 page 81
5. Bukhari ch. 34 Hadith 54.

"O you who believe, fear Allah and give up what remains of your demand for usury if you are indeed believers".⁶

It is ensured by Shari'ah that the trader must not exploit the buyer. Islam took interest in the market condition and thus there developed an institution of "Hisab" the department of inspection which was responsible for stopping adulteration, underweighing, over work by unlawful profession.

Such departments were headed by "Muhtasibs". There are numerous instances when Islamic government intervened if the rule, of justice and fairplay were violated. The holy prophet treaties with the Thagif, Hawazin and the people of Najran required ban on the transactions involving uncertainty. The Holy prophet not only appointed an inspector to ensure that the unlawful transaction were avoided but also himself visited during his life time the market places advising the traders to observe moral principles in trade.

The major contracts used in Islam suite medium term and longterm investment venture particularly those in which equity participation is involved and in case where there is definite time horizon for the operation. Short term financing of project, the time span of which cannot adequately determined in advance remains problematic. Rapid changes in working capital requirements cannot as yet easily be accommodated within the type of contracts most frequently used by the Islamic banks for investment purpose.

6. Qur'an ch. 2:278

These contract in practice combine with indigenous and Islamic way can now provide an impressive range of investment opportunities, which would be discuss under the following headings.

1. Mudarabah
2. Shirakah
3. Bai - Mu'ajjal
4. Bai - Salam
5. Al - Hawala.

2.1 MUDARABAH:

This is a legal terminology which is mentioned in the Surrah Al-Baqarah⁷. It is a contract in which certain property or stock (Ras al-mal) is offered by the owner or proprietor (Rabb al-mal) to the other party to form a joint partnership in which both parties will participate in profit⁸. The other party is entitled to a profit in lieu of his labour since he is giving to manage the property (Mudariib).

Mudarabah is used to signify the idea of one person giving out his capital or part to another person to trade in and each will have the share of the profit. In the terminology of fiqh the relationship is called mudarabah, the owner of the capital Rabb al mal and the interpreneur mudarib.

In the process of running the business the Rabb al mal get his own share of the business in the form of profit while the person who actually managed the business mudarib gets his own share in the form of wages. The Holy prophet (peace be upon him) himself has made such an agreement with kadijah before their marriage.

There is hardly a second Hadith that directly described mudarabah except what Ibn majah related on the authority of

Suhaib who reported that the prophet (SAW) said.

7. Qur'an ch. 2. 273

8. Al-Muhjubi Sharh wigayah lahore Vol;3.p. 816

"Three are blessed. Deferred sales mugarabah (a term used by the people of Medinah to denote mudarabah) and mixing wheat with barley for home use and not for sale" on the chain of transmitters of this hadith two persons are unknown as such the hadith is weak⁹.

Most of the Jurists base their argument on the fact that it was practice during the day of the holy prophet (SAW) who was aware of it and who approved it otherwise it would not have been legitimate ¹⁰. However, there are areas where these Jurists have differences in opinion concerning the details of the Mudarabah agreement. Most important of these differences is the form of the capital participation of Rabb-al-mal should take.

The contract of mudarabah is invalid if capital is in non-minted Silver or Gold or when goods are given as capital participation which is the opinion of Hanafis school of thought similarly Zahiriyah School of thought are of the opinion that the mudarabah capital must comprise cash. But according to Hambali and Shafi'e Schools of thought, they said the participation must be by means of a definite amount of minted coin while the contract is vitiated if it takes the form of either non minted gold and silver or any other goods. The Malikis school of thought are of the opinion that mudarabah capital is valid if the subscribed capital is determined irrespective of the form it takes.

9. The prospect of rural banking in Nigeria by Abdullahi Omar
1986 page 16.

10. Studies in Islamic economic law by Khashir Ahmed.

The essence of the capital being in cash is to enable the determination of trade capital so that every partner can assess his share of profit in accordance with his degree of participation especially where there is more than one person making the capital contribution.

The contract of mudarabah is vitiated where the capital share of the Rabb-al-mal is in the form of debt. Therefore one of the pre-requisite of the contract is the availability of the capital at the time of the contract as a dispositive amount, likewise the contract is not regarded as valid if the capital depends on collection of specified amount from a third party by the mudarib before the contract is firm. There is a consensus of opinion that the partnership should be independent of any other obligation and should be absence of duress and undue influence.¹¹

2.2 SHIRAKAH

In the holy Qur'an the word sharing and partnership in activities has occurred several times. Moses prays to Allah to make Harun his brother, his partner in his great mission to pharaoh.

"Harun (is) my brother add to my strength through him and make him share my task"¹²

10 Studies in Islamic economic Ed. by Kuraaid Ahmad

11 Ibid 9

12 Qur'an ch. 20:31-35.

Shirakah signifies the conjunction of two or more person to carry on a business to share the profit's by joint investment in the widest sense the term Shirakah, the partnership exist where property is held in common between two or more co-proprietors. A person thus alienates an undivided share of his property, in return for an undivided share of the property of another each having a right to administer the whole.¹³

According to the terminology of economics, all the partner will be entitled to "profit" in so far as they have invested capital and also entitle to "wages" in so far as they have taken part in the management of the business. Islam has sanctioned this form of business organisation. It was quite common before the time of the holy prophet (SAW). He permitted people to retain it and since then there has been a consensus of opinion on its permissibility.

Islamic law allows two or more person to associate themselves for the exercise of a profession or a handicraft. The profits will be practically equal for the partners with a view to lending mutual assistance even though the association work separately. IMAM Malik says in Mudawwanah Al-kubra that the stock of tools may be provided by each partner in such labour associations but the other jurists say that the tools will be owned by the association or hired by the association at common expense. In this kind of Shirakah any payment received or engagement upon by one of the associates for some work done or to be done binds the other and the payment remains at their risk even after the dissolution of the Shirakah.

¹³ This is the definition given by Ibn Arfa
in mukhtasar of sidi khali p. 193

It will be illegal for one of the associate to hold a greatly predominant in the stock of tools by one of the associates of the Shirakah.

The Shirakah association can take any form. All partners may contribute equal capital and participate equally in managing the business, hence entitled to equal share of the profit and loss that may result from the business. All the partners have equal Authority to act and each partner is jointly and severally responsible. Thus each partner is an agent and a trustee and can act on behalf of the other partners. An underlining condition of the is that each of the partner must have the capacity to contract and they must be adults.

Where the capital contribution or participation in management is not equal, in such case the profit sharing ratio may not be equal for each partner. Such ratio of profit sharing does not only show the degree of capital participation but also the extent to which a partner participates in running the business. At times, some partners make their contribution to either capital only or to management only, hence the liability of each partner can be several but not necessary jointly. The profit/loss incurred must be shared by the partners proportionately to their capital contribution as stipulated by Sharia.

13.

According to Maliki and Shafi'i School of thought the ~~profits~~ profits are to be distributed among the partners in proportion to their respective share in capital. But the Hanafi and Hambali School permit the profits to be distributed according to the terms of the agreement. 14

In view of the above, therefore the distribution of profit does not necessary have to be in proportion to the capital contribution which is supported by the tradition of the holy prophet (P & U H) where he said was reported to have said "Muslims should abide by their agreement unless the agreement turns licit in the illicit and illicit into licit. However, there is a concensus among all the jurist that the loss would have to be shared in proportion to capital contribution of the partners.

2.3 BAI'MU'AJJAL

This is the process of sale whereby the price of the item is paid at a deferred time period of instalmentally. Under the Bai'Mu'ajjal the sale price may be the cost price or a price higher than the cost price.

Majority of the Ulama have approved it while some of them consider it as forbidden. They base their argument on the ground, that where the sale price is higher and the seller have a guarantee of receiving back the price he actually paid, plus a predeterminant return, then the Bai'Mu'ajjal transaction becomes a cover for continuing the interest based transaction.

14. DOI Zakir Abdulrahaman - Islamic Banking in Sudan and

its relevance in Nigerian Context MBA Project 1985.

The opinion of the renowned Islamic scholar Muhammad Najetullah Saddigi was that the use of Bai'Mu'ajjal will create a tendency of preferring it over profit sharing transaction (instead of being supplementary to it) or any other method discussed above since it helps to maintain the present interest system. 15 It would amount to opening a back door for dealing on the basis of interest. He suggests its use to be restricted to only situation in which its use becomes unavoidable.

2.4 BAI SAJJAM

Under this type of agreement the buyer and the seller usually enter into a certain agreement where by the purchase is made in advance with specification of the quantity and quality of the commodity. The price of the commodity, the mode of payment, place and time of delivery would have to be specified. However, the agreed payment have to be made in full before delivery of goods. The payment can be at the time of the agreement or any other time before delivery as contained in the terms and conditions of the agreement.

The delivery of the goods at the agreed place and time is to be undertaken by the seller. This type of sales is an exception of sales involving uncertainty, speculation or gambling all of which are prohibited in Islam. 16

"The messenger of Allah has forbidden dishonesty and bad behaviour in transaction."17

15. M.M, Saddigi: Issues in Islamic banking p. 138-139 the Islamic foundation.

16. Darir Ahmed Types and methods of investment in Islam. P.25

17. Al-Bukhari. Vol 3, 143

This type of sale in other words involves speculative risks in contract and it resembles the present sale of future goods recognised by sale of goods acts in the common law countries.

2.5 AJ-HAWALAH

This is a type of sale whereby the proceeds are received in future date and the money to be received can be assigned to some body use. For example, A lends some goods on credit to B. A may by contracting with, assign the claim to C. This is called "Hawalah" i.e. transfer or assignment.

Imam Malik approves such assignment but other jurist of Shafi'i and Hambali Schools oppose it while Hanafis allows it in exceptional cases. But all the jurists permit A to sell his claim against B to any one A likes or to make a gift of it to any person other than the debtor B.

Below are some of the requisite for a valid Hawalah.

- (1) The sale on debt which is the subject of the contract must be a lawfully subsisting obligation.
- (2) The original creditor (A) and debtor (B) must mutually agreed that the debt should be paid by B to C. The assigned debt which constitutes the object of the transfer.
- (3) Both debts must consist in objects of the same kind, equal in quantity and quality, there are several opinions however as to the varying finers of coin.
- (4) Where two or more distinct articles are the object of a single sale, the price of each should be individually known and determine, otherwise the transaction is void for uncertainty and cannot be assigned or transferred.

CONCEPT OF ISLAMIC BANKING

Money or property which is acquired through unfair means is positively unclean and unlawful and anyone who make use of it or spends it on his needs does himself a great harm. As the holy prophet has warned, his prayers will not find acceptance with Allah, his supplication will not be answered, his petition will not be granted, and incase he does good deeds they will avail him nothing. In the next world, there will be no share for him in the special favours of Almighty Allah.

While solving the economic problems of man, one has to be realistic in one's approach to human life on this planet. It is true that a man has various economic needs in life, it is not necessary to exaggerate its importance of the extent that it is reckoned as the whole problem of life. A man is not to live by bread alone. Therefore, it will be a blunder to share our lives or our ethical and moral values, our culture and society on economic foundation. A Muslim sage has rightly remarked that a man does not live to eat but eats to live and survive.

The idea of usury is quite evidence in the concept of modern bank interest. The rate of interest as defined by modern economist is the price of money at which it can be borrowed and determined by forces of supply and demand.¹ Originally usury means the premium paid for the use of money. Nowadays, it means the practise of demanding and exorbitant premium of interest. Attempts were made particularly by the Roman, to provide maximum rate of interest, but they were unsuccessful. Borrowing with interest is now

¹ Hanson J.J. monetary theory and practice London 1974 p. 180/

Unfortunately a world wide phenomenon.²

All the modern banks function on the basis of interest. Every business man in need of loans is driven by force of circumstances to borrow from the banks which charge high rate of interest. It was argued by most of the Ulama that the interest give by the banks on deposit account is "Riba" and likewise one who receives loan from the banks on interest also gives Riba to the Banks.

Muslims were the first to lay down the true foundation of proper trade and even banking in modern civilization. Hence the present day banking terminology is permeated with Arabic words and expressions. Indeed the history of cheques goes back to the time of caliph Umar bin Alkhatāb. He was the first to draw a cheque (633-634-DA) Al-Yakubi an eminent muslim historian who died in 897 AD mentioned this in his history book likewise Al-jahashiyari who died in 942 makes similar statement with regard to Harun Al-Rashid who draw cheque for some sum of money in his name.³

The institution of interest is a great challenge to all those who are trying to revive and reconstruct the Islamic way of life in the modern times. In the modern economic system interests, and enterprises based on interest, occupy a key position. The whole banking system rest on interest. It is therefore imperative that for the reconstruction of the economic system on the Islamic pattern, an interest less banking system should be established and run successfully.

Obviously, the banking system renders a few fundamental beneficial and essential services without which no modern developed economy can be conceived. There is also a consensus of opinion among the muslim economists on the point that even without interest banking system can be organised to discharge all the usual functions performed by modern banking system based upon, interest. These experts also agree that the re-organisation of banking on the Islamic pattern can be brought about on Islamic principles of Mudarabah and Shirakah, which has been discussed in the previous chapter.

3.1 LOAN AND LOAN PAYMENT IN ISLAM:

In human life, there comes ups and downs and there are periods of trials from Allah. In such circumstance, believers are asked to remain patient when one has a family to look after or some sudden need arises of borrowing money for keeping the business going one is required to go to friends, neighbours, relatives or philanthropic people to ask for loan. The holy Qur'an has laid down principles concerning the repayment of loan and debts which was supported by guidance from the prophetic tradition of prophet Mohammad (SAW).

In islam loan is also the trust which should be returned to its owner Imam Al-Buhari has used this verse as the caption of a Chapter concerning repayment of debt.

"Allah does command you to render back the trust of the people!"⁴

4. Qur'an eh. 4:58

The Holy Qur'an has guided muslim in respect of lending and borrowing in Sura Al-Bakarah. This verse give injunction on debt and its repayment and it is among the verse that give Allah's commandments. (Ayat al-ah-kam-al-mufussal).

The verse says:-

- (1) When money or something is lend for specific term, it should be written down in a document.
- (2) The person who is called upon to write should not refuse, since Allah has gifted him the art of writing. He should write exactly what is dictated.
- (3) The person taking oath should dictate.
- (4) If a person is ignorant of the ordinance or status or if he does not know what dictate is or cannot dictate well due to immature age or foreigner who is ignorant of the language of the land, then his guardian or agent should dictate justly.
- (5) Two adult male of good characters and must be Muslim should be called to witness the deed.
- (6) If two muslim male witness are not available, then one man or two muslim women should be invited to witness the deed.
- (7) The parties concerned should fear Allah do justice.

Allah has laid down the procedure of lending and repayment of loan whereby he categorically makes it clear that when ever the loan is to be given even if it is from the repayment and the amount received and at the same time the deed should be executed in the presence of at least two matured muslim adults who should be of good character or at least one male and two women of reputable character. The repayment of the loan is very essential, as said by the holy prophet.

Abu Huraira reported that Allah's messenger said, "If I had gold equal to the mount of Uhud, it would not please me, that it should remain with me for more than three days except an amount which I would keep for repaying debts."⁵

Therefore the payment of debt is very essential as indicated by the holy prophet and whenever such debt is repaid the amount can be used to help another needy person and it will make you regain your freedom and people will have more confidence on you for not violating your promise.

5. Bukhari 3:5/4.

CHAPTER FOUR

EFFORTS MADE TOWARD ESTABLISHMENT
OF ISLAMIC BANK IN NIGERIA.

The efforts to establish the Islamic bank in Nigeria, the giant of African where the large population are muslims, has shown new horizon of hope to muslims. It will help to set up the New Islamic Economic order, based on the divine principles which the world has more or less forgotten due to the lathargy of muslims themselves.

The first Islamic bank in African was established in Egypt in 1963 with the help of late King Faisal of Saudi Arabia. The bank operate with entirely new functions and principles, it is simple and just, as well as free from interest and the complex loopholes of the current financial transactions. The experiment proved highly profitable. It draw the attention of many people to the possibility of achieving a healthy profit by the establishment of Islamic institution in the field of finance and investment.

The successes demonstrated by the Egypt experiment was appreciated by many African countries. The movement toward the establishment of Islamic banks gained momentum which received the biggest encouragement in Africa and West Asia and this lead to the establishment of interest free banks in Gabon, Mali, Senegal, Togo, Sudan and many African countries.

Islamic movements in Nigeria have on various occasion organised and conduct public lectures and symposium to enlighten the public on Islamic banking. This generate the desire of many Nigerians more especially the business community and some muslims scholars of having an Islamic bank establish in Nigeria.

Prince Muhammad Al-Faisal Al-Saud, the president of Dar-al-mal-Islam (D.M.I.) act as a parent body to all Islamic banks was invited to the country in 1982 by some business community and muslim scholars in their efforts towards the establishment of Islamic bank. Their mission which was aimed at establishment of Islamic bank in Nigeria lead to the return of the Prince in May 1982 who was accompanied on his trip by the founding members, Director of DMI and Director of Faisal Islamic bank of Madina.

A meeting was held in Kano between the Prince and top Government officials at central hotel VIP Challet in May, 1982. Among the top Government officials present in the meeting include the then Permanent Secretary Federal Ministry of finance, the Governor of Central bank of Nigeria and other dignatories. The Prince and his entourage paid a courtacy call to the president Alhaji Shehu Shagari and held a usefull discussion on the possibilities of establishing an interest free bank in Nigeria.

AQIDABANK file its application to Federal Ministry of finance Lagos in 1983 for the establishment of an Islamic bank in the country. A number of such applications were submitted by other foreign based operating on Islamic framework but the details of such applications and Government response to it was not made available since it is treated as highly confidential.

There hasn't been much progress since then which can be said, it was due to change in Government and policies in the country. However an Islamic investment company has been established in Kano, which perform almost all the functions of Islamic bank. The Company is being manage by Dr. Ibrahim Ayagi. Eventhough full details of its operation are not radily available as at now.

4.1 THE PROSPECT OF ISLAMIC BANK IN NIGERIA.

Nigeria a country where the muslims form a sizeable Community, they can easily avoid Riba (interest) by constructing such banks. We thank Allah, that Islamic investment company have been set up in Kano in recent times, from the available reports, it seems that these company is becoming successfull. The Institution of interest is a great challenge to all those who are trying to revive and reconstruct the Islamic way of life in the modern times.

The interest free commercial transactions which is being practice by the muslim interpreneurs seems to have baffled and surprised many western scholars who believed that it is simply unworkable in the modern times because they try to build the society on economic foundation alone, which will mean that man position is being reduced to a grazing animal. A purely materialistic society, as we can see of Nigeria of today, the spiritual and motal values of life are lost and only selfishness thrives.

With the prevailing problems of the country people tend to forget that they were morely custodians over their property and not real masters and they forget that they should acquire their wealth through lawful means and not through dishonesty and treachery if one will adhere to the teadhing of Islamic he will not involve himself to all those atrocities of acquiring money and nothing but money.

Despite the secular nature of the country, the survey conducted in the course of this project an average of 65% of the respondents welcome the idea of establishing Islamic bank in the country which include some scholars who are optimistic that Islamic banking would be very viable in Nigeria. 25% are indifferent while only 10% indicate that it will not work in Nigeria.

All the three categories of respondent mentioned indicate their intention or desire to deal with Islamic bank if it is established in the country in one way or the other, from the above analysis and information gathered one can confidently say that Islamic bank has a very bright prospect in Nigeria.

C O N C L U S I O N :

One such evil means of acquiring wealth which is described in the Holy Qur'an in no uncertain term is Al-Riba the usury, a practice prevalent in the Jahiliyya and equally prevalent in the modern time. In order to satisfy their lust and gain more wealth, some people say, "Trade is like usury" and see no difference between the two, but the former is permitted in Islam and the later forbidden completely.

Even before the advent of Islam, the system of usury prevailed in the Arabian peninsula, and the entire economy was based on it. Let no one imagine, that it was simply a question of isolated transaction between individuals. If usury had simply been practised in restricted individual dealings and had not been comprehensive system of economic life, it would not have deserved the repeated and scorching attack made on it by Almighty Allah in the Qur'an and pursuance of that attack by the prophet in the Hadith. This was the economic reality on which the life of land was based. Then Islam came denying and rejecting this unjust and criminal system and setting forth in its stead a new basis.

The Islamic policy of distribution of wealth through zakat and Sadakat helps a lot in discouraging accumulating and concentration of wealth in few hands. The land owners, the labourers and owners of capital jointly share in their production. As a practical religion and way of life it compulsarily retained a portion of this produced wealth for those who are detained from contributing their share in production due to any social physical or economic handicap.

The ideal of usury is quite evident in the concept of modern investment and banking. The rate of interest as defined by modern economist is the price of money, the price at which money can be borrowed and determined like other prices, by the interaction of the forces of supply and demand. Originally, usury meant any premium paid for the use of money. But nowadays, it means the practice of demanding an exorbitant premium of interest.

The so called Western developed investment and banking which was based on interest is a great challenge to all those who are trying to revive and reconstruct, the Islamic way of life in the modern times. In the modern economic system interest and enterprises based on interest occupy a key position. The whole investment and banking system rest on interest. It is the refore imperative that for the reconstruction of the economic system on the Islamic pattern an interest free banking system should be established and run successfully.

There is also a concensus of opinion among the muslims respondents on the opinion that even without interest a banking system can be organised to discharge all the usual functions performed by the modern banking system based upon interest. Most of the Islamic scholars agreed that the re-organisation of banking on Islamic pattern can be brought about on the Islamic principles of Mudarabah (a joint enterprise) and Shirakah (partnership).

From the survey conducted in the course of this project despite the secular nature of this country, an average of 65% of the respondents welcomes the idea of trying the methods of investment stated by divine rule since the modern investment

method which is based on interest is not yielding any fruitful result but concentrating wealth in the hand of very few individuals. 10% are optimistic that it would not work in Nigeria due to its secular nature while 25% are indifferent.

RECOMMENDATION:

This project has shown that investment via Islamic principles is viable in this country and it has a brighter prospects. Furthermore experience of other African countries where these free interest banks are operating prove them to be more profitable than the interest based banks which are formed in contrast to the Islamic principles. It should be remembered that Islamic forbide interest in any form. It is therefore recommended that:

- (1) The Government of this country should take interest in the market condition and developed an institution of Hinsab, the department of inspection which is responsible for stopping adulteration, underweighing overwork by employers, employment in risky jobs, unhealthy traders and unlawful professions.
- (2) The Federal Government should amend it degree on investment to accomodate the methods of investment stated in the Holy Qur'an and Hadith of the Holy Prophet which is based on free interest rate.
- (3) The Federal Government should approved the application submitted to Federal Ministry of Finance for the establishment of Islamic bank in Nigeria. Due to the secular nature of the country, the muslims should be given a chance to experiment the setting of Islamic bank in the country.
- (4) Due to the present hardship being experience in the country, the economy of the country is in a messe and the only remedy to the situation is to turn to the laid down principle based on Islamic doctrine.

(5) The Federal Government should amend its banking act to accommodate Islamic banking which will give the muslims the opportunity to revive the economy of the country since, the Western method of banking services is not the solution of the country present predicament.

(6) The movement for the establishment of Islamic banks in Nigeria (which is already in existance) should organised training programmes to train Nigerians the practice of Islamic banking system so that when approval is given for the establishment of such banks is given, the banks will not find difficulty in recruiting staff.

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APPENDIX A
ANALYSIS OF QUESTIONNAIRES

The questionnaires are grouped into two broad sections in accordance with the area they cover for the purpose of this analysis.

- (1) General questions on investment, banking and
- (2) Questions directly related to the viability of Islamic Methods of investment and their prospect in Nigeria.

The questionnaire were sent to a sample of 100 people consisting of businessmen, farmers, teachers and civil servant and their responses are shown below:-

Sample Composition	No of Questionnaire Sent out	No of Responses received	Percentage of Responses
Civil Servant	25	20	80%
Teachers	25	23	92%
Businessmen	25	18	72%
Farmers	25	14	56%
Aggregate	100	75	75%

The Studies to each response to the questions as classified above was carried out seperately. The following tables shows the response on the group of questions that are general in nature, together with the implication of each response on the idea on investment in Islam and interest free banking.

R E S P O N D E N C E S

QUESTION	ALTERNATIVE ANSWERS	BUSINESSMEN	FARMERS	TEACHERS	CIVIL SERVANT	AGGREGATE	REMARKS
Have you any dealings with the existing banks?	A Yes B No	100 0	100 0	100 0	100 0	100% 0%	1. All the response have dealing with the existing banks. 2. Their dealing with existing banks is an indication that they have some experience and knowledge of what bank is.
What type of bank do you deal with?	A, Commercial B. B, Investment B. C, Central Bank D, Merchant "	60 20 0 20	80 10 0 10	100 0 0 0	100 0 0 0	85% 7.5% 0 7.5%	Islamic banks are designed to perform almost all the function performed by commercial banks A proper balance must be maintained in order to succeed. 2. Businessmen and farmers are the main customers of investment and merchant Bank.
Do you operate Saving Account	A, Yes	65	50	70	83	67%	With an aggregate of 67%. The Islamic bank has the

How does interest relate to the national Economy	B, No	35	50	30	17	35%	Opportunity to exploit the savings since its profitability depend on the saving it is able to influence and advance it to enterprisers for productive use.
	A, Interest rate are the best regulator of economic development.	15	10	0	0	6.25%	1. Only very few Teachers are optimistic that high interest rate are desirable.
	B, High rate of interest encourage saving but not necessary investment in productive sector.	50	30	50	68	49.5%	2. High interest rate constraints investment in most productive sectors.
	C, High rate of interest encourage savings and enhance investment	0	0	40	0	10%	3. Over half of the respondents sees interest as detrimental to the national economy. These people are likely to welcome an alternative system that is interest free.

Interest paid on saving account what do people do with it?	D, Interest rate in itself is the need for crisis in an economy			35	60	10	32	34, 25%	Economic values seems to play a greater role than religious values. The free interest banking in attracting public saving would be influence to a large extend by its ability to yield profits on saving deposit which are higher than the interest paid on saving account.
A, Leave it to the bank because of its prohibition. B, Take it and give it out as charity. C, Take it for personal use.	20	40	20	0	20	80	20%	10%	
How would the establishment of interest influence the Economy.	A, Create chaos in the economic structure.			20	0	0	10	7.5%	Must of the respondent are of the opinion that the abolishment of interest would yield positive result while about 46% are optimistic that the removal of interest would hinder investment since there are less promising of incentive to saving.
	B, Retard savings thus hindering investment.			20	80	75	10	46.25%	
	C, crumble the economy			10	0	5	0	3.75%	
	D, Encourage investment to productive sector of the economy.			50	20	20	80	42.5%	

APPENDIX B

The questions on type A of my questionnaire directly relate to the prospect of Islamic banking in Nigeria Unlike the group analysis which analysis the group and the responses are categorised into three classes:

- (1) Responses in favour of interest free Islamic banking (ie for)
- (2) Responses that discourage interest free Islamic Banking (ie Against)
- (3) Responses that are neither for nor against the idea of interest free Islamic Bank. (Neutral).

Each score is assigned a score out of 100 points for each questions. The score is proportionate to the percentage of respondent with a particular response the table below asses the prospect of interest free Islamic banking in Nigeria in view of the response.

DESCRIPTION	FOR	AGAINST	NUETRAL
Considering the economic situation of the country what is the people view of establishing on Islamic bank in Nigeria.	56	9	35
Why some people do not operate an interest based saving account	30	4	66
Their feeling about payment of interest on loans	65	15	20
Desirability of estabability of establishing an Islamic bank.	100	-	-
Viability of Islamic bank	65	35	-
Total	316	63	121
Percentage	63.2%	12.6%	24.2%

The second questionnaire focuss attention on the experiences of existing Islamic banks and the viability of such banking system in Nigeria considering the environmental factors that may have influence over it. The table below indicate the responses of each respondent. The remark column discuss briefly the findings facilities by the questionnaires. The State to which the respondent comes from is abrebrated.

QUESTION	ALTERNATIVE ANSWERS	RESPONSES				REMARKS
		KD	SO	KN	P	
What relevance is Islamic banking to this country	<p>A, To provide the muslim population with a banking system which does not contradict their believe</p> <p>B, Just to provide banking system</p> <p>C, To Islamize the Economy</p>					<p>In order to harmonize the muslim belief and practice there is a need for a more suitable banking practice that is interest free because the existing practice contradicts the belief of the muslim.</p>
What role does an Islamic interest free bank pay?	<p>A, Collection and distribution of Zakka</p> <p>B, It serves as an investment bank</p> <p>C, It serve as an investment bank as well as a commercial bank</p> <p>D, It mobilize savings on a non interest basis and distribute them as non interest bearing loans to the less previllage members of the society.</p>					<p>Islamic bank combine the service of investment bank and commercial bank and at the same time mobilize saving from these having funds in excess of their immediate need and distribute them as charitable loans the less previllaged members of the society</p>
What benefit are likely to be derived from Islamic Bank?	<p>A, Organised monetary transactions in accordance with the sharia</p> <p>B, Eliminate all evils generated by interest</p> <p>C, All of the above</p>					<p>Many people especially the muslims believed that interest generate evils. The survey show that an the evils can be over come by substituting the present practice with an interest free Islamic Banking.</p>

QUESTION	ALTERNATIVE ANSWERS	RESPONSES				REMARKS
		KD	SO	KN	P	
Can any of these benefits be achieved in Nigeria in view of the secular nature of the country?	<p>A, It could not be achieved unless interest is removed from all sectors of the economy</p> <p>B, If could be achieved once the banks are established</p> <p>C, It could only be achieved in some parts of the country</p>					Despite the secular nature of the country the benefit could be achieved at least in some part of the country once the banks are established.
What are the requirement for establishing an Islam Bank?	<p>A, The Availability of appropriate personnel</p> <p>B, High degree of Government's participation for proper control</p> <p>C, Dedication honesty and commitment on the part of the bank management</p>					1. The criteria for the establishment of Islamic banks are the availability of appropriate personnel and the conduct of such personnel.
What are the likely problems to be encountered by Islamic banks if they are to be established in Nigeria?	<p>A, The problem of getting trained staff to man the bank.</p> <p>B, Completion from interest based banks</p> <p>C, There may be a big rush that would generate excess liquidity.</p> <p>D, The problem of mobilizing depositors.</p>					The big rush predicted may create the problem of excess liquidity and induce competition from conventional banks.