A CASE FOR ISLAMIC BANKING IN NIGERIA WITH SOME LESSONS FROM MALAYSIA

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ABSTRACT

The resurgence of the proposal to introduce the Islamic banking system in Nigeria in recent time by the Central Bank of Nigeria (CBN) has generated so much controversy across the country. The policy legally permits operation of an Islamic or interest-free banking system in the country alongside with conventional counterpart to strengthen the financial intermediation process through Islamic banking services, Takaful (Islamic Insurance), Pension Fund Administration etc. This central aims at stimulating the socio-economic development of the country through the provision of more liquid capital for investment with zero interest, forming a partnership business with investors (Mudarabah) and strengthens driving force of the banking sector (Aqad). However, the opponents of the scheme argued that the equivalent counter value (Iwad) that Islamic financial institutions portrait has no difference from conventional interest rates. Also, they claimed that it is biased to introduce Islamic Banking system in a multi-cultural and multi-religious state. This action, furthermore, ignites a controversy not only among the religious groups but also among the financial investors. The scenario caught the attention of this paper to explore the importance of Islamic banking system towards economic development. Ex-post factor method is employed for the analysis, used Malaysia as a sample, over the period 2007 -2011. The finding reveals that Islamic financial services can stimulate economic growth as it was contributed about 37.3\% to the Malaysian economy, and also the Islamic banking product growth rate recorded in 2010 was about 147.7\%. Applicably, Islamic banking system could also contribute and improve economic development in Nigeria being a country with a vast Muslim population. It is a known fact that every investor wants to borrow money without being bogged down with multi-layer interest structure. However, it is recommended that there should be thorough awareness and orientation about the principles of Islamic banking which revolve around avoiding excessive leverage, uncertainty and speculation. Also, the authority should develop a legal framework according to the dictates of Islam (Maqasid Al-Shariah) to create an enabling business environment for the agents.

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