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**NEEDS AND PROSPECTS OF ISLAMIC BANKS  
IN NIGERIA**

**BY**

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**MASTER OF ECONOMICS PROGRAMME  
DEPARTMENT OF ECONOMICS  
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**SUBMITTED TO THE GRADUATE COMMITTEE KULLIYAH OF  
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This is to certify that Bro. / ~~Scor~~ HUSSAINI USMAN MALAMI  
has written the Master of Economics research paper entitled:

NEED AND PROSPECTS OF ISLAMIC BANKS IN NIGERIA

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under my supervision. The relevant comments made on the paper during its presentation have been incorporated in the present version of the paper to my full satisfaction.

I have pleasure in recommending that the graduate committee may approve the paper in partial fulfilment of the requirements for the degree of Master of Economics.

Name of Supervisor : DR. MUHAMMAD ANWAR

Date: MAY 1992

Muhammad Anwar  
(Signature)

DEDICATION

My Brothers and My Sister

HASSAN,

BUKHARI (Gado)

and

Nana Asma'u (Hassanah)

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All praises and thanks belongs to Allah, whose mercy alone provide me opportunity to be in Malaysia for my postgraduate studies. May Allah's pece and blessings be upon His last massenger, Muhammad (S.A.W.S.), his companions, his family, and all those who follow the right guidance to the last day.

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Hussaini U. Malami.

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## NEED AND PROSPECTS OF ISLAMIC BANKS IN NIGERIA.

HUSSAINI USMAN MALAMI.

Recent Islamic resurgence the world over led to the establishment of Islamic (Interest-free) banks in several countries. First Islamic bank was founded, according to Rodney Wilson, in a rural area of Pakistan in the late 1950s.<sup>1</sup>

In 1963 another Islamic bank, Mit Ghams Savings Bank, was established in Egypt under the leadership of Ahmad El-Naggar. Although the Mit Ghams Savings Bank was closed by the Egyptian government, perhaps, because of the political reasons, a chain of Islamic banks followed in response to success of the Mit Ghams Savings Bank.

In 1972, Nasser Social Bank was established in Egypt despite closing of the Mit Ghams Savings Bank. Thanks to the Mit Ghams experiment, Dubai merchants learned new ways of harnessing wealth of those who refused to deal with the conventional banks in the United Arab Emirates on religious pretence of prohibition of Interest. Consequently, in 1975, Dubai Islamic bank was established in the U.A.E. In the same year, Islamic Development Bank was established by the 22 member countries of the Organisation of Islamic Conference.<sup>2</sup> In 1977, four more Islamic banks were estab-

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1. Rodney Wilson, Banking and Finance in the Arab Middle East, Macmillan London, 1983, p 75.

2. At the moment, the IDB's membership stood at 43 countries.



lished in the Middle east. In 1978, an Islamic bank was established in a Non-Muslim country, Luxembourg, now, known as Islamic Finance House Universal Holdings.

During 1980s, Islamic banks were established in several other countries including United Kingdom, India, Philippines, Malaysia, and Niger. In addition, Pakistan, Iran and the Sudan declared adoption of nation-wide Interest-free banking in place of Interest-bearing banking.

Muslims in Nigeria have been watching these developments with great interest and aspire to establish an Islamic bank in the country wherein all banks are interest-based. The Nigerian Muslims have been passively dealing with the interest-based banks due to the prohibition of interest in the Qur'an and the Sunnah. But, recently they have called for the establishment of an Islamic bank in the country.<sup>1</sup>

The aim of this paper is to examine whether establishment of an Islamic bank is justifiable on moral, legal and socio-economic grounds (in section one) and the probability of establishing an Islamic bank in Nigeria (in section two). Some important obstacles concerning establishment of Islamic bank are discussed in section three. An action plan to establish the Islamic bank follows in section four before concluding the paper with a summary.

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1. See AL-NAHDAH: Muslim News and Views, Vol. 5 No 4, 4th Quarter 1985/1406. The Regional Islamic Da'awah Council of South-East Asia and the Pacific (RISEAP), Kuala Lumpur, Malaysia.

## **RATIONALE FOR AN ISLAMIC BANK IN NIGERIA.**

One can justify the need for establishing an Islamic bank in Nigeria by looking at the moral, legal, and socio-economic dimensions of the issue.

### Moral Dimensions.

Muslims are in majority among all the religious groups living in Nigeria. According to Stuart Mews, out of 105 million population, "some 45 million are Muslims, some 35 million are Christians, and some 25 million observe (different) forms of African Traditional Religions,"<sup>1</sup> suggesting that 43% of Nigeria's population is Muslim.

Both Christianity and Islam, the two major religions in Nigeria prohibit interest.<sup>2</sup> In fact, according to known historical records, most religions condemned interest.

### Legal Dimension.

Nigerian constitution guarantees every individual the right and freedom to practice his religion. Section 37(1) of the 1989 constitution reads "every person shall be entitled to freedom of thought, conscience and religion ..... and freedom to manifest and propagate his religion or

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1. Mews Stuart, Religion in Politics -A World Guide, (Nigeria) Longman International Reference, U.K. 1989, PP 196-201.

2. See Holy Bible -New Testament: Luke 6:35; and Holy Qur'an, 30:39, 3:129, 2:275-276, 2:278 and 4: 161.