



Islamic Banking System in Nigeria: A Study on the Impact of the Activities of *Jaiz* Bank in Sokoto State, Nigeria

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Abstract

With the recent efforts in the Islamization of knowledge. Islamic scholars, stakeholders and academicians have in mass concentrated in describing the principles of Islamic banking and its operations in Nigeria and Sokoto in particular, the introduction of Jaiz Bank is a great gain to Islam and its call for the abolishment of interest (Riba) in all economic –based activities of Muslims and establishment of contracts based on profit and loss sharing formula. An analytical method is used when conducting this research, Interview and Observation techniques were also used to extract related information to achieve the goal of this research. Two third of the population of inhabitants of Sokoto State were clients of the Jaiz Bank operational system. This article explores the Islamic banking system in Nigeria focusing on the impact of the activities on people vis-à-vis their efforts in the transformation of the conventional banking system to the Shari'ah compliance system. The study concludes that the recent ethical Islamic banking system possesses the tremendous potentiality as an alternative mechanism in solving the contemporary financial issues which the so-called traditional banking system failed to address in previous decades.

Keywords: Islamic Banking, Activities of *Jaiz* Bank, abolishment of interest (*Riba*).

1. Introduction

In the Name of Allah, Most Beneficent, Most Merciful. All praise be to Allah (S.W.T), the Lord and Sustainer of the Universe. May His peace and blessing continue to be upon Prophet Muhammad (S.A.W), his companions, his household and those who follows him with righteousness till the Day of Judgment. Allah (S.W.T), who created human beings and endowed them with all His bounties and designed Islam as a Religion and a complete way of life, has, by His authority, permits trade and forbids usury. He says:

Allah has permitted trading and forbidding *Riba* (usury).¹

He also says,

O you who believe! Eat not *Riba* (usury) doubled and multiplied, but fear Allah that you may be successful.²

It is reported on the authority of Abd al-Allah Ibn Mas'ud (R.A):

That the Messenger of Allah (S.A.W) invoked Allah's curse on usurer whether he gives or takes it, the two witnesses of it, and the one writing it down (its notary).³

Riba (interest) is clearly prohibited by both the *Qur'an* and *Hadith* as shown in the above authorities. To keep the Prophet's *Ummah* safe, the Islamic scholars and stakeholders exerted their efforts and introduced the ethical Islamic Banking system that operates without interest. There have been many rulings by Islamic scholars that today's conventional Banking system as practiced are unlawful under Islam. It contains prohibited elements by the *Shari'ah*, such: *Riba* (interest), *Gharar* (uncertainty), gambling as well as *Haram* (unlawful) elements, which involved investment in drug industries, Tobacco, Casinos, Pornography among others.

The Islamic Banking as a model of non-interest-banking it provides financial services in accordance with the principles and rules of profit and loss-sharing devoid of interest charges. Therefore, the non-interest Banking framework was later found to be the most suitable in handling the effect of global economic meltdown that castrated many countries' financial system and slowed down growth for their economy. Although, the Islamic financial, system was estimated to be \$1.0 trillion of a global industry, the industry could hit \$5 trillion over time. Malaysia, Saudi Arabia, Iran and Indonesia had already experienced rapid growth in Islamic Banking by tapping from the resourcefulness of the fast-growing industry.⁴

Meaning of Islamic Banking

Islamic Banking simply means a non-interest system of Banking in which both profit and loss are shared equally between the creditors and debtors. In this system of Banking, all kinds of illegal businesses transactions are strictly prohibited. In other words, Islamic Banking is a non-conventional financial institution that mobilizes financial Banks into profitable portfolio in an attempt to achieve predetermined social and financial objectives, but in line with Islamic principles. This is because Islamic profitable portfolio in an attempt to achieve predetermined social and financial objectives, but in line with Islamic principles. This is because Islamic prohibits transactions that are based on *Riba* (usury or interest), gambling and other businesses that involve cheating, injustice and corruption. In Islamic Banking system, both savings mobilization and investment are managed in accordance with the principles of *Shari'ah*.⁵

Organization of Islamic Conference (OIC) defined Islamic Bank as "a financial institution whose statutes, rules and procedures expressly state its commitment to the principles of Islamic *Shari'ah* and to banning of receipt and payment of interest on any of its operations" Therefore the Banking systems which derives its inspiration and guidance from the religious edicts of Islamic and conduct its operations strictly in accordance with the derivatives of *Shari'ah* is called Banking. Thus, it's a Bank whose Banking activities must be consistent to Islamic principles; which at the core prohibit interest and any transactions involving uncertainty and speculation⁶.

Concept of Bank and its Activities in Islam

Islam is a complete surrender and obedience to Allah (SWT). Islam is not merely a religion but also a philosophy which governs all aspects of life including the individual's relationship with his creator, mankind and the world in which he lives. Islamic *Shari'ah* is providing a comprehensive set of guidance which should be followed completely. It is not allowed to choose one set and leave another, as Allah (SWT) said in the Glorious *Qur'an*.

¹ Qur'an, 2: 276.

² Qur'an, 2: 278

³ A. Staply and B. Bedeir, *Tahzebul Dalilul Faliheen Sharh Riyadis Salihin*, Vol. 2: Hadith no. 906, Dar Al-Manarah, Egypt, 2003, P. 1047.

⁴ S. I. Sanusi, *Islamic Banking will improve Nigeria's Economy*, Daily Sun, Newspaper, 8th July, 2011, P.8.

⁵ Ibid, P. 8.

⁶ Y.H. Mabera, *Islamic banking and Shari'ah Law in the Bible*, Sarumedia Publishers, Kaduna, 2011, p. 11

Then do you believe in a part of the scripture and reject the rest?⁷

Prophet Muhammad (S.A.W) also proclaimed that,

I am sent to spread (complete) the dignities of moralities.⁸

Hence, as Allah (S.W.T) permitted trading and forbade *Riba* (interest) in Islam, therefore, Islamic scholars and stakeholders exerted their effort and introduced the principles and practices of Islamic Banking and finance based on the *Shari'ah*. Thus, Islamic Banks use the following modes of financing to offer services to customers: profit sharing (*Mudarabah*), safekeeping (*Wadi'ah*), joint venture (*Musharakah*), and leasing (*Ijarah*). *Mudarabah* is a special kind of venture where on party gives money to another for investing in a commercial enterprise. The capital investment comes from the first partner who is called the "*rabb-ul-mal*", while the management and work is the exclusive responsibility of the other party who is called the "*Mudarib*". In the case of loss, the financier (*Rabb-ul-mal*) loses his capital while the *Mudarib* loses his skills (used). Where profits are generated, they are shared between the parties according to a pre-agreed ratio.⁹

Musharakah is a joint venture with agreement between two or more parties, whereby each provides funds to be used in a venture. Profits are shared between the partners according to the invested capital. In the case of loss, both partners lose capital in the same ratio. If the Bank provides capital, the same conditions apply. It is a financial risk according to the *Shari'ah* that justifies the Bank's claim to part of the profit. Each partner may or may not participate in carrying out the business; a working partner gets a greater profit share compared to a sleeping (non-working) partner. In *Murabahah*, there is the sale of goods at a price which includes a profit margin agreed by both parties. The purchase and the selling price, other costs and the profit margin must be clearly stated at the time of the sale agreement. The Bank is compensated for the time value of its money in the form of the profit margin. It is usually a fixed-income loan for the purchase of the real asset (such as real estate or vehicle) with a fixed rate of profit determined by the profit margin, *Murabahah* is also known as "cost plus markup agreement". Under the concept of *Ijarah*, i.e. selling benefits of use or service for a fixed price or wage, under this concept, the Bank makes available to the customer the use of service or assets/equipment such as plant, office automation and motor vehicle for a fixed period and price. Under the concept, falls, hire purchase transactions. Other services offer include: *Sukuk* (Islamic bonds), *Takaful* (Islamic insurance) *Wadi'ah* (safekeeping) among others. The form of lending offered is mostly on *Qard-al-hassan* meaning benevolent loan this loan is extended on a good will basis, and the debtor is only required to pay the amount borrowed. However, the principal amount of the loan (without promising it) as a token of appreciation to the creditor. In the case that the debtor does not pay an extra amount to the creditor, this transaction is a true interest-free loan.¹⁰

From the forgoing discussion, the Islamic Banking as a model is more of a religious formed Banking, because it is fundamentally ethical, *Shari'ah* is based on its side. Indeed, that universal ethics is applied to anybody. A number of ways that Islamic Banking manifest itself that has seen, in the industries for examples, you cannot invest in an industry that have activities with alcohol, gambling, pornography, tobacco and dangerous drugs, pork, prostitution etc. The risk and reward sharing which is quite different to an interest based transaction. From the Islamic perspective interest is harmful for the society. It also embodies social justice that the results in society are channeled for back into the society. Therefore, it is important for any Muslim to avoid interest (usury) and it is also important to Islamic Banks to offer compliance with *Shari'ah* and product. Basically, interest is prohibited in Islam and there is a severe punishment of the one dealing with it in the hereafter.

Origin and Development of Islamic Banking System in Nigeria

The effort of introducing of Islamic Banking system in Nigeria was first recorded 1961. The effort was however short-lived as the Bank was closed down in 1962 on the instruction of the then minister of finance. Two court cases cited in 1999 provided a proof of the existence and evidence of the operation of the Bank between 1961 and 1962. There is no documented evidence that similar efforts took place throughout the 1970s.¹¹

In the late 1980s, a number of conferences and seminars were organized by university based Islamic centers and various Islamic groups to create awareness among Nigerians particularly Muslims on the evils of interest-free Banking along-side interest-based Banking consistently. Such forum had tried to make government see reasons why Muslims should be given the opportunity to conduct their financial activities in line with the provisions of *Shari'ah* through the provision of enabling

⁷ Qur'an, 2: 85

⁸ I. Malik Ibn Anas, *Al-Muwatta*, Maktabatus Safah, Alqahira, 2001, p. 531

⁹ <http://www.jaizbankplc.com/rteievrd> on 15, October, 2019.

¹⁰ Ibid.

¹¹ S. A. Karnawai et al (eds), *Islamic Economics: A Book of Readings*, The International Institute of Islamic Thought (III T), Kano, 2012, p. 129.

regulatory and supervisory framework. The effort resulted in publication of Institute of Islamic Banking and Finance (IBF) reading materials in form of textbooks, books of reading, conference proceedings, leaflets and pamphlets.¹²

The year 1991 was a new dawn for Islamic Banking in Nigeria. The then military administration headed by General Ibrahim Badamasi Babangida issued a decree titled “Bank and other Financial Institution (BOFI)”. The BOFI was seen as the first singular Banking in Nigeria. Under the heading “General and Supplementary” section 39(1) provides: “except with the written consent of the governor, no Bank shall as from the commencement of this decree, be registered or incorporated with a name which includes the words “Central” “Federal” “Federation”, “National”, “Reserve”, “State”, “Christian”, “Moslem”, “Qur’anic”, “Biblical”. Further, under the heading display of interest rates, section 23(1) provides:

Every Bank shall display at its offices its lending deposit interest rates and shall render to the Bank information on such rates as may be specified, from time to time, by the Bank; provided that the provisions of this subsection shall not apply to profit and loss sharing Banks.¹³

The two aforementioned sections of BOFI decree (as amended) were seen to have recognised Islamic Banking in Nigeria and provided the necessary legal framework for the establishment of Profit and Loss sharing Banks. Based on these provisions, two Banks were licensed in 1992 to carryout Banking business based on PLS but none could commence operation. In the late 1990s through early 2000s, Habib Bank Nigeria Limited created an Islamic Banking window for provision of *Shari’ah*-compliance financial products based on the provisions of these sections and enjoyed a lot of patronage for a while. United Bank for Africa (UBA) and Access Bank on the one hand were reported to have attempted to introduce non-interest-no-COT products and on the other hand Standard Trust Bank was reported to have tried to create Islamic window between 2000 and 2003 but without success.¹⁴

In addition to the efforts of Deposit Money Banks (DMBs), a few microfinance Banks especially in the North and South-West of the country had tried to blend some of their product to look *Shari’ah* compliance but without much success. In April 2003, a full pledge Islamic Bank, *JAIZ* international Bank was registered to carry out Banking operations in line with the Islamic *Shari’ah*. Although a lot has been done by various stakeholders to actualize *JAIZ*, the Bank was only able to meet up with CBN requirements in mid-2011 was billed to commence operation in September 2011. Many reasons have been advanced as to why these successive efforts did not materialize. In the case of Jaiz Bank, it believes that absence of regulatory framework for the application of Islamic Banking in Nigeria was the main reason for the failure of this effort.¹⁵

Realizing the potentials of Islamic Banking in Nigeria. CBN in March 2009 released a draft framework for the regulation and supervision of non-interest Banks (NIBS) in Nigeria. The draft, which attracted comments and observations from stakeholders for almost two years before a final document was released in January 2011, was seen as a proof of CBN’s readiness to answer the clarion call of the team providing adequate legal and regularity framework for Islamic Banking to enable its proper take-off. It also confirms the resolve of the apex Bank to come to term with reality of the global search for new financial architecture since the beginning of global financial crisis in 2007 and 2008.

The recent framework for the regulation and supervision of non-interests Banks released by CBN has laid to rest the argument of why Islamic financial products could not be provided over the years. The framework however, raises a number of manpower-related challenges to various stakeholders that need to be addressed in order to reap the full benefits of the framework.¹⁶ It is no longer a theory or something which can only point at other jurisdictions. After the first three licensed Islamic Banking institution based on reigns *JAIZ* Banks, *Jaiz* Bank branches were open in various Northern states including Sokoto as fully-fledged non-interest Banks. Other conventional Bank such as Stanbic IBTC and Sterling had non-interest windows. We also have *Takaful* (Islamic insurance) and Islamic fund management entities registered by the national insurance commission (NAICOM) and the Securities and Exchange Commission (SEC) respectively.

A glance on the origin and Development of Conventional Banking System

The conventional Banking system is the most prevalent and the most widely spreading financial institution in the world. Historically, Banking business had a kind of trust where by a person deposited his money with another for safe keeping, or lends to another an amount which he does not need at that time who had use for it. The Banking system to emerge in 2500Bc, when the early Bankers were mainly the Jews in Italy who transacted their business on benches in market places. Eventually, these Banks are now known as the conventional Banking system. The borrowing and lending activities which is based on fixed interest and speculation has led to the recent world financial crisis. The system was blamed for the

¹² Ibid, P. 130.

¹³ Ibid, 131.

¹⁴ Ibid, 131.

¹⁵ S. A. Karnawai et al (eds), *Islamic Economics, Op. Cit. P. 129.*

¹⁶ Ibid, P. 129.

incessant economic turmoil in the past and the on-going financial crisis in Western European Countries which had its roots in the United States' Mortgage Crisis's in the late 2007.¹⁷

The Importance of Islamic Banking System in Contemporary Time

Nowadays, the importance of Islamic Banking system cannot be over emphasised, it can be summed up in the following:

- Public demand (demand of Muslim *Ummah*)
- It is part of Islamic Religion
- It is according to the human nature
- Nations suffer a lot from the curse of interest (usury)
- It reduces exploitation of the conventional Banks that charges interest
- Islamic Banking based on its economic activities such as *Zakat* etc. is capable of reducing or eliminating poverty in the society
- There is a need for alternative to conventional finance whose interest-based factor has promoted capitalism rather than elevates poverty
- Analysts have always believed that non interest Banking would have significant impact on the Nigerian Banking system and the economy as a whole.
- Islamic Bank provides opportunity for business men and investors by financing their project through partnership (*Musharaka*, *Mudarabah*, *Ijara* etc). This contributes or generates employment opportunities
- Islamic finance, though base on religious law is not just a religious activity that adherents are the only expected people who engage in it. It is also a business activity opens to all segment of the society.
- It allows a larger proportion of the Nigerian population to actively and effectively participate in economic development, owing to its nature and ability to offer an array of products and services that cater for the financing need of the Banking public.
- It attracts other idle money, many Muslims do not see saving their money in conventional Banks as an important task, now that Islamic Banking is operating, they will be encouraged to bring in their money to the economic development¹⁸.

Comparative Analysis and Differences between Conventional and Islamic Banking System

Although the conventional Banking system is the most common and the most widely accepted from Muslims and non-Muslims lately. According to rating agency Moody's, the global Islamic finance sector is worth 700 billion and the potential to be worth 4 trillion.³⁹ The Islamic Banking as a model on non-interest Banking provides financial services similar to conventional institutions, except that such similarities are outweighed by many contrasts. A table below illustrates few of them:

Comparison between conventional and Islamic Banking

Conventional Banking	Islamic Banking
Interest-based	Interest-free
Profit is the chief motivation	Equity partnership (profit and loss sharing)
Not inherently micro-financing friendly	Inherently micro-financing friendly
Not enough checks and balances which can lead to excess, causing economic meltdowns	Checks and balances to maintain ethics and justice

Source: Researcher Himself

Jaiz Bank and its Activities in Sokoto State

Origin of Jaiz Bank in Sokoto

Jaiz Bank Plc. No. 8 New market Road Commercial layout Sokoto, was commissioned by his Excellency the elected Governor of Sokoto State Alhaji Dr. Aliyu Magatakarda Wamakko in April 2014¹⁹. An Islamic Non-Interest Bank (NIB) Jaiz Bank Plc commenced operation in Sokoto State with a plan to be at every state Capital of the federation. The Bank, which commenced business in April, 2014, with three branches in Abuja, Kano and Kaduna, based on regions and late number of branches generally have established in the Northern states of the country. The Sokoto branch had issuance of its license by the Central Bank of Nigeria (CBN).²⁰

¹⁷ S.U.R. Aliyu, et al., *Islamic Banking and Finance a Leap from theory to Practice*, Benchmark Ltd. Kano, 2015, p. 49.

¹⁸ Ibid, P. 96.

¹⁹ <http://www.princewaleyyusuf.com>. retrieved on 27, October, 2019.

²⁰ S.U.R. Aliyu, et al., *Islamic Banking and Finance a Leap from theory to Practice*, Op. Cit, PP. 229-230.

The chairman of the Board of Directors of the Bank at the commissioning ceremony of Sokoto office said:

The Bank plans to be in all the 36 states of the federation in the next four years. He said, their coming to Sokoto was informed by the Bank's desire to make positive contributions to society through the encouragement of enterprises, empowerment of the economic base of the society as well as provide access to innovative channels of financing that are better alternatives to interest-based systems. He also assured that the Bank is open to all, irrespective of race or religion and would identify and promote all the very positive ideals that Sokoto State is known for.²¹

Sokoto State Governor who commissioned the Bank said:

The Bank which operates on Islamic models would provide genuine option for those people who may consider the concept of interest on money as not being in conformity with both the Islamic tenet as well as the other religious faith²².

Therefore, the wisdom behind the Islamic business was based on the following terms:

- i. Eliminating the element of usury or *Riba*
- ii. Trade must be conducted in a faithful and trustworthy manner
- iii. Islamic Banks are expected to conduct the transactions for the benefit of both the Bank and customers
- iv. Islamic Banks must treat their customers equally and
- v. The accumulation of profit without utilization for the betterment of the community is forbidden.²³

The Operational Activities of Jaiz Bank in Sokoto

Jaiz Bank plc Sokoto branch carries its services based on retail financing, corporate and trade financing master products and deposit products.

Retailing Financing

Under this, Jaiz offers the following products and services which include Jaiz Auto Finance (JAF), Jaiz Household Appliances (HAS) and Jaiz Home Finance (JHT).

Jaiz Auto Finance (JAF)

The Jaiz Auto Finance is designed for salary account holders in public, private and other reputable organizations. It operates under the principle of *Murabahah* (Cost plus mark-up). The Bank purchases the vehicles and sells to the customer with a reasonable mark-up (otherwise called profit). The repayment is structured under an agreed deferred period which could be in lump sum or fixed installments. It has the following features:

- Available for both New and fairly used cars
- Maximum tenor of 3 years used cars and 4 years for new cars
- Commitment Deposit (*Hamish Jiddiyah*) of 20% for fairly used cars and 10% for new cars
- Easy and convenient repayment plan
- Competitive pricing is all based on the terms and condition applied.²⁴

Murabahah is a legally permissible contract by the testimony of the majority of Jurists of the Muslim *Ummah*. The proof of *Murabahah* as one of the activities of Jaiz Bank derived from the Glorious Qur'an, Allah (S.W.T) says:

Allah has permitted trading.²⁵

He also says:

But let there be among you traffic and trade by mutual good will.²⁶

In this regard, *Murabahah* sales are clearly to be conducted with mutual consent based on the above mentioned conditions or features.

²¹ <http://www.princewaleysuf.com>, retrieved on 27, October, 2019, Op. Cit,

²² Alhaji, Dr. Aliyu Magatakarda Wamakko, Sokoto State.

²³ Jaiz Bank plc, Products and Services, Jaiz Bank plc Old Garage Ahmadu Bello Way, Sokot. P. 1.

²⁴ <http://www.investopedia.com/terms/m/murabah.asp>, retrieved on 28, 10, 2019.

²⁵ Qur'an, 2: 275.

²⁶ Qur'an, 4: 29.

Jaiz Household Appliance (HAS)

This is a consumer financing product based principle of *Murabahah* (cost plus markup) and *Bai-mu'ajjal* (sale on credit). It is a convenient asset acquisition scheme which enables the customer to acquire household items without the burden of instant payment. The repayment is structured over an agreed period usually on a monthly basis. This is characterized on the following features:

- Suitable for acquisition of any household Asset (S)
- Maximum tenor of 2 years
- Commitment Deposit (*Hamish Jiddiyah*) of 10%
- Easy and convenient repayment plan
- Competitive pricing and also based on terms and condition applied.²⁷

All sales where the payment is differed are known as *Bay' Mu'ajjal* (credit sale) or sale on deferred (price). From the above given features and conditions bunched with *Murabahah*, *bay' Mu'ajjal* would mean the sale with an agreed profit margin over the cost price along with deferred payment. Therefore, postponement of the payment is one of the general features of lawful sales. A sale is valid either for ready money or for a future payment provided the period is fixed, because of saying of Allah (S.W.T).

O you, who believe! When you deal with each other in contracting a debt for a fixed time, then write it down.²⁸

And also, because there is a tradition of the Noble Prophet (S.A.W), who purchased a garment from a Jew, and promised to pay the price at a fixed future date by pledging his iron breast coat. It is indispensable a requisite of business but the period of payment should be fixed. Uncertainty in the period of repayment may occasion a dispute and jeopardize the execution of the transaction since the seller would naturally like to demand the payment of the price as soon as possible, and the buyer would desire to defer it.²⁹

Jaiz Home Finance (JHF)

This is a home finance product that enables customers to acquire, build or complete a home under the principle of *Ijarah wa-iqtina* (a purchased/construction and owned by both the Bank and the customer jointly). The Bank then leases its part to customer against an agreed rental payment over a contracted period of time. Ownership is gradually transferred to the customers as he/she pays down. This can be carried out under the following features:

- Maximum tenor of 7 years
- Minimum equity contribution of 20%
- For salary account holders, professionals' business owners, landowners and non-resident Nigerians etc. and it can be applied under terms and conditions³⁰.

Ijarah can be defined as a contract granting use or occupation of an item of property during a specific period in exchange for a specific rent. This also applies to hiring someone for doing a certain job for specified wages. However, *Ijarah wa iqtinah* is very similar to *Ijarah* except that there is commitment from the client to buy the equipment at a pre-agreed price at the end of the lease. In this case rental also includes the costs of equipment.³¹ *Ijarah* is mentioned in the Qur'an and *Sunnah* as Allah (S.W.T) says:

Then if they give suck to the children for you, give them their due payment.³²

And it has been narrated that Aisha (R.A.H) said:

The messenger of Allah (S.A.W) and Abu Bakr (R.A.) hired a man from the tribe of *Banu al-Dil* as an expert guide who was a pagan (follower of the religion of the pagans of *Quraysh*). The prophet (S.A.W) and Abu Bakr gave him their two riding camels and took a promise from him to bring their riding to the cave of Thawr.³³

²⁷ Jaiz Bank plc, Products and Services, Jaiz Bank, Op. Cit, P. 3.

²⁸ Qur'an, 2: 282

²⁹ M. T. Usmani, An Introduction to Islamic Finance, Maktaba Ma'arifur Qur'an, Karachi, 2010, PP. 102-103.

³⁰ <http://www.info@jaizbankplc.com>. retrieved, on 12, 11, 2019

³¹ Ibid.

³² Qur'an, 65: 6.

³³ M. N. Siddiqi, Public Borrowing in Early Islamic History: A Review of some Resources, in Third International Conference on Islamic Economics, Kuala Lumpur, 2015, P. 204

Corporate and Trade Financing Master Products

Jaiz Bank offers its products and service based on *Murabahah* (cost plus financing), *Jaiz Ijarah-wa-igtina* and *Jaiz Mudarabah* (saving account).

Murabahah (Cost Plus Financing)

This is a convenient financing product for corporate and individual customers. It is tailored for short term finance requirements (working capital or asset acquisition). The Bank buys the asset and sells to the customers at a profit. Its deals under the following features:

- Suitable for acquisition/purchase/procurement/importation of assets/goods
- Flexible and attractive repayment plan
- Competitive pricing and this could be applied based on terms and conditions agreed.³⁴

In this regard, *Murabaha* is an Islamic financing structure which an intermediary buys a property with free and clear title. *Murabahah* is not an interest-bearing loan, which is an acceptable form of credit sale under *Shari'ah*. Similar in structure to a rent-to-own arrangement as stated above. The intermediary retains ownership of the property until the loan is paid in full. The prophet (S.A.W) made it clear, Rafi'ah bin Rafi (R.A.) narrated that, the messenger of Allah (S.A.W) was asked, which type of earning is the best? He said:

A man's earning through working with his own hands, and every business transaction which is approved (which is halal and free of cheating etc....).³⁵

Jaiz Ijarah-wa-Iqtina (Lease to Own/Acquisition Finance)

This is a co-ownership arrangement (partnership, lease and sale) where by both the customer and the Bank purchase and owns an asset jointly. Here the customers agree to lease the Bank's portion with an option of taking full ownership full payment of the Bank's share. Thus the monthly payment is made up of two (2) components: a purchase of the Bank's share and a rental fee. This can occur under the following features:

- Maximum tenor of 5 years
- Minimum equity contribution of 20%
- Flexible and convenient competitive pricing and could happen based on terms and conditions applied.³⁶

Ijarah can be applied to everything which can be used with the remaining of '*ayn*' (object, substance), that is, the thing used should not disappear as a result of *Ijarah*. To illustrate this, a man can use an apartment for a specified time and this is included in *Ijarah*, but he cannot make use of a small quantity of water in a utensil by drinking them and call this *Ijarah*. Thus, everything which can be used of a remaining of its '*ayn*' can be hired or leased as long as this is not forbidden due to some *Shari'ah* reason. Also rented object must be known, that is, defined, and so must be the remuneration which is to be paid, the period of rent, and the kind of work or use for which this thing rented or hired. Allah (S.W.T) says:

He said (to Musa): I intended to wed one of these two daughters of mine to you, on condition that you serve me for eight years, but if you complete ten years, that will be (a favor) from you.³⁷

And also, He says:

And said one of the 9women): O my father! Hire him! Verily, the best of men for you to hire is the strong, the trustworthy.³⁸

Jaiz Mudrabah (Saving Account)

Jaiz Mudarabah saving accounts enables customers to earn profit on their savings. Upon opening an account, the customer automatically enters into a partnership contract called *Mudarabah* with the Bank. Under this relationship, the customer is an investment (*Rabbul maal*) and the Bank is the manager (*mudarib*). The customer's deposit is placed in a pool and the Bank uses its experiment to invest funds in viable ethical investment outlets. Profit earned therefore is shared between depositor and the Bank based on agreed ratio. However, if there is a loss due to any unforeseen circumstance and without any misconduct or negligence or breach of investment mandate on the part of the Bank, the loss would be borne by the customer. This could be carried out under the following features:

- Profit sharing on deposit balance
- Specialized withdrawal booklet

³⁴ <http://www.info@jaizbankplc.com>, Op. Cit. Retrieved, on 20, 11, 2019.

³⁵ S. Cook, (ed), Bulugh al- Maram Min Adillat al-Ahkam: Hadith NO: 802, Dar Al-Manarah, Egypt, 2003, P. 285.

³⁶ <http://www.Islamicbanking.com/mudarabah-srullingaspx>. Retrieved on 23, 11, 2019.

³⁷ Qur'an, 2: 28.

³⁸ Qur'an, 28: 26.

- Funds transfer and clearing facility
- Internet Banking
- Specialized withdrawals booklet
- Funds transfer and clearing facility

Impact of the Activities of *Jaiz* Bank in Sokoto State

Religious Impact of *Jaiz* Bank in Sokoto

It is an idea whose time may have come, here in Sokoto, in various states in Nigeria and in every parts of the world where the ethical Islamic Banking was established having a major impact as an alternative choice to the conventional Banking system. *Jaiz* or Islamic Banks seek to reconcile traditional Banking practices with Qur'anic moral codes. They don't deal in arms, alcohol, casinos, prosecution or anything that goes against the ethics of Islamic business. The Glorious Qur'an forbids earning money from money that means no interest on loans, no financial speculation and buying up debt.

If it sounds unworkable just consider the fact that all the Islamic Banks stayed well clear of the toxic of prime market. Current financial crisis taking place in the world, if everybody will look closely at the Islamic finance they will see. And Islamic Banks are making sure to see that; this is the real solution to what is happening. At the recent world Islamic forum in Jakarta, Islamic finance was marketed as an alternative to the crisis struck traditional economic system.³⁹

Similarly, *Jaiz* Bank in Sokoto since it's continued to have patronage from both the Muslims and non-Muslims. Many people believe that *Jaiz* operates on Islamic models which provided for them genuine options, especially those who consider the concept of interest on money as not been in conformity with the tenets of their religious faith respectively.

Social Impact of *Jaiz* in Sokoto

Although, *Jaiz* Bank is still relatively young in administration, but has a lot of achievements and development. Recently, after the Bank commenced operation, another foundation was created under it known as *Jaiz* Charity and Development foundation (CDF), *Jaiz* CDF is a product of Nigeria's first non-interest financial institution, *Jaiz* Bank plc. It is the corporate social responsibility agent of the Bank. *Jaiz* foundation is a non-profit organization for Charity and Development purposes.

Jaiz Foundation source the funds used in running the foundation through any income that is coming into the Bank that cannot be appropriately described as *halal*. This income is channeled into the foundation for charity purpose. The main issues in a non-interest financial institution is that nothing in the form of interest (*Riba*) can be recognised as income. Therefore, any type of income that comes into *Jaiz* Bank in form interest which cannot be deemed legal under Islamic *Shari'ah* principles has to be moved to the foundation. That is why a lot of income, that is, pre-incorporation income whereby depositors and shareholders of *Jaiz* Bank deposited money for shares before the licensing was invested with the CBN in treasury bills and other financial instruments. Now, income from that cannot be used by the Bank. Eventually, after the licensing of *Jaiz*, it become imperative that they cannot use that money. All that money will now be channeled through the foundation for charity and development purposes to compliment government's effort. Similarly, this is practiced worldwide, where you Islamic Banking, whether in Europe, Asia or America. And such non-interest Banks normally have foundations.⁴⁰

There are also some products offers by *Jaiz* Bank in Sokoto branch under which many customers had benefited and still people would continue benefiting from it. They offer services like *Jaiz* Home Finance, *Jaiz* Working Capital, *Jaiz* Equipment Finance to meet the needs of individuals and corporate entities. For instance, if you want to buy a house or want to build a new one, they can assist you with the *Jaiz* home financing product. They can also assist you to buy a car, brand new or used one. For a car, all you have to do is to make a minimum commitment deposit as little as 10-20 percent and the Bank will provide 80 percent. This gives you the convenience of owning a car as well the convenience of paying back in installments.⁴¹

Economic Impact of *Jaiz* Bank in Sokoto

The advent of Islamic Banking in Sokoto State brought enormous economic benefits which includes financial inclusion for the somewhat large number of the financially excluded. Many of the participants also believe that the advent of Islamic Banking in the area has brought increase in jobs and employment opportunities, encouraged the exchange of expertise and served as a potential vehicle for fund mobilization.

³⁹ <http://www.info@jaizbankplc.com>. retrieved, on 12, 11, 2019

⁴⁰ A. B. Ibrahim, How *Jaiz* Foundation is developing Nigeria, Changing Lives, Daily Trust, Newspaper, 2nd, October, 2015, P. 25.

⁴¹ Ibid, P. 26.

From the forgoing discussion as we have seen *Jaiz* Bank contributed so much towards spiritual and socio-economic development of the people of Sokoto and beyond. The Bank is an equal opportunity institution and it is open to all irrespective of race or religion as observed in Sokoto State.

Problems and Challenges facing the Activities of *Jaiz* Bank in Sokoto

In order to have a smooth and successful delivery of Islamic Banking product, particularly in Sokoto. According to the one of the Agents of *Jaiz* Bank, some categories of problems and challenges can be identified with the *Jaiz* Bank Sokoto branch. Among which include the following.

Shortage of experts in the field: there is a problem of inadequate professionally qualified personnel to operate interest-free Banking. Mostly *Jaiz* staff were specifically trained on economics and accounting based on the conventional principle.⁴²

Misperception and misinterpretation on the principle of Islamic finance: many people, especially the non-Muslims perceived the Islamic Banking only dedicated for Muslims. While others perceived the Islamic free interest Banking as a process of Islamization of the entire financial system or rather Nigerians. This impression is incorrect and needs to be properly corrected. Furthermore, few Islamic scholars viewed the permissibility or otherwise of some Islamic Banking products. Example, some scholars even criticized the *Murabahah* (cost-plus financing) one of the mode of Islamic principle of financing as a back-door *Riba*. This is also incorrect, because the basic principle of Islamic finance simply relies on *halal* trade or investment to make a profit and to share the profit between the partners (Bank and customers) rather than interest which is against the Islamic law.

Loan defaulting: Quite a number of borrowers do not pay back loans taken on maturity. This resulted to delays for these credits facilities to extend to other potential borrowers or business investors to get theirs on time. Although, the institutions in alliance with the state government is ready to overcome such challenges and other problems related to that.⁴³

Challenge of awareness: finally, there is low awareness of the Islamic Banking principles there for interest free Banking system to work efficiently, there is great need for sensitization of all stake holders (government, public and individuals) by professional scholars and economists that are specialized in the area.⁴⁴

Solutions to the Problems and Challenges Facing the Activities of *Jaiz* Bank in Sokoto

The following are some of the possible solutions to the problems and challenges facing the activities of *Jaiz* Bank in Sokoto.

To overcome the challenges of shortage of experts in Islamic Banking or personnel Malami (2009) points out there is the need for staff development in *Shari'ah* economics and accounting based on Islamic principles in order to tackle such challenges.⁴⁵

To clear the problem of misperception and misinterpretation. Firstly, there is need to re-organise massive public enlightenment as well as organize workshops, seminars, lectures and training for the Banking professionals. Secondly, religious authorities and organizations are to be called to order. Meanwhile the *Jaiz* Bank need to set up a group of religious scholars with the mandate to issue legal rulings on Islamic financial products and services in order to avoid the challenges of misperception and misinterpretation.⁴⁶

To overcome, the challenges of loan defaulting. As loan is one of the major services offered by the *Jaiz* Bank. Therefore, the Bank needs to have Debt Recovery Committee (DRC) in place to handle these challenges and other related challenges. This will help in reducing the problem.⁴⁷

Finally, low awareness on the Islamic Banking principle may minimize the level of participation. Therefore, people and the Muslim *Ummah* should be made aware of the cultural impact that an Islamic Banking finance system would have. They should be educated on the socio-economic benefits that the society would gain from adopting the system. Issues of poverty, basic public services in health, education etc. can be addressed by drawing strength from a Banking system.⁴⁸

Based on the above given explanations, it would be clear that *Jaiz* Bank will fully clean the Banking sector and also solve the socio-economic problems troubling the sector in Sokoto state.

⁴² Ibid, p. 27.

⁴³ Ibid, p. 27.

⁴⁴ Y. M. Kagama, An Empirical Investigation into the Challenges and Prospect of Interest Free Banking in Nigeria, Proceedings of 1st III BF, International Conference, 2014, P. 166.

⁴⁵ Ibid, P. 167.

⁴⁶ M. N. Siddiqi, Public Borrowing in Early Islamic History: A Review of some Resources, Op. Cit, P. 33.

⁴⁷ K. A. Fada, "An Exploratory Study of Perceived Economic Viability of Islamic Banking in Gombe Local Government Area, Gombe State of Nigeria" Australian Journal of Business and Management Research Vol. 2. NO, 8, 2012, PP. 41-55.

⁴⁸ S.U.R. Aliyu, et al., *Islamic Banking and Finance a Leap from theory to Practice*, Op. Cit, PP. 146.

Recommendation

The following are suggested recommendations:

1. Muslims need to put total commitment towards the cause of Islamic Banking and commit their resources to ensure the survival of *Jaiz* Bank and also to encourage many other Banks to open non-interest window.
2. Educational Institutions should introduce Islamic Finance and Banking as well as other related courses to train people on the knowledge of operations, guiding the Islamic Banking system which includes the ideological, theoretical and the practical aspect. However, the International Institute of Islamic Banking and Finance department established at Bayero University Kano is making a tremendous progress toward imparting the knowledge on the principles and activities of Islamic Banking System in Nigeria. Also training and motivation programs like discussions circle, seminars and symposium should be introduced for Islamic Bankers.
3. The study also recommends that a sense of patriotism has to be created and put first in the people's hearts, looking at things in religious perspectives should also be discarded.
4. So that the sense of unity and everlasting friendship could be implanted in every society that will also give room for the needed growth and development
5. Religious authorities and organizations are to be called to order.
6. There should be the use of media in propagating the services and products being offered by Islamic Banking system where programs like groups discussion, case-study on Islamic economics, Banking and finance may be discussed by ministry of religious affairs, Islamic organization or Bank officials at different level so that people would be aware of the concept.

Conclusion

Conclusively Islamic Banking became systematically important in Nigeria, too big to ignore. This view is corroborated by the number of Islamic Financial Institutions that currently operate within the country and the numerous products they offer. Within a span of only 4 years *Jaiz* International Bank Plc. obtained a regional license to operate as an Islamic Bank from the Central Bank of Nigeria in 2011 and begun full operations as the first Non-interest Bank in the country in 2012. Eventually, *Jaiz* Bank Plc. started with 3 branches located in Abuja, Kaduna and Kano. Now *Jaiz* Bank had established many branches in Northern state including Sokoto.

Jaiz Bank Plc. Sokoto branch in collaboration with the Sokoto State Government, besides the issue of earning profits, the Bank contribute immensely to the socio-economic development of the state. They undertake the economic empowerment of the people that led to the reduction of extreme poverty in the state. They also strive to eliminate idleness and joblessness that people should be in entrepreneurship and investment.

Notwithstanding the aforementioned achievements, the principles which Islamic Banking rest upon are still not well understood by many. Thus, the need for stakeholders including Muslim scholars, academicians and Bankers to continue to educate people about the unique principles of Islamic Banking and its mode of operations becomes very imperative.

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