

USMANU DANFODIYO UNIVERSITY, SOKOTO
(POSTGRADUATE SCHOOL)

**ISLAMIC BANKING SYSTEM IN NIGERIA: A STUDY ON THE
IMPACT OF THE ACTIVITIES OF JAIZ BANK IN GOMBE STATE**

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Dedication

This research work is dedicated to my beloved parent my father Malam Mohammed Dandoma and my mother Malama Adama Abd ul-Qadir of Birin fulani for their love and care.

Also, the work is dedicated to stakeholders; policy makers, operators/practitioners of Islamic banking and its operations across the globe.

Certification

This Dissertation by Mohammed Jibrin (Adm. No. 13210103017) has met the requirements for the award of the degree of Master of Arts (Islamic Studies) of the Usmanu Danfodiyo University, Sokoto, and is approved for its contribution to knowledge.

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LIST OF ABBREVIATIONS AND ACRONYMS:

S.W.T: *Subhanahu Wa Ta'ala* (Allah the Exalted)

S.A.W: *Sallallahu Alaihi Wasallam* (Blessing and Peace be upon him)

R.A: *Radiallahu Anhu* (May Allah Be pleased with him)

R.A.H: *Radiallahu Anha* (May Allah Be pleased with her)

AAOIFI: Accounting and Auditing Organization for Islamic Financial Institutions

IIIBF: Internal Institute of Islamic Banking and Finance

NNPC: Nigerian National Petroleum Cooperation

NEPA: National Electric Power Authority

NITEL: Nigerian Telecommunication

NIPOST: Nigerian Postal Service

VOA: Voice of America

US: United States

PLC: Public Limited Company

PLS: Profit and Loss Sharing

GLOSSARY

Of Arabic, Hausa and Fulfulde Terms and Their English Meanings:

Ayn: Object or Substance

Bay' al-salam: Salam means a contract in which advance payment is made for goods to be delivered on later date.

Bay' bi Thaman Ajil: Cash and Carry transaction

Bay' Muajjal: Literally it means a credit sale

Darurah: Necessity

Fiqh: Islamic Jurisprudence

Fatwah: Islamic legal verdict

Fay': Bounty

Gharar: Any element of absolute or excessive uncertainty in any business or a contract about the subject of contract or its price, or mere speculative risk. It leads to undue loss to a party and unjustified enrichment of the other.

Halal: Anything permitted by the *Shari'ah*

Haram: Anything prohibited by the *Shari'ah*

Hadith: Sayings/actions or silent approval of Prophet Muhammad (S.A.W)

Hajj: The pilgrimage to Makkah made by Muslims; one of the five pillars of Islam

Ijarah: Leasing or renting out the use or benefit of an asset

Ijarah wa Iqtina': A mode of financing, by way of hire-purchase

Inah: A kind of sale (double sale) by which the borrower and the lender sell and the resell an object between them, once for cash and once for a higher price on credit, with the net result of a loan with interest.

Jaiz: Recommended

Jahiliyyah: The period of ignorance of the Arabs

Jihad: Strive or Struggle

Kharaj: Levy, tax

Maysir: Identified with all types of hazard and gambling

Modibbo: An Islamic scholar

Mudarabah: A form of partnership where one party provides the funds while the other provide expertise and management

Mudarabah al-Mutlaqah: Speculative partnership

Murabahah: A sale on mutually agreed profit. Technically, it is a contract of sale in which the seller declares his cost and the profit

Qard: *Qard* is that loan which a person gives to another as assistance, charity or advance for a certain time. Payment of the loan is obligatory

Qur'an: The divine scripture revealed to Prophet Muhammad (SAW)

Riba: An excess or increase as a condition on a loan over a deferred period

Shari'ah: The Islamic law: set of principles, laws and rules that regulate the entire life of Muslims as individuals or group derived from the primary and secondary sources of the *Shari'ah*

Shahadah: Oral testimony

Sarkin noma: Traditional farm manager

Sunnah: The way or method practiced by Prophet Muhammad (SAW) in his life and worship

Sukuk: Islamic Bonds

Takaful: Islamic Insurance

Tawarruq: Is a transaction when a person sells goods to another person on credit (at higher price) and subsequently purchaser sells those goods to some other party on cash to bridge his liquidity crunch.

Ummah: The global community of Muslims

Wadi'ah addaman: Contract of guarantee, security or collateral keeping for safe

Wakalah: A contract of agency in which one person appoints someone else to perform a certain task on his behalf, usually against a certain fee

Zakat: Alms giving in Islam

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 Gombe in particular, the introduction of *Jaiz* Bank is a great gain to Islam and its call for the abolishing of interest (*Riba*) in all economic-based activities of the Muslims and the establishment of contracts based on profit and loss sharing formula. This study explores the Islamic banking system in Nigeria focusing on the impact of the activities of *Jaiz* Bank in Gombe State. Therefore, the study assesses the implications of these activities on people vis-a-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 possess the tremendous potentialities as an alternative mechanism in solving the contemporary financial issues which the so-called traditional banking system failed to address in previous decades.

CHAPTER ONE

1.0 GENERAL INTRODUCTION

1.1 Background to the Study

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 follow 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 forbidden 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 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 as *Riba* (Interest), *Gharar* (Uncertainty), *Maysir* (Gambling) as well as *Haram* (Unlawful) elements, which involved investment in Drug industries, Tobacco, Casinos, and Pornography among other unlawful things in Islamic *Shari’ah*.

The Islamic banking as a model of non-interest-banking provides alternative financial services in accordance with the principles of *Shari'ah* based on 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

The main focus of the Islamic banking is to widen access of the nation to fund and to provide finance for trading; investment and commercial activities on legalized way.⁵ This research work intended to highlight the essence of Islamic banking system in Nigeria. Therefore, the research focuses mainly on the impact of the activities of *Jaiz* Bank in Gombe State, along with making some comparative analysis between it and the conventional banks.

1.2 Scope and Limitation

The scope of this research covers the Islamic Banking System in Nigeria with emphasis on the Impact of the activities of *Jaiz* bank in Gombe State. Thus, historical overview of the study area and the description of some practices of Islamic banking system in Nigeria were provided in this work. Due to the presence of many *Jaiz* banks in Nigeria, of which is not possible for the study of this kind to cover, the current research limited itself to appraising the impacts of the activities of *Jaiz* Bank in Gombe State only.

1.3 Significance of the Study

This study will help significantly in enlightening the public on the meaning, concept, origin/development, acceptability and importance of Islamic banking system in Nigeria as a whole and Gombe State in particular.

It will also highlight the similarities as well as the differences between the Islamic banking system and the conventional one. It will equally pave way for further research and add to the existing body of knowledge in the field. More importantly also, it will serve as a template to address in the economic history of Nigeria and Gombe State specifically.

1.4 Statement of the Research Problem

Islam abolishes *Riba* (interest, interest) because it involves exploitation (*istiglaal*) and thereby leads to social injustice as well as social disintegration. The financial irregularities inherent in the conventional banking systems which the customer has no consideration to the rights as a party in the contract coupled with the non-clear terms of contracts conducted by the conventional banks and most of their activities interest-based, hence un-Islamic. For the fact that Islam has extremely prohibited *Riba* in both the Qur'an and *Sunnah*; the consumption of interest which violates the basic functions for which Allah (S.W.T) Has created wealth, which envisages that the needy be supported by those who have surplus wealth. In fact, the general humanity as a whole is a victim of the modern banking system which is absolutely an interest-based economy. Therefore, since there is financial crisis everywhere, many people are looking for a viable alternative which is ethical and customer-focused; the Islamic interest less banking system remains the answer. Unfortunately, this generated a lot of misinterpretations and misconceptions among both Muslims and non-Muslims. In view of the above problems, this research will answer the following questions:

1. What are the practices of banking system in Nigeria?
2. How could people be properly educated on the ethics and operational principles of the Islamic banking system?
3. Does Islam provide ways of solving the problems of banking system?
4. What are the views of Muslims and non-Muslims on the introduction of Islamic banking system in Nigeria?

5. What are the impacts of the activities of *Jaiz* Bank as an alternative to conventional banking in Gombe State?

1.5 Aim and Objectives

The aim of this study is to discover the impact of the activities of *Jaiz* bank in Gombe State Therefore, the research aimed to achieve the following objectives:

1. To examine the practices of Islamic banking system in Nigeria.
2. To properly educate people on the ethics and operational Islamic banking system.
3. To propose the Islamic ways of solving the problems of banking system in Nigeria.
4. To account for the views of Muslims and non- Muslims on the introduction of Islamic banking system in Nigeria.
5. To assess the impact of the activities of *Jaiz* bank in Gombe State.

1.6 Methodology

The methods employed in this research are analytical and descriptive in nature, which consist of the use of library and field work. For the library, libraries of Gombe State University, Gombe, Abdullahi Fodiyo Library of Usmanu Danfodiyo University, Sokoto and research department of International Institute of Islamic Banking and Finance Bayero University, Kano were visited. Also, relevant material such as textbooks, journals, magazines and academic papers just to mention a few, also assisted in data collection and analysis, relevant institutions that are related to this research mainly the *Jaiz* Bank and many other conventional institutions for access to relevant materials.

In the fieldwork, interview was conducted with relevant stakeholders such as Muslim scholars, bankers, customers and academicians.

1.7 Literature Review

There are relatively a lot of literature on this study considering the significance and attention it draws from various stakeholders. Therefore, available literature on the concept of

Islamic Banking and Finance, Islamic Economics and that of the conventional banking system were reviewed.

Usmani,⁶ in his book discussed extensively on the concept of Islamic financing which is very relevant to this study. In his view the biggest challenge for Muslims today is to reform their financial institutions to bring them in harmony with the dictates of the *Shari'ah*, ensure that all their financial systems are interest-free. This humble effort is meant to facilitate understanding the basic principles of Islamic finance and the main points of difference between conventional and Islamic banking system, therefore, the work is relevant to this research, because it will bring out the practical activities of *Jaiz* Bank in Gombe and how *Shari'ah* compliant the operations and services of the bank.

Khan,⁷ his work dwelled more on Islamic banking and finance as regards *Shari'ah* guidance on the principles and practices of the financial institutions. He expressed that the Islamic economic system aims at redistribution of wealth and social justice, maintaining a balance with individual interest. The verses of the Qur'an mandating the prohibition of *Riba* (interest) were explained through the legal principles and rules, case by case. One of the objectives of this research is to assess how *Jaiz* bank could render its services without charging interest on loans and other financial services.

Ibrahim,⁸ in his interaction with daily trust discusses expressly explained how *Jaiz* foundation is developing Nigeria and changing the lives. He described how the foundation is changing lives of the less- privileged and people devastated by the insurgency in some parts of the country. From April 2014 to date, the *Jaiz* foundation has intervened in various sectors, both in terms of material and cash donations which are roughly placed at about N105 million⁹ in Gombe, *Jaiz* bank since inception is making a lot of progress. Therefore, the aim of this research is to assess the positive impacts of the activities of *Jaiz* bank in Gombe. Most importantly, on religious, social and economic aspects of the people.

Sanusi,¹⁰ in his discourse with daily sun debated on how Islamic banking will improve Nigeria's economy. He cited examples of many countries such as Malaysia, Indonesia among others on how they had experienced rapid growth due to enterprising nature of the Islamic banking system. This opinion, in turn generated a lot of controversies within the populace from both the Muslims and non-Muslims due to lack of proper awareness about the system. Therefore, in order to fill the gap this research tried to figure out some of the importance of Islamic banking system to the contemporary time to help sensitize the people on the viability of the system.

Safiya,¹¹ in her paper discussed the position of the *Shari'ah* on the conventional banking system and the application of the doctrine of *Darurah* in Nigeria. This work clearly pointed out the evils associated with the interest-based economy which unfortunately becomes part and parcel of Muslims or Nigeria as a whole. The paper examined whether the doctrine of *Darurah* could be applied to make permissible transactions under the conventional banking system which is prohibited under the Islamic law. Therefore, she provided an objective analysis on the application, extent and limits of *Darurah* on conventional banking system in Nigeria. however, one of the objectives of the present research focuses on an alternative interest free banking system which is ethical and customer-focused.

El-Diwani,¹² his book discussed the problem with interest. The work is relevant to this study in the sense that it dealt with the main problem which this study focuses on. The Author showed that the *Riba*-based establishment and those who engaged in repeatedly and greatly oppress the people by setting interest as condition during trading and loaning. Then, they oppress them additionally when payment of the installment become(s) difficult at the end of the agreed time. The interest charge is double, the more the money remains with the debtor as practiced today. In this case the *Riba* would be in manifolds which mostly end with

the confiscation of the customers' belongings, disgracing and constraining them such that they are left like as bones without flesh and even without soul because of the deadly effect of *Riba*. Therefore, this research attempted and gave out some of the recommended references from both the Glorious Qur'an and Prophetic traditions as well regarding the prohibition of *Riba* (interest).

Aliyu,¹³ extensively discussed the Islamic banking and finance. This work is more relevant to this study because it contains valuable information on the practices of Islamic banking system from the perspectives of various Islamic scholars and stakeholders. The work has made a great leap from theory and practice. The institution (IIIBF) provided good and efficient services commensurate with the value system of Islam that gives high regard for excellence. This move prompted the researcher more in collecting relevant works on the principles of Islamic banking and finance. This paved way in assessing the recommended practices of Islamic banking system.

Aliyu,¹⁴ his work focused on one of the major developments of the 21st century on the system of banking. That is the emergence of a system of banking which is based on the principles of Islamic law. The development sparked interest at both the levels of knowledge and operational industry. This text on readings in Islamic banking and finance centers on the principles of Islamic banking and finance is no doubt an encyclopedia which presents, in eleven chapters, the sources, ethical standards, basic ingredients assumptions, and workings of Islamic banking and finance in a very lucid and comprehensive manner. Therefore, this research intended to deal with the practical developments in the Islamic banking sector, especially the activities of *Jaiiz* bank in Gombe.

Aliyu,¹⁵ also in his work which is relevant to this study that has seven broad chapters, covers the general principles of research methodology in Islamic finance from its evolution to fruition. Besides, it contains an introduction of Islamic micro and macroeconomics and the

fundamental principles of Islamic fiscal policy. The last aspect covered by the book is the principles of Islamic welfare system. Although, Islamic banking is just a small portion from Islamic economy, but shares in common some of the systems of financing. Now, this research focuses deeply and specifically on some different modes of Islamic banking and finance.

Abudu,¹⁶ his work is relevant to this study, because it discusses the concepts of Islamic economics that enjoy reasonable consensus among Muslim scholars. It is brief, but comprehensively discusses the most important elements of the variety of institutional economics. And he also discusses problems of traditional economics based on capitalist system of economy. Meanwhile, the few similarities between an Islamic economic system and capitalism are outweighed by many contrasts. Therefore, to be more complete, it deals with how people function under capitalism. Here, the author suggests that, private enterprise capitalism and state capitalism (i.e. socialism or communism) are more similar than popularly believed. Both originated in Europe, hence their practitioners share similar motivations and behavior. Therefore, the researcher here tried showing the effects of traditional economic system on society. Meanwhile, this research intended to figure out the ethics of Islamic economy which is the alternative to the current economic crises.

Ahmad,¹⁷ in his work discussed the existing practices of the Islamic product through the experience drawn from banks in the Middle East and Malaysia, with a view to unraveling the grey areas and making efforts to correct the malpractices through the *Fatwas* of the early Muslim jurists. This becomes necessary with the present adoption of Islamic banking in Nigeria, so that the best practices of this product may be upheld. Therefore, this research rather discusses the importance and acceptability of Islamic banking product in our great nation at large.

Karwai,¹⁸ in his work which is relevant to this study, in the sense that it focused on one of the main problems this study wants to address. The author noted that bank interest has

been a knotty problem in the Muslim *Ummah*. Some Muslims claim that is covered only the bank services (interest) by the prohibition of *Riba* while others argue that the prohibition covers not only bank interest but also all other forms of unlawful, predetermined and fixed charges on capital. Therefore, the work attempted to address the problem of whether the *Shari'ah* has prohibited interest or not. It revealed that, despite some argument in favor of bank interest, the majority of Muslim economists and scholars regard it as unlawful and harmful to society. The result is Muslims should shun all interest transactions and establish an interest-free *Shari'ah*-compliant banking system. Therefore, this research intended to critically examine the operational activities of *Jaiz* bank Gombe branch to ascertain their compliance with the application of *Mudarabah* according to the *Shari'ah*.

Kurfi,¹⁹ in his book discussed more on *Ijarah* (leasing) based on Islamic jurisprudence. The work is relevant to this study as it gives details on one of the activities of the Islamic banking system. It presented the theoretical and practical aspects of *Ijarah* contract. The beginning of this form of financial arrangement dates back to the *Jahiliyyah* epoch. The Qur'an provides justification for it and Prophetic Traditions and other books in the Maliki School of Islamic jurisprudence establish the position of *Ijarah*. He said, "We have argued that this tool of financing can be adopted in Nigeria to finance various projects and achieve positive results."²⁰ Therefore, one of the objectives of this research is to account for some of the views of Islamic scholars on the activities of Islamic banking system in Nigeria.

Siddiqi,²¹ in his work discussed some distributional aspects of a share economy based on Islamic financial principles. The work is relevant to this study, because, it was attempted to provide some micro-economic foundations for an Islamic system which replaces the institutions of interest by different types of profit and loss sharing arrangements compatible with Islamic laws. Since Islamic banks do not charge interest on loans nor on investment,

therefore, this research discusses the principle of profit and loss sharing as one of the major activities of *Jaiz* bank.

Malami,²² his work is relevant to this study to some extent, as it focused on one of the objectives of this research. The work introduced what Islamic banking and finance is all about with particular reference to Nigeria. Thus, it serves as the basis for the development of Islamic banking and finance, although there are problems in handling the Islamic banking industry due to its unique features and principles. One of the problems is lacking the adequate and well trained personnel in Nigeria. Therefore, this research intended to point out some of the problems and prospects facing the development of the activities of *Jaiz* bank in Gombe State and proffer solutions to them.

Karwai,²³ his work is relevant to this study, because it covers various aspects of Islamic economics system. The book has fourteen chapters ranging from Islamic economics, Islamic banking and finance and contemporary issues in economics. Therefore, this research significantly focuses on Islamic banking system or rather, the operational activities of *Jaiz* in Gombe State.

Anwar,²⁴ in his paper which is relevant also to this study. While recognizing the importance of implementing Islamic principles in areas such as trade and finance, Anwar felt that efforts to promote growth and generate wealth are more pressing. He stressed the need for creating wealth to eradicate poverty, a pivotal concern of Islamic economics. Therefore, this research focuses on the great impact of the activities of *Jaiz* bank with a particular reference to Gombe branch.

Usmani,²⁵ his paper is relevant to this study in the sense that it focuses on how the Islamic scholars especially the jurist of the Muslim *Ummah* contributed immensely towards the development of Islamic economic System. His primary objective has been to address the economic issues and explain the position of *Shari'ah* as it affects some topics of

contemporary relevance. Mostly, he brought to the forefront the consensus and diverse views of the Muslim jurists on important topics in the field of economics such as stock market, exchange, mortgage, public finance (revenue and expenditure), pricing of public utility, land administration and resource control as well as detailed explanation on social and economic significance of *Zakat*. In this regard, this research focuses mainly on the reliable views of Islamic scholars and stakeholders with regard to the principles Islamic banking and finance and *Shari'ah* compliance.

Balami,²⁶ in his book discussed extensively the comparative economic system. The work is very relevant to some extent because it focused on one of the components of this study. That the few similarities between Islamic economics and traditional economics system are out weighted by many differences, he gave out the clear explanation on how Islamic economics is different from traditional economic system and why it is regarded as ethical. Therefore, this research focuses on some of the similarities and differences between conventional and Islamic banking system as the case may be.

Nwiwu,²⁷ his work is relevant to this study because it gives details on traditional financing system. It provides a simplified approach to the understanding of business finance which covered comprehensive aspect of business and finance as well as banking and finance; it is highly commendable because it is a synthesis of many years of experience of the contributors in the teaching, study and practice of banking and finance. In regard to this, this research discusses vividly the conventional banking system and its operations.

Uchenna, et-al,²⁸ This work is relevant to this study to some extent, because it is extremely deals with the fundamental principles of traditional banking system. It painstakingly identified, explained, analyzed and interpreted the key principles which derive the business of banking and financial transactions. The authors pick their way from the very concept of money and its development from the earliest times of direct exchange by barter to

the present state high sophistication where physical cash does not have to accompany even a financial principles in a journey round the earth an electronically coded card is all he needs to give him access to his vast vault wherever he is located in the world. Money as it has seemed to flow, and is now the universal language of the earth. The authors then went into the technicalities, conflicts and challenges of managing a bank. Within this framework, the tricky issues of the uniqueness of a bank balance sheet, and ended that system of engagement with an incisive look into the bank payment system instruments. The book dealt to a good depth the working of the financial market, monetary and fiscal policy, and key theories associated with banking, and marketing banking services. Finally, the last two chapters made very valuable cognitive contribution in explaining the basics of International Trade and the operations of the international Financial Institutions. Here this research intended to discuss detail on Islamic banking system, shed light on other Islamic financial institutions and give clear insight on traditional banking system too.

Azmi,²⁹ in his book discussed vividly the aspect of some Islamic economics tools of financing. The book contains seven chapters, where by chapter one discusses the development of public finance in reference to the ancient world such as Rome, Greece, Egypt and India regarding their activities on taxation and public expenditure. Chapter two discusses the nature of public finance in Islam; in this regard he discussed *Kharaj* (Levy). Chapter three focuses on the economic role of the state. Chapter four discusses sources of revenue as he elaborated on *Ghanimah* (Bounty), *Sadaqah* (Charity) and *Zakat* (alms giving) its assessment and administration. Chapter five also discusses sources of revenue II where by the concept of Fay' (booty) land, sources of Fay' revenue and additional taxation and public borrowing was also put in place. Chapter six discusses the theory of taxation. In this regard discourse made on the concept of *Kharaj* and principles of taxation. He further elaborates the tax incentives as well as the element of supply side tax policy in the Islamic system of taxation. Finally, in

chapter five the author discussed vividly the theory of public expenditure however, references made on the role of *Bayt al-mal* (public treasury). Such as public expenditure as a liability of *Bayt al-mal* and public interest as a basis for public expenditure. Eventually he elaborated on the expenditure pattern, heads of expenditure, criteria for the provision of welfare projects and a theory of public expenditure. Therefore this work is relevant to this research. Because looking into the clear picture of the early works on taxation and fiscal system by the early Islamic thinkers, in spite of being pioneers in the field, not only among Arab-Islamic writings but in the whole discipline of public finance surprisingly have missed the attention of researchers. However the author traced recent exclusive study of the economic views of the scholars of the first generation of Islamic intellectual history as reported. Now the present study in this context is a modest effort to fill this vacuum which is more emphasizes on new economic techniques that involved new investment and practices.

Khan,³⁰ in his work discussed more on the Islamic economics and Islamic banking and finance. The book is relevant to this study because it should be welcome particularly to Muslim economics thinkers and the role of financial systems, institutions and markets. Also focuses on banking and finance an overview of the financial system of Islam (part II, Chapter 4). He discusses extensively on the prohibition of interest (*Riba*), return of financing institutions of *Zakat*, three unique categories of financing and Islamic financing techniques which consists of loan services charges, *Mudaraba*, *Musharakah*, *Muzara'ah*, *Musaqah*, Leasing/*Ijarah*, *Bay al-salam* and as well as *Bay' Murabahah bi Thaman Ajil*. The comparative features and economics of some modes of Islamic financing techniques (chapter 5) and practical considerations regarding the introductions of profit/loss-sharing (PLS) based financial system this book therefore is essentially a very practical work. However this research will further work deeply into new development of Islamic techniques regarding the operational activities and practice.

Zowk,³¹ his book is very relevant to this study, because it discusses extensively on some of the major components that this research focuses on. *Riba* (Chapter 1), he elaborated on its meaning, its features, and its implications, (in the Glorious Qur'an and Hadith), its types, and some wisdom behind it. Chapter 5, he discussed types of *Musharakah*, modern *Musharakah* and its condition and principles of governing *Musharakah*. Lease (*Ijara*). Here the author discusses on rules regarding lease, (conditions regarding the property given on lease, and conditions for the utilization of property given on lease. Banking (Chapter 7). The author focus on the establishment of Islamic banks, features, sources of fund, application of funds, controversial financing products and other interest free services. Meanwhile mention. Therefore, this research will fetch some of Islamic techniques as well as the traditional one along with making the comparative analysis between them.

Zubairu,³² his book is highly relevant to this study, because it discussed in detailed the *Takaful* as one of the recent development into the Nigeria stock market, also an introduction to conventional insurance (Chapter 2) which include the functions of insurance (primary and secondary functions), insurance basic principles, types, reinsurance, firms of reinsurance and bank assurance were discussed. Therefore, this research critically focuses on the practical aspects of banking system with a particular reference to *Jaiz* bank Gombe State.

Ogwumike,³³ in their book discussed in details the types of financial institutions and their functions. (chapter 32) identified and described the major components of the financial instruments, their relationship, development and interactions. Finally it discussed the two broad classifications of the financial system, and money and capital markets. Likewise, on the modern financial institutions discussed the functions and operational activities of central banks, commercial banks, merchant banks, development banks among others. While banks are major institutions that make up the financial system, so also non-banking institutions like insurance companies' building societies etc.

This book is relevant to this research to some extent because it deals with one of the major component that this research focuses on. It discusses extensively conventional banking system service and functions. However this research wants to make the comparative analysis of the activities between traditional banks as well as the Islamic banks meanwhile, the prospects, problems and challenges facing both will also be discussed.

Buhari,³⁴ his paper is relevant to this research, because it discussed one of the recent mode of Islamic techniques. The paper was divided into sub-headings. The introductory part which consists of the literal and technical meaning of *Takaful* (Islamic Insurance), risk management under Islam, why conventional insurance is unlawful in Islam, *Shari'ah* complaint alternative and the core principles of *Takaful* and overview. Secondly, the main body of the work which centered on three sub-themes, development of *Takaful*, *Takaful* (early evolution) *Takaful* in modern era and the Nigeria *Takaful* experience: the journey so far general operations which include the structures, models in selected countries and the segregation of funds. Then, business operational models which involved the pure *Wakala* (Deputyship) model, modified *Wakala* model, *Mudarabah* (Speculative Partnership) model and the hybrid *Wakala Mudarabah* model.

Finally, conclusion was given which discussed briefly on the difference between conventional insurance and *Takaful* and shedding light on silent features of *Takafu* serves as summary. Therefore this research intends to cover the practical aspect, whereby this tool should be examined critically how is operated under the activities of *Jaiz* bank in Gombe State.

Siddiqi,³⁵ his book is relevant to this study, because the work covers some selected papers, usually on Islamic economic and the banking system. The book consists of six chapters in which every chapter has its relevant topics. Discussion rendered specifically on the issue of Islamization of banking. In this regard profit loss-sharing (PLS) as one of the

tools of the *Jaiz* activities which this research focuses was discussed. This too serves as the chief alternative to interest and as well as the supplementary method of eliminating interest. So in order to fill the gap detail could be discussed in this research on the aspect of profit and loss sharing basis under the Islamic banks as an alternative to conventional investment.

Abd ul-Gafoor,³⁶ in his book titled, “Participatory Financing through Investment Banks and Commercial Banks”. The author discussed in detail the partnership and the investment activities in Islamic techniques. It signifies its functions and effects respectively. This book is relevant to this study, because it explains some of the Islamic techniques such as *Murabahah* and *Mudarabah*.

Saalih Al-Qusayyir,³⁷ in his book discussed more the issue of *Riba* (Interest). The book comprises of five chapters. Example, *Riba* (interest) in the present day (chapter 2), questions and verdicts on the subjects of *Riba* (chapter 3) and the evils of *Riba* (chapter 4). This book is relevant to this study to some extent, because its focuses on the one of the major problems that this research wants examine. Its consumptions were unlawful in Islam. So the book further discusses its meaning and the implication in the modern society. The book is relevant because it renders counter opinions of the accredited Islamic jurists of the Muslim *Ummah*. And finally its evil consequences on the *Ummah*.

Islamic *fiqh* Academy of India,³⁸ its publication on juristic decisions on some contemporary issues. This book is relevant to this research to some extent, because it discusses more on the economic issues. This book gives more detail on the *Shari’ah* compliance regarding the Islamic finance discussed by the Islamic jurists. Therefore, to fill this gap this research discusses extensively some of Islamic finance techniques regarding the views of some of the Islamic scholars, academicians as well as the Islamic jurists of the Muslim *Ummah*. The research will mainly focus the *Shari’ah* compliance reference to the activities of *Jaiz* bank in Gombe State.

Nasir,³⁹ in his book discussed Leasing of a giving property either tangible or intangible. His emphasis on its ruling in Islam based on the perspective of different school of law especially Shafi'i *Mazhab*. This book is relevant to this study, because one of the primary objectives of this research is to assess the legality of each and every mode of financing in *Jaiz* Bank Gombe branch.

An-Nawawi,⁴⁰ in his book discussed on *Riba* (interest) its prohibition from both the Qur'an and Hadith. Besides, the Jurists of the Muslim *Ummah* also agreed upon its prohibition. Eventually, he elaborated on the kind of commodities and transactions attached to it. This book is relevant to this study, because one of the problems that this research focuses on is Interest (*Riba*) and its effects on the Muslim *Ummah*.

Ibn Rushd,⁴¹ although, this is work is among the classical works in Arabic that contained different subject on Juristic issues. The author discussed extensively on Business Law in Islam. More importantly on the permissibility and impermissibility of various types of business transactions. Besides, he pointed out the benefits attached. This work is relevant, because one of the objectives of this research is to assess the *Shari'ah* compliant of the *Jaiz* Bank Gombe branch on its principles and activities.

Ibn Qudama,⁴² in his book which is also one of the classical works written in Arabic on the Juristic approach. The author discussed comprehensively business rulings its Dos and Don'ts in Islam. Most especially, he discussed more the *Riba* (interest) and its types in detail. Therefore, this work is relevant, because this prompted the researcher to examine critically the various approaches on operational activities of the *Jaiz* Bank.

Bn Fodio,⁴³ in his work discussed comprehensively business transactions and other issues related to business. He pointed out the principles of Islamic business. One of the alarming issues is buying and selling in speculation. Gambling and other *haram* elements

involved in business is prohibited in Islam. This work is relevant, because this research will assess both the operational activities of conventional and Islamic banking system.

Though, all the above reviewed works are relevant to the present research, none had however treated the scope of this research which is the impact of the activities of *Jaiz* bank in Gombe State. This gap is what this research intended to fill.

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CHAPTER TWO

2.0 HISTORICAL BACKGROUND TO THE STUDY AREA

2.1 Historical Background to the Study Area

Gombe is one of the ancient areas of the defunct Hausa State that has transformed to be one of the States in Nigeria.¹ Gombe State has a number of emirates that includes: Dukku, Akko, Yamaltu Deba, Pindiga, Nafada and Funakaye. The current Emir of Gombe State is Alhaji Abu Bakr Shehu Abu Bakr (III), who ascended to the throne on June 6, 2014.² The Late Emir who was the father of the present Emir had ruled Gombe since August 1984.³ The Gombe emirate was founded in 1804 during the Sokoto *Jihad* by Bubayero, one of the flag bearers Sheikh Uthmanu Danfodiyo. Bubayero made Gombe Abba his headquarters for campaign against the *Jukun* settlements of Pindiga and *Kalam*, who were originally practitioners of traditional religion. But, after a long period of time of imitations of these people to Islam, further land were subdued by his son, Muhammadu Kwairanga, Emir of Gombe from 1844-1882.⁴

During the Reign of Emir Zailani (1882-1888) a religious zealot, who established himself at Bormi on the border between Gombe and Fika, Zailani managed to hold out for years against the combined forces of Gombe and neighboring emirates, and was finally defeated and exiled by the British royal Niger Company in 1902.⁵ The colonialists conquered Gombe at the battle of Tongo in 1902.⁶ They moved the capital of Gombe to Nafada in 1913⁷ and moved again in 1919 to the present Gombe town.⁸ Waja Emirate was separated from Gombe in 1930 to become an independent district. However, the Waja headmen chose Sarkin Yaki of Gombe, brother of the former emir Umaru Dan Muhammadu, as their chief.⁹ The British had set up the Gombe native authority system, which continued to function after independence in 1960.¹⁰ In 1976, the military regime of General Olusegun Obasanjo divided the native authority into the Gombe, Akko and Dukku Local Government Areas. In 1999,

Gombe State elected its first democratic governor Alhaji Abu Bakr Habu Hashidu, who broke up Gombe emirate into parts ruled by 1st, 2nd class emirs and two senior district heads.¹¹ The 1st class is the emir of Gombe Alhaji Shehu Abu Bakr (II), the 2nd class is the emir of Kaltungo Alhaji Sale Muhammad (Engr.) and the senior district heads are Alhaji Abd ul-Qadir Abubakar (*Yeriman* Gombe) and Alhaji Haruna Abd al-Allah (*Ajiyan* Malam Sidi). He also upgraded some district heads to 3rd class emirs, such as Funakaye, Dukku and Nafada. He was succeeded by Alhaji Muhammad Danjuma Goje in 2003.¹² Governor Danjuma Goje, later broke up the Gombe emirate into two parts ruled by 1st and 2nd class emirs. The 1st class emirs included the Gombe emir and Kaltungo. While the entire district heads of the Gombe emirate served as the 2nd class emirs.¹³ However, the district heads remained the same up till date.

2.2 Geographical Location of Gombe

The present state of Gombe is located between latitude 9° 30' and 12° 30N and longitude 8° 45'and 11° 45E in the center of the North East region of Nigeria and occupies a total land area of about 20,265 sqkm.¹⁴ The State had by 2006 population census-2,353,879 and project population for 2010-2,657,246 inhabitants. It is bordered by Bauchi State to the West, Yobe state to the North, Borno State to the East and Adamawa state to the South.

2.3 People of Gombe and their Diversity

The people of Gombe are diverse in terms of different languages spoken by its people and the customs they display. The most dominant linguistic group found in the area belongs to the Afro-Asiatic and Niger-Congo family of languages.¹⁵ Thus, the Ethno-linguistic composition of Gombe state includes amongst others, the Bolewa who mostly reside in (Kwami and Nafada Local Government Areas).¹⁶ The Fulbe who are usually scattered all over the State are of the majority and can be found in Gombe, Akko, Dukku, Nafada and Funakaye areas of Gombe State. The Tera and Jara are normally found in Yamaltu Deba.

While the Dadiya, Tula, Awak and Tangale (Kaltungo), the Cham and Waja are inhabitants of Balanga.¹⁷ The Pero, Kushi, Wurkun, Kamo and Tangale (Billiri). There are also more recent entrants such as the Kanuri, the Hausa, the Yoruba and Igbo. In addition the speaking of all these various languages, the Hausa language serves the purpose of Business transaction, interaction, and of education at the lower levels of the school system. The English language remains the official language as obtained all over in Nigeria.¹⁸ Although, due to the religious influences, some Muslims speak Arabic, while the Christians speak English language.

2.4 Religion of the People of Gombe

The religions in Gombe state are mainly Islam and Christianity. Islam in Gombe can be traced back to in the nineteenth century or at least during the Shehu Uthmanu Danfodio's *Jihad*. This was because of the far reaching consequences of the Islamic reform activities of the Shehu. In effect, the early years of the Century witnessed the beginning of the *Jihad* by Sheikh Uthmanu Danfodio whose activities created the basis for the flourishing of Islam and the Islamic system of the Sokoto Caliphate. In Gombe the leader of the *Jihad* was Bubayero, a disciple of Shehu Uthmanu.¹⁹

The *Modibbo* Bubayero was born around (1760-1765 AD) in Mada. He received his early education under his father and grandfather who taught him the recitation of the Glorious Qur'an. Eventually, he was also influenced under many prominent scholars of his time among them were Malam Goni Hussain of Borno, *Modibbo* Ishiaku of Daura, Malam Zaki from Zaria and also Shehu Uthmanu Danfodio, who by then was referred to as *Modibbo* Gobir. After some years of study, Sheikh asked all his disciples including Bubayero to go and preach to their people. Bubayero came back in 1798, he began to organized preaching and teaching among his fellow Fulani *Janafulu*. In fact, the preaching achieved its aim by bringing many non-Muslims into the fold of Islam.²⁰ Therefore, his students and followers

continued to increase among the *Fulbe* because of the Islamic religion to which some of them belongs to.

The advent of Christianity in Gombe area was based on the team of three missionaries made up of Mr. Rowlands V. Bingham, Dr. Street (*Bature Mai Magani*), and Reverend Norman Davis.²¹ They firstly arrived at Kaltungo from the Sudan Interior Missionaries (S.I.M.) station in Miango of Plateau State (1915). Although, their first mission was not successful until the arrival of the two S.I.M. people Mr. John Hall and Mr. C. Gordon Beacham²². They arrived also Tula on 19th January, 1917. The initial work of conversion was started with the converting of three head hunters, Karga, Buryo and Kwajam in area of Gombe State. The dividend of missionaries' determination began to yield with these three converts. The Karga later served as the guide. He is the first catechism teacher, as well as the first indigenous pastor in Kaltungo.²³

Subsequently, the missionaries mastered the main languages of the area that is Tangale and Tula. They also established an adult Bible education class in 1920 at Kwe still in Kaltungo. Besides getting too much converts, another catechism class was opened in Billiri. While the number of indigenous pastors had continued to increase among the Tangale, Tula and Tera. The missionaries began to deploy some of them to the other parts of Gombe and of course the north part of the State. The conversion process was successfully much along with the building of churches, dispensaries and health centers. It was with these activities that Christianity came to being in Gombe and spread effectively in the areas of Kaltungo, Billiri, Gelengu, Zambuk among others.²⁴

2.5 Socio-Economic Activities of the People of Gombe

Gombe, since its inception has been growing fast. It is blessed with abundant physical, human and economic resources. One of the criteria for an area to qualify for the

creation of a State is its economic viability. This advantage has made the state vibrant in all aspects respectively.

During the pre-colonial period the dominant economic activity of the people of Gombe was traditional in nature. Agriculture and cattle rearing which were the main occupations of the people. Guinea corn, millet, maize, cassava, beans, groundnuts are the main farm produce in the area. Rice and cotton were also produced in large quantities. Apart from cattle rearers some people have domestic animals in their homes. Such domestic animals include cattle, sheep, goats, chickens, ducks, Guinea fowls, horses, donkeys and mares. Similarly, hunting was one of the activities to some people of Gombe. The animals living in the wilderness are tame through wide spread hunting. Hunting is an activity undertaken in the dry season mostly in the northern parts of Gombe and all year round this was the activity in the more mountainous area of the southern parts. The hunters spent days in the bush hunting for animals like rhinoceros, tigers, lion, deers, among others. Trained dogs were used in hunting and the hunters played important roles as traditional doctors.²⁵

There also existed market relations among the various groups in Gombe. The items of the trade ranged from crops, farm tools, and livestock to weapons for hunting and war fare. Thus, there is dearth of industries in Gombe area. The examination of indigenous economies starts with the Bolewa Industry. The Bolewa were the blacksmiths, carvers and dyers. Their women spine cotton and also wove. Therefore, the Bolewa had engaged in cloth making long before the advent of the British colonialists. In addition, the land is blessed with natural resources, while people are highly industrious and enterprising. It is also the commercial and Zonal services headquarters in Nigeria for many federal government establishments, including NNPC, NEPA, NITEL, Territorial Office, NIPOST Territorial Office and Nigeria Railway Corporation. There also exist Enterprises such as Ashaka Cement PLC (*Lafarge*),

Manto Processing Company, Gombe Fertilizer Company among others.²⁶ Thus, within the short period of its existence, it has made tremendous progress.

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CHAPTER THREE

3.0 CONVENTIONAL AND ISLAMIC BANK AND THEIR OPERATIONS

The following chapter dwells on the two aspect of banking system and their operations.

3.1 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 to another 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 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 2007.¹

History position the crucial development of a banking system to medieval and Renaissance Italy and particularly the at fluent cities of Florence, Venice and Genoa. The *Bard* and *Peruzzi* families dominated banking in 14th century. Florence established branches in many other part of Europe. Perhaps, the most famous Italian was the Medici bank, established by Giovanni Medici in 1397. The oldest bank still in existence in Monte Dei Paschidisia, headquartered in Siena, Italy, which has been operating continuously since 1472.² The development of banking spread from northern Italy throughout the whole Roman Empire, and in the 15th and 16th century to northern Europe. This was followed by a number of some innovations that took place in Amsterdam during the Dutch Republic in the 17th

century, developments in telecommunications and computing caused major changes to banks operations and let banks dramatically increase in size and geographic spread. The financial crisis of 2007-2008 as stated caused many bank failures, including some of the world's largest banks, and provoked much debate about bank regulation.³

3.2 The Operational Activities of Conventional Banking System

The conventional banks carry out their services under the following activities: interest, loan, shares, services, employment and remuneration/salaries. Analysis follows:

• **Interest:** Interest is the charge for the privilege of borrowing money, typically expressed as annual percentage rate. It can also refer to the amount of ownership a stockholder has in a company, usually expressed as a percentage.⁴

• **Loan:** A loan is a debt provided by entity, (organization or individual) to another entity at an interest rate, and evidence by a note which specifies, among other things, the principal amount, interest rate, and date of payment. A loan entails the reallocation of the subject asset(s) for a period of time, between the lender and the borrower (e.g. bank and the customer).⁵

• **Shares:** A share is a unit of account for various investments. It often means the stock of a corporation, but is also used for collective investments such as mutual funds, limited partnerships, and real estate investment trusts.⁶

• **Services:** A service is an intangible commodity. That is, services are an example of intangible economic goods. Service provision is often an economic activity where the buyer does not generally, except by exclusive contact, obtain exclusive ownership of the thing purchased. The benefits of such a service, if priced, are held to be self-evident in the buyer's willingness to pay it.⁷

. **Employment:** The banking industry provides a wealth of opportunities for experienced professionals, college graduates and entry-level workers. Many banking sector jobs are based generating revenue and people working in these roles are usually referred to as sales employees. Other workers in the sector are primarily concerned with saving money and mitigating risk (tellers, loan officers, investments, insurance and auditors)⁸

. **Remuneration/Salaries:** Is the compensation that one receives in exchange for the work or services performed. Typically, this consists of monetary rewards, also referred to as wage or salary. A number of complementary benefits, however, are increasingly popular remuneration is one component of reward management of the bank.⁹

3.3 Problems of Interest Based Banking System and its Prohibition

The world's economy today has gradually been integrated in to the western part of the world, through the operation of conventional banks and other financial institutions. The monster usury (interest) which was the core-principle of financing in modern banks has jeopardized the world's economy including Nigeria in to the evil of exploitation, social injustice as well as social disintegration. As a result, people are suffering a lot with various implications derived from interest-based economy.

The first implication of interest on all kind of transactions was prohibited in Glorious Qur'an as well as the earlier scriptures. The Almighty Allah says:

And their taking of *Riba* (usury) through they were forbidden from taking it and their devouring of men's substance wrongfully (bribery). And we have prepared for the disbelievers among them a painful torment.¹⁰

In this regard, the Qur'an reminded the Jews that their scripture had prohibited usury.

The Medieval Church also prohibited interest-based on clear institutions in the Bible that, "*Lend hoping for nothing again*".¹¹

Besides, the Greek philosopher Aristotle made the following remark on usury. He said,

An earnings base on the use money and not on labour and all such earnings against nature ¹²

Hence, investing in business that are also considered as unlawful, such as business that sell alcohol, pork, and *Maysir*-contracts where the ownership of a good depends on the occurrence of a predetermined, uncertain even in the future. The Glorious Qur'an stated that:

O you who believe: Intoxicants (all kinds of alcohol drinks), and gambling, And *Al-Ansab*, and *Al-Azlam* (arrows for seeking luck or decision) are an abomination of *Shaitan's* (Satan) handiwork. So avoid (strictly all) that (abomination) in order that you may be successful. ¹³

The above authorities clearly indicate that consumption of interest, alcohol, gambling, pork and “*gharar*” speculative transactions and its kind all are acts of disbelief and are major sins. Any person who dies dealing in such acts without repentance will have his final abode to be Hellfire. May Allah (S.W.T) protect us!

Secondly, interest on loan is an act of oppression (*Zulm*). Anyone who buys or sells something and set profit has got it legally, because he has obtained what someone wants and has been paid with different. But one who advances a loan and demands for an increment, has taken something prohibited and has oppressed a fellow human being, the excess (he collects) has no complementary (benefits). Therefore, an increase on a time taken to pay back the loan, the owner will gain as a profitable venture is another oppression. Because there is no certainty of the owner getting profit and the recipient to refunding with surplus means. What is certain is equated with what is uncertain which is evidently exploitation and inequality. ¹⁴

Thirdly, interest on loan causes devaluation of a country's currency. What is happening nowadays has made all right stakeholders to understand that transaction with loan based on interest causes devaluation of a currency, most especially to the countries that incurred such external debt. With reference to our country, Nigeria people are wondering on how the currency of naira is always depreciating in value. And nothing responsible for the devaluation of our naira except foreign debt based on interest. Prior to the debts (1983) naira

had more value than US dollars, because by then it was only 75k to 1 US dollar? But the accumulated debt on Nigeria has caused the value of the currency to fall in 1985 and continuously it is falling, due to interest servicing.¹⁵ Unfortunately, now 1 single US dollar is equivalent to three hundred and sixty Nigerian naira.

Fourthly, interest on loan causes inflation. Any country where banks and other interest are much in number cannot be devoid of inflation on essential commodities most especially if the country is getting the loan from outside (foreign debt). In this regard, any investor whose capital is based on interest will calculate his capital plus the interest on the loan before thinking of his profit; this will make these goods to be sold with esteem. Another side effect on that is Allah (S.W.T) Has deprived His blessings on this transaction and also the noble Prophet (S.A.W) has cursed it. Therefore, the goods transacted with capital based on this loan will be so exorbitant.¹⁶

Finally, interest causes chaos in a country. Any country, whose economy is dependent on debt based on interest, will be entangled in lack of peace and tranquility. The case is:

- . If interest based banks are many in a country, the number of unemployed people will increase, because the rich will prefer to take their money to the bank because of the interest rather than invest in real productive sector (e.g. agriculture where many will be employed to cultivate land and be paid for their labor). This will cause many to lose their jobs. This will in turn pave way for armed robbery, burglary and all sort of social vices.

- . If the country depends on external debt to boost its economy, the citizens will be in difficulty, poverty will be on increase, at the same time masses will always be pillorying against the leaders. While government is busy to settle the debt it owes plus the interest rate, that is servicing the debt, this will cause perennial budget deficits; hunger and starvation will engulf, drugs will be scarce and the educational sector will collapse.¹⁷

To avoid the above mentioned problems which became a tragedy to the general humanity the need for an Islamic banking system arose in order to save the Muslim *Ummah* free from the venom of interest. Islamic banking is regarded as a savior that has some qualities which make them distinct from conventional banking system. These are some qualities.

- The essential quality of Islamic banking is that it is interest free. Islam strongly prohibits Muslims from taking or giving interest regardless of the rates at which such loans are made, and regardless of the rate at which interest is charged. Allah (S.W.T) says:

O you who believe: Be afraid of Allah and give what remains (due to you) *Riba* (from now onward) if are really believers. And if you do not do it, then take a notice of war from Allah and his messenger, but if you repent, you shall have your capital sums. Deal not unjustly (by asking more than your capital sum) and you shall not be dealt with unjustly (by receiving less than your capital).”¹⁸

- Another quality of Islamic banking is that it makes profit and shares it between partners. Through *Shari'ah* compliant business, like *Musharakah*, *Mudarabah*, *Muzara'ah*, *Ijarah* etc. in addition to any other lawful mode of financing. This, in essence, means that the Islamic bank on interest does not mean that capital is costless as a factor of production. The owner of capital can legitimately share the profits made by the entrepreneur. But it does not allow the partners to make a prior or pre-determined claim productive surplus in the form of interest.

- Islamic banking is not just a worldly or temporal affair. It is rather something connected to a Muslim belief in Allah. That Allah as the real creator (*Al-khaaliq Al-haaq*) is the source of injunctions. Therefore, all instructions are in accordance with the prophetic teachings. Allah (SWT) says:

Say (O Muhammad) verily my prayer, my sacrifice, my life and my death are for Allah the Lord of the world.¹⁹

- Another quality of this bank is that it fosters development and social progress. Unlike conventional banks, the Islamic banking system is not just after profit, rather, it brings social,

moral and ethical changes in the communities through the establishment of *Zakat* units and financial productive projects in both public and private sectors.²⁰

. One of the main selling points of Islamic banking at least in theory is that unlike conventional banking, it is concerned about the viability of the project and the profitability of the operation but not the size of the collateral. Good projects which might be turned down by conventional banks for lack of collateral would be financed by Islamic banks on a profit-sharing basis. It is especially in this sense that Islamic banks can play a great role in stimulating economic development.²¹

Looking at the above mentioned characteristic per singly, the ethical Islamic banking is the answer to the world's economy especially Nigeria, because it serves as a savior from the monster called usury (interest) and it promotes infrastructural development which Nigeria as a developing country critically needs. The idea of Islamic bank is to strengthen the society through the sharing of wealth as well as establishing social responsible guidelines for the conduct of financial transactions.

3.4 Concept of Islamic Banking

Islamic banking simply means a non-interest system of banking in which both profit and loss are shared between the creditors and the 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 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*.²²

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.”²³ Therefore, the banking systems which derives its inspiration and guidance from the religious edicts of Islam and conduct its operations strictly in accordance with the directives of *Shari’ah* is called Islamic 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 speculation.

3.5 Origin and Development of Islamic Banking System in the Muslim World

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.²⁴

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 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.²⁵

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 effort by the

central bank of Nigeria to recognize and facilitate the emergence of Islamic banking in Nigerian. Under the heading “General and Supplementary” section 39 (1) provides: 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”, “Nigeria”, “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.²⁶

The two afore mentioned sections of BOFI decree (as amended) were seen to have recognized 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.²⁷

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 products to look *Shari’ah* compliance but without much success. In April 2003, a full pledged 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 requirement 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.²⁸ 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 2008.²⁹

The recent framework for the regulation and supervision of non-interest 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.³⁰ It is no longer a theory or something which can only point at other jurisdictions. After the first three licensed Islamic banking institutions based on *reigns JAIZ* banks, *Jaiz* bank branches were open in various Northern states including Gombe as fully-fledged non-interest banks. Other conventional banks 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.

3.6 Operational Activities of Islamic Bank

Islam is a complete surrender and obedience to Allah (S.W.T). 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 (S.W.T) said in the Glorious Qur'an. "Then do you believe in a part of the scripture and reject the rest".³¹

Prophet Muhammad (S.A.W) also proclaimed that, "I am sent to spread (complete) the dignities of moralities".³²

Islam as a religion comprises of *Akhlaq* (Ethics and behaviors), *Shari'ah* and *Aqeedah* (faith).

The Islamic law (*Shari'ah*) encompasses *Ibadat* (worship) and *Mu'amalat* (interpersonal relationship). Islam is based on five (actions): *Shahada*, prayer (five times), *Zakat*, *Saum* (fasting), and *Hajj* (pilgrimage). And the other mundane relationship which include: Financial, Political, social as well as legal Act. Muslims believe in the Oneness of Allah, His Angels, His (revealed) Books, and His Messengers, the Day of Judgment, the Destiny good or bad and the life after death. Therefore the main objective of *Shari'ah* is the protection of faith (*din*), human life (*nafs*), intellect, posterity and wealth (*mal*).³³

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 one 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, if there is no negligence from the side of the *Mudarib* the financier (*Rabb-ul-mal*) losses his capital while the *Mudarib* losses his skills (used). Where profits are generated they are shared between the parties

according to a pre-agreed ratio.³⁴ *Mudarabah* has its legal basis from the Qur'an, in *surat al-Muzammil* Allah (S.W.T) says:

He (Allah) knows that there may be some among you in ill-health and others traveling through the land seeking of Allah's bounty, yet others fighting in Allah's cause.³⁵

According to Al-Humaizy, since travelling on the surface of the earth for trading is permitted in this verse, it is an indication that *Mudarabah* is approved in the Islamic Law.³⁶ This is because the verse used the root-word of *Mudarabah* i.e. 'yadhribuna fil Ardhi' for travelling for the purpose of business. In view of Sarakhsi, the *Mudarabah* contract got its name from the same expression used in the above verse as he stated:

We preferred the term *Mudarabah* because it corresponds to that which is found in the book of Allah, may He be Exalted said, "while others travel in land (*Yadhribuna Fil Ardhi*) in search of Allah's bounty".³⁷

Musharakah is a joint venture 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.³⁸ However, it is unanimously agreed amongst the "*Fuqahas*" (Islamic jurists) that Islamic instruments of *Mudarabah* and *Musharakah* partnership are considered to be the ideal financing instruments from *Shari'ah* point of view. When money is advanced base on these instruments, it is converted into real assets. Financing base on *Mudarabah* and *Musharakah* partnership guarantees justice, equity and fairness which are in line with the *Maqasid* goals that Islamic financing is set to achieve.³⁹

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 a kind of sale where seller clearly mentions cost of the underlying product to the buyer. Then he sells the product at a price which comprises of cost plus profit. In *Murabahah*, seller divulges cost and markup price to buyer.⁴⁰ However, the contemporary mechanism of *Murabahah* used in Islamic banking can't be traced back to Qur'an and *Sunnah*. *Murabahah* is mentioned in 'Muwatta' Imam Malik that implies simply a sale where cost and profit are divulged at outset of the transaction:

Yahya related to me, that Malik said, "the generally agreed on way of doing things among us about a man buying cloth in one city, and then taking it to another city to sell as a *Murabahah*, is that he is reckoned to have the wage of an agent, or any allowance for ironing, folding, straightening, expenses, or the rent of a house. As for the cost of transporting the drapery, it is included in the basic price, and no share of the profit is allocated to it unless the agent tells all of that to the investor. If they agree to share the profits accordingly after knowledge of it, there is no harm in that."⁴¹

Therefore, in view of the above the contemporary *Murabahah* in Islamic banking system is more closely related to *Inah* and *Tawarruq* instead of classical *Murabahah*. In this regard, the contemporary *Murabahah* is not favoured amongst the scholars as preferred mode of Islamic financing.

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.⁴² *Ijarah* is validated by the Qur'an in a number of verses, such as:

He said; I intend to wed one of these my daughters to thee, on condition that thou serve me for eight years'⁴³

In another verse: "and if they suckle your (offspring), Give them their recompense"⁴⁴

In yet another verse it is mentioned:

Nor shall it be any offence for you if you decide on a foster-mother for your offspring. There is no blame on you provided you pay (the foster-mother) what ye offered on equitable terms, but fear Allah and know that Allah sees well what you do.⁴⁵

Other services offered include: *Sukuk* (Islamic bonds), *Takaful* (Islamic insurance), *Wadi'ah* (safekeeping), Profit and Loss Sharing (PLS) among others.

Sukuk (Islamic bonds), the word *Sakk* or plural *Sukuk* in Arabic lexicology derives from the idea of striking one's seal on a document signifying a covenant or conveyance of rights and obligations. The word is also used for minting coins.⁴⁶ In its present usage, *Sukuk* refer to certificates or financial securities that represent a proportional or undivided interest in an asset, or pool of assets, and the claim embodied in *Sukuk* is not simply claim to a cash flow but an ownership claim. This also differentiates *Sukuk* from conventional bonds as the latter proceed over interest bearing securities, whereas *Sukuk* are basically investment certificates consisting of ownership claims in a pool of assets. The aim is to sell the assets and recover its value from subscription, in which case the holders of the certificates become owners of the assets. The primary condition of *Sukuk* is the existence of assets on the balance sheet of the government, the monetary authority, corporate body or bank which wants to mobilize its financial resources.⁴⁷ *Shari'ah* consideration dictate that the pool of assets should not solely comprise debts from Islamic financial contracts such as *Murabahah* and *Istina'* but have a dominantly asset based component such as *Ijarah*, *Mudarabah* and *Salam*. However, the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) released in November 2002 a document on *Shari'ah* standards concerning *Sukuk*. The document provides that,

Investment *Sukuk* are certificates of equal value representing, after closing subscription, receipt of the value of the certificates and putting them to use as planned, common title to shares and rights to tangible assets, usufructs and services, or equity of a given project of a special investment activity.⁴⁸

Takaful (Islamic insurance). *Takaful* is derived from Arabic word (*Kafala*) that means joint guarantee, whereby a group of participants agree among themselves to support one another jointly for the losses arising from specified risks. In a *Takaful* arrangement the participants contribute a sum of money as a *Tabarru'* commitment into a common fund that will be used mutually to assist the members against a specified type of loss or damage, in summary; *Takaful* is the Islamic counterpart of conventional Insurance, and exists in both Family (or “Life”) and General forms.⁴⁹ However, it is a common misperception that Insurance is not allowed under Islam, as Muslims believe that only God knows one’s future and faith, but the following conversation taking from the sayings of the Noble Prophet Muhammad (S.A.W) depicts a sound message as to why Muslims should indeed endeavor to reduce the risk of loss:

Prophet Muhammad (S.A.W) asked Bedouin who had left his camel untied, “Why do not tie your camel?” the Bedouin answered, “I put my trust in God” the Prophet said, “tie up your camel first then put your trust in God”.⁵⁰

Hence, the Islamic *Fiqh* Academy stated in the ‘Resolution No 9 Concerning Insurance and Reinsurance’ (Jeddah/KSA 1985):

The insurance contract, with a fixed periodical premium, which is commonly used by commercial companies, is a contract, which contains major elements of risk, which voids the contract and, therefore, is prohibited (*Haram*) according to *Shari’ah*.⁵¹

Therefore, there have been many resolutions by Islamic *Fiqh* Academy on the *Shari’ah* Compliant alternative to Insurance in this regard:

The alternative contract, which conforms, to the principles of Islamic dealings is the contract of co-operative Insurance, which is found on the basis of charity and co-operation.⁵²

Similarly, is the case of re-insurance based on the principles of co-operative Insurance, alternative for of contract was proposed and *Takaful* can thus be seen as the Islamic counterpart of conventional insurance. That,

It operates on cooperative principles and incorporates the concept of *Tabarru'* (donations, gift). Instead of paying an insurance premium, *takaful* participants (policyholders) donate their *takaful* contribution to a common pool to mutually assist the members against a defined loss or damage.⁵³

It is a one-way transaction, unlike in bilateral conventional insurance contract, where a premium is paid in return for an insurance benefit (Buying and Selling Contract).

Wadi'ah (safekeeping). 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.⁵⁴ Islam encourages helping others by way of giving loan as the lender is very likely to be wealthy and the borrower poor. Islam commands that the creditor should demonstrate benevolence and charity and grant the debtor a beautiful loan (*qard al-hasan*). The word *qard* is an infinitive word which literally means cutting off and given to the borrower in order to be repaid.⁵⁵ *Al-qard* also refers to whatever good deeds a person does for the sake of Allah (S.W.T) as the Qur'an states: "*And (thus) lend unto God a goodly loan*".⁵⁶ Technically, *qard* refers to a contract where a lender gives a certain property gratuitously to a borrower who will benefit from it and return a similar property immediately upon a demand.⁵⁷ Therefore, Islam has prohibited *riba* and allowed lending (*qard*). It is an interest-free loan intended to alleviate the sufferings of the needy. It enables Muslims to help fellow Muslims who are in need of financial assistance. Both the *Sunnah* and consensus of the scholars (*Ijma'*) are explicit on the permissibility of a loan contract. Abu Rafi' reported that,

The Prophet (S.A.W) had borrowed a young female camel from someone and when he received zakat of camels, he ordered me to send a young female camel to the man as settlement of the loan. I said to him, "I could not find among the camels except a female camel which is ready for pregnancy". The Prophet (S.A.W) said, "Give it to him, indeed, the good person among you is he who settles loan with something better".⁵⁸

It also narrated by Ibn Mas'ud (R.A) that, the Prophet (S.A.W) said:

A Muslim never gives loan twice to another except that it is counted as a onetime charity.⁵⁹

The Muslims jurists are also unanimous on the permissibility of the loan contract.

Profit and Loss Sharing (PLS). Although, the profit and loss sharing basis has been discussed under the concept of *Mudarabah*, but not in detail. This is another significant feature of Islamic banking as it promotes risk sharing between the provider of capital (investor) and the user of funds (entrepreneur). By contrast, under conventional banking the investor is assured of a predetermined rate of interest. Since the nature of this world is uncertain, the result of any project is not with certainty, invariably there is always the element of risk. In conventional banking, all the risks are borne by the entrepreneur whether the project resulted to profit and loss; the owner of the capital gets away with the predetermined return. In Islamic banking both the investor and the entrepreneur share the result of the project in an equitable way. In the case of a loss, all the financial losses are borne by the investor while the entrepreneur loses his labour.⁶⁰

From the forgoing discussion, the Islamic banking as a model is more of a religious formed banking, because it is fundamentally ethical, the *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 been 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 injustice 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.

3.7 Acceptability of Islamic Banking System in Nigeria

The first modern experiment with Islamic banking can be traced to its establishment. However, Islamic banking has grown rapidly in terms of size and the number of players. Islamic banking is currently practiced in more than 50 countries worldwide. In Iran, Pakistan, and Sudan, only Islamic banking is allowed. In other countries, such as Bangladesh, Egypt, Indonesia, Jordan and Malaysia, Islamic banking, co-exists with conventional banking. Islamic banking, moreover, is not limited to Islamic countries. In August 2004, the Islamic bank of Britain became the first bank licensed by a non-Muslim country to engage in Islamic banking. The HSBC, University Bank in Ann Arbor and Devon Bank in Chicago offer Islamic banking products in the United States, recent industry estimates show that Islamic banking, which managed around US \$250 million worth of assets worldwide as of 2004, is expected to grow at the rate of 15% per annum.⁶¹

According to the Voice of America (VOA) special English economics report. Dubai's recent debt problems have brought attention to the growth of Islamic finance. A government-owned group six billion dollars of debt, about six billion of it is in Islamic bond set for repayment in December. The biggest difference between western and Islamic finance involves beliefs about charging interest on borrowed money. In Islam, the basic idea is that you should not make money from money itself. Instead of interest, lenders charge fees. Professor Giyath Nakshebendi at American University in Washington is an expert on Islamic financing. He says: "The bank will estimate its costs based on its fixed costs, variable costs, the cost of their employees, the rent and so on and so forth. And from that they estimate how much they are going to charge." But he points out that this system can make Islamic financing costly. The costs of the system are shared by the borrowers, the more each has to pay. In many cases, Islamic financing requires the lender and borrower to share profits and losses. He explains what that means with Islamic bonds, called *Sukuk*, he says the bond-

holders are buying a share of a business or property. If business is good, then they could get back more than they expected. But if it fails, and then there is no guarantee of repayment. Islamic bonds can be structured in different ways, but a major idea is shared profit and loss. He also says that Islamic lending practices are also supposed to be socially responsible in world banking; the total share of Islamic finance is less than one percent. But it is growing at a rate of fifteen to twenty percent a year.⁶²

There is growing interest in Islamic banking in the west. London is becoming a center of Islamic finance. And France recently proposed changes in finance laws to protect Islamic bondholders. Estimates differ, but as much as one and a half trillion dollars maybe managed under Islamic rules. In two thousand eight, the international monetary fund studied the financial security of Islamic banks. It found that their lack of complex products like futures and derivatives limits the ability to spread risk. Therefore, in today's context, the growth in Islamic finance coincides with the current account surpluses of oil-exporting countries that are dominated by Muslim countries. The new era of these countries desires for socio-political and economic system based on Islamic principles and stronger Islamic identities. In addition, the introduction of broad macro-economic and structural reforms – in financial systems, the liberalization of capital movements, mega infrastructure projects in the Muslim world, privatization and the global integration of financial markets, have paved the way for rapid expansion of Islamic finance.⁶³

Islamic finance is not restricted to Islamic countries, but is spreading wherever there is a sizeable Muslim population and demand for ethical finance.

3.8 The Importance of Islamic Banking System in Contemporary Time

Nowadays, the importance of Islamic banking system cannot be over emphasized, it can be summed up in to the following:

- Public demand (demand of Muslim *Ummah*)

- It is a part of Islamic Religion
- It is based on real economy
- 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 poverty in the society.
- There is a need for alternative to conventional finance whose interest-base 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 attract 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 development.

3.9 Comparative Analysis and Differences between Conventional and Islamic Banking System

Although the conventional banking system is the most common and the most widely accepted financial institution in the world. Islamic finance is attracting interest of Muslims and non-Muslims lately. According to rating agency Moody's, the global Islamic finance sector is worth 700 billion and has the potential to be worth 4 trillion.⁶³ 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 contrast. A table below illustrates few of them:

Comparison of Conventional and Islamic Banking System

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.

In an attempt to analyze the above description a fundamental difference between conventional banking and Islamic banking is that the latter does not charge interest. The Glorious Qur'an expressly forbids trading in interest in several places. At one point, Allah (S.W.T) says:

And Allah has permitted trading and prohibited interest, so, whoever receives and advice from his Lord and stops, he is allowed what has passed, and his matter is up to Allah (to judge). And the ones who revert back, those are the people of Fire. There they remain (forever).⁶⁴

Interestingly, Judaism and Christianity also prohibit usury. For instance the Bible states,

Do not charge your brother interest, whether on money or food or anything else that may earn interest.⁶⁵

Yet, Islam is the only faith which maintains this prohibition. Here people think the Islamic (banking) system is based on faith. The system is based on justice for the two parties and how you get to the justice is extracted from Islamic faith. Indeed, while Islam prohibits dealing in interest, this does not mean that the system is not based on profit. Commercial banking under Islam is based on the concept of profit and loss sharing. It is an equity partnership in which both parties not only benefits from the profit, but also share in the losses. Other features have been added to Islamic banking in view of contemporary needs, such as leasing, cost plus financing, delay payment sale, etc. yet, these are not substitutes for interest. They have their own set of principles, philosophy and conditions without which is not allowed in Islamic law (*Shari'ah*) to use them as modes of financing. Islam does not deny the market forces and the market economy. Even the profit motive is acceptable to a reasonable extent. Private ownership is not totally negated. Yet, the basic difference between capitalist and Islamic economy is that in secular capitalism, the profit motive or private ownership are given unbridled power to make economic decisions. Their liberty is not controlled by divine injunctions. This attitude has allowed a number of practices which cause imbalances in the society in fact, today's severe economic downtown was triggered by banks excessively dealing in mortgage backed securities and credit-default swaps, two of the practices which Islamic banks on principle do not transact. The global financial crisis and the credit crunch were among other things the result of greed and avarice since financial institutions advanced loans to people who did not have repayment capacity. If the aforesaid, financial institutions were practicing Islamic finance, the problem might probably not have risen. The present interest-based system is of and exploitative nature as capital earns profit

under this system without taking any responsibility and running any risk. Beside, smaller sectors of the economy such as the small enterprises and small farmers cannot often avail themselves of credit facilities under this system because they are unable to pay interest at the higher rate.⁶⁶ However, under a profit and loss sharing system, not only in micro-financing easier, the finance system forces the financiers to ensure that their businesses remain profitable. In this way, there would be more employment generation and national income would increase manifold. Thus, the society, at large, would be the gainer in this system. The profit disbursed to the depositors and service charges collected from the borrowers by an Islamic scholar as perfectly Islamic in character. Islamic banks adopt innovative products to capture a greater market. The traditional banks, in spite of their gigantic size, are profit oriented rather than welfare-oriented. By bringing welfare-based products in the market, the Islamic banks may acquire an edge over the traditional banks.⁶⁷

With justice and ethics as its chief means, Islamic finance has the potential to not only streamline today's erratic banking trends but also to reduce poverty across the globe. As a matter of fact, it is these characteristics which are drawing the attention of traditional financial institutions which are eager to learn their lessons after the recent banking meltdown,⁶⁸ Let's hope that the world at large will adopt this honest and moral system of banking in the near future, affirming divine foresight and wisdom.

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CHAPTER FOUR

JAIZ BANK AND ITS ACTIVITIES IN GOMBE STATE

41. Brief History of Jaiz Bank in Nigeria

Jaiz Bank PLC was created out of the ashes of the former *Jaiz* International PLC which was set up in 2003/2004 as a Special Purpose Vehicle (SPV) to establish Nigeria's first full-fledged Non-Interest Bank (Islamic Banking). It is an unquoted Public Company owned by about 3000 shareholders spread across the six geographical Zones of Nigeria.¹

Jaiz Bank PLC obtained a regional License to operate as an Islamic Bank from Central Bank of Nigeria on the 11th of November, 2011 and begun full operations as the first Non-Interest Bank in Nigeria on the 6th of January, 2012. It started with 3 branches located in Abuja, Kaduna and Kano. The Regional License allows the Bank to operate geographically within a third of the country. Also, based on recommendations of the Islamic Development Bank (IDB), *Jaiz* Bank Plc. has signed a Technical and Management Agreement with Islamic Bank Bangladesh Limited (IBBL). IDB is a Tripple A rated Multilateral Development Finance Institutions while IBBL is one of the leading Banks in Bangladesh. These two reputable institutions serve on the Board of Directors of *Jaiz* Bank PLC.²

4.2 Origin of Jaiz Bank in Gombe

Jaiz Bank Plc. No. 8 New Market Road Commercial layout Gombe, was commissioned by his Excellency the elected Governor of Gombe state Alhaji Ibrahim Hassan Dankwambo (Talban Gombe) with the Chairman *Jaiz* Board of Directors Dr. Umaru Abd al-Mutallab (CON) on Wednesday, 24th April 2013.³

An Islamic Non-Interest Bank (NIB) *Jaiz* Bank Plc commenced operation in Gombe State with a plan to be at every state Capital of the federation. The bank, which commenced business on January 6, 2012, with three branches in Abuja, Kano and Kaduna, based on regions and later number of branches generally have established in the Northern States of the

country. The Gombe branch had issuance of its license by the Central Bank of Nigeria (CBN).⁴

The chairman of the Board of Directors of the bank at the commissioning ceremony of the Gombe 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 Gombe 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 Gombe State is known for.⁵

Gombe 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 faith.

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

- i. Allah (S.W.T) is the creator of everything on earth in the heavens.
- ii. A Muslim entrepreneur is considered only a 'vice-regent' on earth.
- iii. Eliminating the element of usury or *Riba*.
- iv. Trade must be conducted in a faithful and trustworthy manner.
- v. Islamic banks are expected to conduct the transactions for the benefit of both the bank and customers.
- vi. Islamic banks must treat their customers equally and
- vii. The accumulation of profit without utilization for the betterment of the community is not good for the society.⁶

4.3 The Operational Activities of Jaiz Bank

Jaiz bank plc Gombe branch carries its services based on retail financing, corporate and Trade financing master products and deposit products.

4.3.1 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 (JHF).

4.3.1.1 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 vehicle 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 by fixed installments. It has the following features:

- Available for both New and fairly used cars
- Maximum tenor of 3 years for fairly used cars and 4 years for new cars.
- Commitment Deposit of 20% for fairly used cars and 10% for new cars.
- Easy and convenient repayment plan
- Competitive pricing.⁷

Murabaha is selling a commodity as per the purchasing price with a defined and agreed profit mark-up. *Jaiz* Bank *Murabaha* (i.e *Murabaha* to the purchase), the vendor will transfer the title to the bank and pay the purchase price. The bank will transfer the title to the customer and the bank will pay the marked up price. This contract is based on *Murabaha* and *Bay' Bithaman Ajil* (BBA).⁸ It is actually a kind of sale and not a credit agreement (Trust-based contract) used as a tool of finance for assets such as motor vehicle, property, plant and machinery.

Although, the legality of the contemporary *Murabahah* as a prepared mode of Islamic banking system could not be traced back either from the Glorious Qur'an or *Sunnah*, but it was stated in the Glorious Qur'an that: "*Allah has permitted trading.*"⁹ He also says: "*But let there be among you traffic and trade by mutual good will.*"¹⁰ However, this contract is not favoured amongst the Muslim scholars as a preferred mode of Islamic financing. In this regard, *Murabahah* sales are clearly to be conducted with mutual consent based on the Islamic approved conditions stated by some of the prominent Jurists of the Muslim *ummah*, such as Imam Malik among others.

4.3.1.2 Jaiz Household Appliance (HAS)

This is a consumer financing product based on principle of *murabahah* (cost plus markup) and *Bai-muajjal* (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 under the following features:

- Suitable for acquisition of any household Asset (S)
- Maximum tenor of 2 years for payment
- Commitment Deposit (*Hamish Jiddiyah*) of 10%
- Easy and convenient repayment plan.
- Competitive pricing.¹¹

All sales where the payment is deferred 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, a sale is valid either for cash or credit 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.¹²

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. 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.¹³

4.3.1.3 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 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 customer as he/she pays down. This can be carried out under the following features:

- Maximum tenor of 7 years payment period
- Minimum equity contribution of 20%
- For salary account holders, professionals business owners, landowners and non-resident Nigerians, etc.¹⁴

Ijarah can be defined as a contract granting use or occupation of an item of property during a specified period in exchange for a specified rent. *Ijarah* is a contract that involves transfer of usufruct of an asset (e.g. land, property, motor vehicle, equipment) to another party in return for a consideration or rental payment. In addition, selling the benefit or the use of an asset for an agreed consideration.¹⁵ 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.¹⁶ Therefore, *Ijarah* used as a mode of finance by *Jaiz* Bank as they purchase assets and rent out to a client for a

determined period. Therefore, *Ijarah* contract mentioned in the Glorious 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.*”¹⁷

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.¹⁸

4.3.2 Corporate and Trade Financing Master Products

Jaiz Bank offers its products and services based on *murabahah* (cost plus *financing*), *Jaiz – ijara wa- iqtina* and *Jaiz mudarabah* (saving account).

4.2.2. Murabahah (Cost plus Financing)

Murabahah is a convenient financing product for corporate and individual customers. It is tailored for short term finance requirements (working capital or asset acquisition). It allows the customer the flexibility for a differed repayment over an agreed period either in lump sum or fixed installments. Its deals under the following features:

- Suitable for acquisition/purchase/procurement/importation of assets/goods.
- Flexible and attractive repayment plan
- Competitive pricing.¹⁹

Upon in this regards, *Murabahah* is selling a commodity as per the purchasing price with a defined and agreed profit mark-up. The intermediary retains ownership of the property until the loan is paid in full.

4.3.2.2 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 customer agrees to lease the Bank's portion with an option of taking full ownership upon 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 payment period
- Minimum equity contribution of 20%
- Flexible and convenient option
- competitive pricing.²⁰

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*.²¹ Thus, any useful property that can be hired or leased as long as is not forbidden from the *Shari'ah*. 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 favour) from you.²²

And also, He says:

And said one of the (women): O my father! Hire him! Verily, the best of men for you to hire is the strong, the trustworthy.²³

4.3.2.3 Jaiz Mudarabah (Saving Account)

Jaiz mudarabah (savings account) based on Deposit-taking on Savings accounts have fixed period of 35 days, 6 months, 1 year and changes will occur in profit-sharing ratios. There is also company investment for specific projects. Therefore, it 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 investor (*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 circumstances and without any misconduct or negligence or breach of investment mandate on the part of the bank, the loss would be shared. This could be carried out under the following features:

- Profit sharing on Deposit Balance
- Specialized withdrawal Booklet
- Funds Transfer and clearing facility
- Internet Banking
- ATM card.²⁴

In view of the above, *Mudarabah* in the general term refers to a form of business which one party brings capital and the other labour (capital and labour). The proportionate share in profit is determined by mutual agreement. But the loss, if any, is borne only by the owner of the capital, in which case the entrepreneur gets nothing for his labour. Financier is known as *Rabb al- Mal* and the entrepreneur as *Mudarib*.²⁵ As financing technique adopted by *Jaiz* bank; it is a contract in which all the capital is provided by the bank, while the business is managed by the other party. The profit is shared in pre-agreed ratios, and loss, if any, unless caused by the negligence or violation of terms of the contract by the *Mudarib* is borne by the *Jaiz* bank. Perhaps, the following verses of the Qur'an could be seen as the permissibility of *Mudarabah*. As Allah (S.W.T) says: “*And others travel in the earth in quest of Allah's bounty.*”²⁶

The word ‘*yabribuna*’ in the verse implies permissibility to travel in managing wealth to seek the bounty of Allah (S.W.T) which may take the form of *Mudarabah*. It also reported on the authority of Shuhayb (R.A) that, the Prophet (S.A.W) said:

Three matters that have the blessing (of Allah): a deferred sale, *Muqaradah* (*Mudarabah*), mixing Wheat with Barley for domestic use and not for sale.²⁷

In other hand, *Mudarabah* is a partnership in profit whereby one party provides capital (*Rabbul Maal*) and the other party provides labour (*Mudarib*). A number of *ahadith* have been reported to establish the legality of *Mudarabah* contract, even though, Hadith scholars contended the authenticity of most of such *ahadith*. Such is: Ibn-Hazm, stated that ever before the prophet hood of Prophet Muhammad (S.A.W), the *Quraish*, being business oriented people, used to give their wealth to one another for the purpose of *Mudarabah* due to the fact that some members of their community were aged persons who cannot endure the stress of travelling for trading even though had the wealth. Same was the case with women, children and orphans. Hence, such venerable members of their community give wealth to other members for trading on the basis of profit sharing (*Mudarabah*). After the prophet hood, the Messenger of Allah tacitly approved this type of dealing.²⁸ Also, *Al-Ijma'* (consensus) is one of the legal bases for the establishment of *Mudarabah* contract. This is confirmed by Ibn-Manzur,²⁹ Al-Shawkaniy,²² and many other scholars. Al-San'aniy asserted that: "There is no disagreement among Muslims on the permissibility of *Qiradh* (i.e *Mudarabah*)."³⁰

Apart from the above mentioned evidences, the practice of the pious predecessors, the *Sahabah*, also reaffirmed the legal permission of *Mudarabah*. Al-Fauzan stated that the practice of *Mudarabah* was reported from Umar, Uthman, Aliy, Ibn-Mas'ud and other companions of the Prophet (S.A.W).³¹

4.3.3 Deposit Product

This could be the last but not the least of the products and services offers by the *Jaiz* Bank. In this regard *Jaiz* offers only one service which is *Jaiz* current account.

4.3.3.1 Jaiz Current Account

Jaiz Bank current account operated under the principle of *Wadi'ah addaman* as a Deposit Instrument. The depositor places funds with bank for safe-keeping and facility

access. While the Bank acts as custodian, trustee and guarantor. The funds utilized by bank for financing activities. The depositor can withdraw at any time. In effect, deposit is on the basis of *qard* (loan) and no returns are due to the depositor (i.e. interest in return). It also, offers the flexibility of having chequing account which enables you to carry out routine banking transactions with other parties. It allows you access to your funds through its various real electronic channels. This could be done under the following features:

- Cheque Clearing Services
- Third party cash lodgment and withdrawals
- Internet banking
- ATM card.³²

Qard (lending) is the interest free loan of Islamic banking system derived its legality from the verses of the Glorious Qur'an. As Allah (S.W.T) says:

Who is it that will offer of Allah a goodly gift, so He will multiply it to him manifold, and Allah straitens and amplifies, and you shall be returned to Him.³³

And He also says,

Surely (as for) the charitable women and (those who) set apart for Allah a goodly portion, it shall be doubled for them and they shall have a noble reward.³⁴

The practices of *Qard* (lending) of money or property was reported during Prophet's time, the reign of the eighteen Abbasid Caliph Muqtadir (908 A.D-932 A.D), in the Radi and Muttaqi and also in the early fourth century A.H. During all these periods lending was given without a charge (Interest).³⁵

4.4 Shari'ah Compliance by the Jaiz Bank

As corporate control is a prerequisite in conventional financial system as it signifies: 'a set of relationship between a company's management, its shareholders and other stakeholders, thereby, it plays essential function to provide the structure through which the

company's goals objective's and monitoring performance are determined'.³⁶ This definition spells out the aims of corporate control, which are transparency, fairness and accountability. They all conform to general principles of commerce in Islam. However, in the case of the Islamic finance industry, the corporate control has been defined as: "A set of organizational arrangements where the actions of the management of institutions offering Islamic Financial Service (IFS) are aligned, proper incentives for the organs of government such as *Shari'ah* Supervisory Board (BOD) and management to pursue objectives that are in the interests of stakeholders and facilitate effective monitoring, thereby encouraging IIFS to use resources more efficiently. And comply with Islamic *Shari'ah* rules and principles".³⁷

The above definition connotes two important points: first, to ensure that the interests of all the stakeholders are intact; second, to assert the conformity of operations and activities of the Islamic finance industry with *Shari'ah* principles. Thus, the latter necessitates institution of *Shari'ah* control which has been defined as: "An independent body entrusted with the duty of directing reviewing and supervising the activities of Islamic Financial Institutions for the purpose of *Shari'ah* compliance, and issuing legal rulings pertaining to Islamic banking and finance".³⁸ It is also defined as: "A body comprised of a panel of *Shari'ah* scholar who provide *Shari'ah* expertise and acts as special advisors to the institutions".³⁹

In the light of the above, the scope of *Shari'ah* control covers the following:

- a. Product initiative
- b. Preliminary *Shari'ah* analysis
- c. Legal documentation and product proposal
- d. *Shari'ah* review of the documents
- e. *Shari'ah* ruling

- f. Dissemination of *Shari'ah* ruling
- g. Periodic *Shari'ah* review
- h. Annual *Shari'ah* review.⁴⁰

Therefore, in order to achieve this aim the *Shari'ah* Committee (SC) will be organized by the bank. Meanwhile, the Bank's business activities are subject to the *Shari'ah* compliance and confirmation by the committee consisting of 4 members appointed by the Board of Directors for a 2-year term. The duties and the responsibility of the committee are as follows:

- (1) To advice the Board on *Shari'ah* matters in order to ensure that the business operations of the Bank comply with *Shari'ah* principles at all times.
- (2) To endorse and validate relevant documentations of the Bank's products to ensure that they comply with *Shari'ah* principle; and
- (3) To advice the Bank on matters to be referred to the *Shari'ah* advisory council.⁴¹

Although, the *Shari'ah* committee is appointed by the Board of Director, the former is independent and has the authority to sanction any proposal in the light of Islamic law. It can be argued that the *Shari'ah* committee effects the boundary system which Simons (1995)⁴¹ asserted as playing a limiting role of circumscribing the territory where bank management seeks new opportunities. *Shari'ah* committee operates at global level of bank management structure and does not have a direct link with the operating level branches. However, through *Shari'ah* section, matters pertaining to *Shari'ah* compliant practice at operating level are closely monitored by *Shari'ah* committee. It is evidenced that in bank management, *Shari'ah* committee's role goes beyond ensuring products compliance. Its other important role is to focus on the internalization of Islamic values by bank personnel at operating level through the *Shari'ah* section. *Shari'ah* section is headed by a manager that links *Shari'ah* committee with the bank's operation. It conduct periodic *Shari'ah* compliance review.⁴²

Based on the above description, the assessment of the Operational Activities of *Jaiz* Bank reference to the *Shari'ah* Compliant basis, in Nigeria and particularly Gombe branch set up the Advisory Committee of Experts (ACE) issued on *Shari'ah* legal matters on Islamic banking system (AAOIFI *Shari'ah* Standard No 13, Par 2 (2005)).⁴³ The Committee consist of three, the Chairman and two other members.

Professor Monzer Kahf (Chairman, *Shari'ah* Advisory Committee). He is a leading scholar and a consultant in Islamic Banking and Finance. He has been drafting and reviewing *Shari'ah* contents of finance agreements, by-laws and operational systems for Islamic Financial Institutions in many countries around the world; USA, Canada, Switzerland, Saudi Arabia, Trinidad including Nigeria. He is a Professor of Islamic Finance at Qatar Faculty of Islamic Studies. He is also a visiting Professor of Islamic Finance at the International Centre for Education in Islamic Finance (INCEIF) based in Malaysia.⁴⁴

Professor Muhammad L. Bashar (Member, *Shari'ah* Advisory Committee). He is a former Head of the Department of Economics, Usmanu Danfodiyo University, Sokoto, Nigeria. He is a well-published, prolific writer. He had advanced studies on Macroeconomics, *Fiqh* (Islamic Jurisprudence) for Economics, Development Economics, Islamic Banking and Finance and Public Finance.⁴⁵ Also, Dr. Muhammad Alhaji Abubakar (Member, Advisory Committee). He has over 20 years' of experience in Islamic Scholarship. He is currently a lecturer at the Department of *Shari'ah*, Faculty of Law, University of Maiduguri. He has been actively researching on issues like waiver of requitals in cases of lesser offences, Islamic commercial jurisprudence etc.⁴⁶ Therefore, the ACE is responsible and accountable for all *Shari'ah* (Islamic Law) decisions, opinions and views provided by them. The ACE derived consensus on the *Jaiz* operational activities, recommendations and conclusions using the appropriate, standard and accepted methodology including

interpretation or analogy from the Glorious Qur'an and *Sunnah* of the Noble Prophet Muhammad (S.A.W).

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CHAPTER FIVE

IMPACT OF THE ACTIVITIES OF *JAIZ* BANK IN GOMBE STATE

5.1 Religious Impact of Jaiz Bank in Gombe

The *Jaiz* Bank established in Gombe, has a great impact as alternative to the traditional 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, prostitution 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.¹ But critics say investors in Islamic banks often have little idea where their money is, and cannot influence investment strategy that has not stopped *Shari'ah*-complaint institutions from expanding in various part of the world.² Although, there are certain countries with very important sources of liquidity notably around the Gulf. There are other countries such as the west with very important financial demands. One of the current objectives is to allow these borrowers and lenders have capital to come together. This is not just only for Muslims; these institutions are keen to stress it for anyone who is worried about borrowing or lending ethically. Some Islamic banks even give you a box set containing a Qur'an and Bible when you open account and it could be about to take off. Recently even the Vatican called on conventional banks to take inspiration from the Islamic sector.³

Similarly, *Jaiz* bank in Gombe since its inception 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.

5.2 Social Impact of Jaiz Bank in Gombe

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 Purpose.

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 purposes. The main issue in a non-interest financial institution is that nothing in the form of interest (*Riba*) can be recognized 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* Bank, it became 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 find Islamic Banking, whether in Europe, Asia or America. And such non-interest banks normally have foundations.⁴

Hence, the primary benefit of the charity is that it's for everybody. These monies are to be used for charity and development purposes for intervention, especially for the poor and undeserved people, for economic empowerment, intervention in health, education and the rest. Fortunately, to some extent the foundation has positively impacted on the welfare of its targeted beneficiaries. *Jaiz* as a young institution still has made some impact based on the mandate given by the board of trustees of the foundation, and based on the strategic business plan drawn up for the foundation at its inception.⁵

From April 2014 to date, the foundation has intervened in various sectors, both in terms of the material and cash donations. The total value of their interventions so far is roughly about ₦105 million so far. They have gone into the camps of the Internally Displaced Persons (IDPs) in various states of the federation. The most affected States are Borno, Gombe, Adamawa, Taraba, Yobe, Plateau, Katsina, Zamfara and Kaduna. They also, disbursed about ₦5 to ₦6 million worth of materials to Nassarawa. They have donated ₦10m each to the Kano State Government and Kano Emirate council there was an attacked at a Friday prayer mosque in Kano; meanwhile the *Jaiz* bank has contributed immensely toward catering for the welfare of the people not only in Gombe State but rather the whole North eastern states, middle and the west of the northern Nigeria. And for the IDPs camp at Gombe a lot of people benefited both from cash and domestic materials. With regards to cash donated to victims, it was based on installment with a peculiar amount. And the materials as mattress, bed sheets and pillows, cooking utensils, cloths and food stuff.⁶

In *Jaiz* bank of Gombe branch, the customers are gaining more and more from dividend payment from the bank customers holding savings and/or term deposit account. This shall be based on the principles of *al-mudarabah al-mutlaqa* (a speculative partnership), the bank shall be *Mudarib* (intrepreur) and customers shall be *Rabbul Maal* (investor). The funds deposited by the customer in savings and or term deposit accounts shall be collected in

pool(s) of funds. The bank may, at their sole discretion, also contribute their own funds to the pool(s). The funds in such pool(s) shall, at their sole discretion, be invested or disinvested in business(s). The share of profit/loss on deposit shall be determined and distributed amongst pool members by crediting or debiting as applicable, their respective accounts monthly by the 5th day of next month. This can be done under the following conditions:

- a. Profit and loss shall be calculated on monthly basis and credited to the depositors for savings accounts and at the end of tenor for term deposit accounts.
- b. 30% of profit realized from investment of *Mudarabah* fund shall be distributed amongst *Mudaraba* depositors on the basis of the product type tenure. Investment with longer tenure shall attract higher weight age. The weight age and any weight age change must be informed personally to each depositor and will be effective only at the beginning of the following month and expire only at the beginning of the following month and at renewal date for term deposits accounts. The rate and weight age and any changes that may be effected on the weigh age from time to time shall be made available to customers at their branches, through the bank's website and any other available means which the bank likes to use.
- c. The average of daily balances standing in customer's account as at the last day of each calendar month shall be taken as the balance in the account for that month, upon which profit shall be distributed under all types of the *Mudarabah* savings and *Mudarabah* term deposit accounts. A customer shall forfeit profit distribution for a given month if at any day during that month the customer's average balance falls below the bank's investible minimum of *Mudarabah* savings deposit threshold of ₦2,000 or as may be determine by the bank from time to time with appropriate information given personally to every account holder as mentioned above.

- d. For Term Deposit Account, the share in the profit shall be determined on the basis of a sharing percentage determined at the time of opening the account. This percentage may change at the time of each renewal subject to 3 business day's personal notification.⁷

Hence, upon maturity a term deposit shall be automatically rolled over/renewed on the same terms and conditions as previously agreed, unless otherwise instructed by the customer at least two (2) business days before the date of maturity. In the event a term (fixed) deposit matures on a day which is not a business day, then the bank shall rollover the deposit along with the profit/loss thereon, if the deposit along with the profit/loss there on if any, on the next business day. The relationship between the bank and customer holding current accounts shall be based on the principle of *qard*, and no profit or loss shall accrue to balances in the said accounts. Therefore, as the bank collects deposits and deploys the same in a pool for investment as discussed above, this should be done in a permissible way.⁸

There are also some products offers by *Jaiz* bank in Gombe 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.⁹

5.3 Economic Impact of Jaiz Bank in Gombe

The advent of Islamic banking in Gombe 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.

According to Alhaji Muhammad Bakura who is the Gombe State commissioner for Trade and Industry made this known that, the Gombe State Government in collaboration with *Jaiz* Bank disbursed N500 million interest-free loans to traders across the state on December 23, 2014. He said, more than 2,000 traders including many members of the trade unions have benefited. He also assured that, government promised to pay all administrative charges to enable the beneficiaries to pay back in time the exact amount they have collected. Finally, he explained that the intention of government was to make more people self-reliant and for economic development of the state.¹⁰

In addition recently *Jaiz* Bank granted N 1 billion loan for farmers in Gombe. No fewer than 10,000 farmers in Gombe State were benefited from it. Alhaji Gambo (*Sarkin-Noma*), has said. *Sarkin-Noma*, who is the secretary of the Gombe State Chapter of the All Farmers Association of Nigeria (AFAN), disclosed on Thursday May 3, 2016. The bank offered the loan in collaboration with the state government, adding that it was disbursed to farmers within the following week. *Sarkin-Noma* said that part of the loan, which would be used to purchase fertilizer and insecticides, would increase agricultural production in the state. He further explains that the loan was given through 30 cooperative societies registered under the association, adding that about 20 registered farmers from each society has benefited from it. He advised the beneficiaries to make good use of the loan and abide strictly by the conditions of payment. Finally, the secretary commended the State government and the bank

for the loan, saying that it would enhance agricultural activities in the State.¹¹ Meanwhile the Gombe State Government and the *Jaiz* bank will continue to join hands by creating more incentive programs towards bursting the socio-economic development of the people in the State.

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

5.4 Problems and Challenges Facing the Activities of Jaiz Bank

In order to have a smooth and successful delivery of Islamic banking product, particularly in Gombe. According to the one of the Agents of *Jaiz* Bank, some categories of problems and challenges can be identified with the *Jaiz* Bank Gombe 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.¹²

Misperception and misinterpretation on the principle of Islamic finance: many people, especially the non-Muslims perceived the Islamic banking services 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. 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.¹³

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.¹⁴

Challenge of awareness: finally, there is low awareness of the Islamic banking principles therefore, interest free banking system to work efficiently, there is a great need for sensitization of all the stake holders (government, public and individuals) by professional scholars and economists that are specialized in the area.¹⁵

5.5 Solutions to the Problems and Challenges Facing the Activities of Jaiz Bank

The following are some of the possible solution to the problems and challenges facing the activities of *Jaiz* Bank in Gombe:

To overcome the challenges of shortage of experts in Islamic banking or personnel. Malami (2009) points out that there is the need for staff development in *shari'ah*, economics and accounting based on Islamic principles in order to tackle such challenges.¹⁶

To clear the problem of misperception and misinterpretation. Firstly, there is need to re-organize massive public enlightenment as well as organize workshops, seminars, lectures, and training for the banking professionals. 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.¹⁷

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.¹⁸

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 in future. 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 many benefits from Islamic banking system.¹⁹

Based on the above given explanations, it would be clear that *Jaiz* Bank will fully clean the banking sector and also reduce to a larger extent the socio-economic problems troubling the society in Gombe State.

5.6 Prospect and Challenges of Islamic Banking in Nigeria

Profit-sharing banking system is making good progress mainly through direct participation in trade and industry. *Jaiz* banks operating mainly in the northern parts of the country are too recent to show any progress. The first three regional banks established in Abuja, Kano and Kaduna have provided some practical examples of how expected profits can guide investment on a large scale. As traditional banks have failed to better the nation and the world at large, hindered by their complexities, their concentration of economic power and stagnation, the case for reform becomes stronger which are Islamic banking.²⁰ However, despite all the importance of Islamic banking system in Nigeria as an alternative choice to conventional banking, it may likely face some unique operational challenges. Thus, these unique challenges may cover the problems of misperception, lack of proper awareness and legal and regulatory laws to mention but few.

Nigeria being a multi-religious and multi-cultural society, with more than two hundred and fifty (250) tribes in the country, each with its own cultural set up and religious beliefs, establishing an Islamic bank at a national level might be a problem. The non-Muslim citizens, particularly the Christian persuasion might oppose it.²¹ During the initiation of the new Islamic banking in Nigeria; the former governor of the Central Bank of Nigeria Alhaji Sanusi Lamido Sanusi faced a lot of challenges. There is no doubt that the issue had generated a lot of controversies and misunderstanding within the populace. In this regard,

Pastor Tunde Bakare made the following remark. He said, “The current 34% interest rate being charged by banks is too excessive and I will quickly open an account once it (Islamic Banking) is introduced because it will be beneficial to me.”²² On the criticisms trailing the Islamic banking, especially from the members of Christian Association of Nigeria (CAN), he said that those leaders of the Church were acting in their self-interest. “Nobody can Islamize or Christianize any nation, including Nigeria,”²³ Pastor Bakare said. Perhaps, this misperception in the first place hinders the Christians fellow to patronize in *Jaiz* Bank in Gombe. Apparently, almost all Islamic banks established anywhere encounter different challenges on various bases. Lack of proper understanding of the true nature of Islamic banking among the depositors, clients and even shareholders.²⁴

Legal and regulatory laws as well as other tax laws posed another problem. The Islamic banks operating now even in different Muslim countries are operating under conventional banking laws of the country. If this situation continues it would ultimately threaten the existence and survival of Islamic banks. For as noted, many financial institutions existing nowadays are not in conformity with the Islamic banking modes of operation. They do not provide security for the smooth and successful working of Islamic banks. Therefore, Islamic banks will rather try as much as possible to adhere to the principles of Islamic *Shari’ah*.²⁵

5.7 Recommendations

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 heart.
4. 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. There should be the use of media in propagating the services and products being offered by Islamic banking system where programs like group 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.
6. There should be a research and development departments where new products of the system will be determined in relations to the Islamic law and in relations to the needs and wants of the people in that environment.
7. Cooperation among Islamic banks should be extended to an international level where not only portfolios would be interrelated, but also financial and educational assistance would be rendered.
8. Finally, private or public institutions are to establish an Islamic cooperative society. As was done here in Gombe State University (GSU) which is making a lot of progress. The *Murabahah* Multipurpose Cooperative Society (MMCS) is a registered interest-free cooperative society established with the sole goal of empowering GSU staff through the

provision of facilities for regular thrift savings and investment; giving free-interest loan to members for provident or productive purposes; providing intensive cooperative and investment education for members among others.

5.8 Conclusion

Conclusively Islamic banking became gradually and 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 states including Gombe.

Jaiz Bank Plc Gombe branch in collaboration with the Gombe State Government, besides the issue of earning profits, the bank contributed 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 reduce idleness and joblessness that people should be in entrepreneurship and investments.

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. Muslims should also endeavor to patronize the Islamic banks by investing their capitals in *Jaiz* banks.

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