

PRESENT ECONOMY, COVID – 19 PANDEMIC AND THE ALTERNATIVES IN ISLAMIC BANKING AND FINANCE

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Abstract

Poverty in Nigeria has considerably risen in Nigeria for a number of reasons and for a number of years. The Nigerians need financial outlet in form of simple loans but the vulnerability of microfinance banks and difficulties encountered with the major commercial banks constitute serious impediment. The Islamic banking and finance as a new business phenomenon need to be understood, applied and utilized, especially in a post CoVid-19 era. The CoVid-19 pandemic has opened a new chapter in human life, which need to be understood and utilized. The information expressed, conveys the viability, profitability, measured riskiness and comfortable process of utilizing the instruments.

Key words: Islamic banking, Islamic finance, Waqf, Zakat, Enterprise

Introduction

The world economy have suffered due to the effects of the global pandemic, CoVid – 19, which led to sudden lockdown and seizure of most economic activities across the world.

Islamic banking and finance in Nigeria has a long history, as was first established in 1961, but closed down in 1962 by the then Minister of Finance (Orisankoko, 2010). The idea was lively and was introduced as non-interest banking window by Habib Bank Ltd. in 1999, United Bank for Africa (UBA) and Stanbic Bank in 2008, (Adebayo, 2010). Later the government was able to support the efforts by a legal framework for the establishment of interest window through Banks and Other Financial Institutions Act (BOFIA) No. 25, especially in section 9(2) and sub-section (1).

The growth continued, as Osun State began offering Nigeria's First Islamic Bank, taking a major step towards developing an Islamic Finance industry in Africa's most populous nation, (Reciters, 2013) the \$62 million investment was for seven years.

According to the World Bank Group, the Covid-19 pandemic and economic lockdowns have severely hurt global economic activities. In a bid to cushion the impact on introduced various policies and massive stimulus programmes. It further maintained that small and medium enterprises (SMES) are particularly vulnerable and many of them are on the part of collapse.

Some of the problems generated by the CoVid - 19 pandemic include general lockdown, collapse of transportation, closure of various businesses, sudden retrenchment of workers, and subsequent recession. Though, each country may have its unique problems.

Concept of Islamic Banking

Islamic banking and finance industry has expanded rapidly over the past few decades, growing at 10% - 20% annually. Shariah compliant assets are estimated at roughly \$5 \$2 trillion, covering bank and non-bank financial institutions (Dutsin Ma, S.A, 2018). He further emphasized that Islamic Banking assets have been growing faster than conventional banking assets. And there is increased in Islamic finance from countries such as the U.K., Luxembourg, South Africa, and Hong Kong.

The Major concepts expected to be achieved by Islamic Banking and Finance are the prohibitions of Riba (interest), Gharar (uncertainty in business, Maidir/Qimar (Games of chance)). And it propagates risk sharing. These forms the basis of Islamic Banking and Finance, according to (Shehu, F.M. 2015).

The Islamic doctrine is banking is specifically to avoid the interest normally shared to account holders and shareholders. It is completely rejected as it serves the benefit of few investors to the detriment of the majority.

Concept of Islamic Finance

The Islamic finance category according to (Aida K and Imen Karray) includes instruments which they explained follows:

- Murahaba contract (Sale with different settlement) it is an asset-based. Sale operation used to finance goods required as working capital.
- This financing instrument can support future traders to acquire goods and purchase of raw materials for the industrialist.
- Qard Hasan (Oxa benevolent loan)
An Ijara contract is used to finance the acquisition of equipment and machinery, the client rents a product from a banker for a predetermined cost the period of the lease is clearly specified in the contract.
- Salam contract (Farward sale)
The Islamic bank pays in advance the amounts for the future delivery of goods. Funding is designed to build or produce the good in question.
- Istisna' contract (Financing of the long-term production) Istisna' appears as a contract of manufacturing or construction, after which the constructed good is bought by the seller who will deliver it when manufacturing or the construction is finished.

These five instruments can further be explained to any party interested in applying it as an investment. But they are all worthy and profitable

Concept of Waqf

The owner of a property in wealth has the right to dedicate it to a particular purpose. This dedication or surrendering is called waqf.

Many cases of waqf are reported in the Traditional. Abn Talhah created waqaf. The income from which was to be spent on his poor relatives (aqurib), and this was done under the Prophet's direction (BU 55:10). It is also made very clear in (BU 55:11) that a man's son or his wife falls within the definition of relatives. It is also stated that a man who creates a Waqf is allowed to draw benefit from it, for he himself may be its manager (Mutawalli) as well as anybody else, (BU 55:12) another tradition states that "Umar create a Waqf in accordance with the direction of the Prophet in favour of the poor as well as his rich relatives (BU 55:2. Waqf was studied and explained by (Husaini, K. 2019) where he classified it as (a). sovereign Waqf-meant for the Federal Government (b). sub sovereign Waqf- for state Governmental, (c). corporate and companies (d). Social Waqf for nongovernmental, corporate and community based organizations, (e) Family waqf dedicated to the owner's family (f). Personal Waqf- specially for the owner and his family (g). Public Waqf dedicated to the public (h). Royal Waqf dedicated to the royal family (i). Political party Waqf dedicated to a particular party (j). Cash Waqf- trend in meant for something specific offer consideration.

Waqf is different from request, inheritance and gift. There quite are a number of Traditions to the effect of each. Therefore waqf is essential in addressing societal, community or national issue and it really affects the economy.

Concept of Zakat

This is the general concept of charity toward in Islam as laid down in the Qur'an. The five principles of Islam according to Maulana Muh'd Ali; three are the relatives and two practical. He elaborated that the three theoretical essentials are behalf in God in Divine revelation and in the thereafter and the two practical are keeping up in prayer and spending what God has given to man several places in the Qur'an. Allah spoke of prayer and Zakat mostly together.

According to Raghib "Zakat is wealth taken from the rich and given to the poor, because it make the wealth grow".

Zakat is not simply an obligatory charity; it is an institution, according (Ali M.M.) or where there is no Muslim state a national institution serves. The individual is not at liberty to calculate and spend his Zakat as he likes. It must be collected by the state on a national basis and spent by the state or community.

It will be observed that Zakat proper in only a charge on the accumulated wealth, and it is intended to overcome the inequalities of capitalism. A part of the amassed wealth or capital of every individual is calculated and taken away annually and distributed among the poor and the needy. Such phenomenon is highly commendably in many Islamic countries.

Concept of Entrepreneurship

Generally banks are hesitant to extend their credit to new entrepreneurs. This is generally due to high risk and administrative cost lending to small firms.

According to (Muneer, S., Ali A. Rao, A.A., 2017), the business sector is divided into two major parts, one is public sector and the other is small and medium enterprises (SME) sector the most significant thing is that the SME have been reflecting the major contribution in the development of this world for many years. They further referred to the SME definition by World using the following index,

- Micro enterprise: number of employees 10, assets having the world of \$100,000 and sales are up to \$100,000
- Small enterprises having about 50 employees, asset and sales are about \$3 million.
- Medium enterprises contains 300 employees, having assets and sales up to \$15 million.

The need for a well structured SME or company is very necessary, for the interested investors, because the capacity and structure matters a lot.

Covid-19 Pandemic

The current global pandemic has created urgency for a response, and the Covid-19 virus is making one thing clear as it spreads around the world: each country's current problems will become other countries problems in the near future. However, the response that each individual country must take is much more damaging to its own economic prospects in the short-term, while the benefits accrue to the rest of the world. To ensure that countries take the necessary action, other should share in the burden for the common good, as stated by (Goud, B. 2020)

Conclusion

The pandemic should be viewed as an opportunity for conversion of human activities into beneficial and progressive phenomenon, capable of leading nations into yet another era of highly transformative benefits. There is the need political leaders and business technocrats to be interested in this aspect and direction for the purpose of cursory attention and practical application

Recommendations

The Islamic banking and finance industry is growing in an unprecedented manner globally. This paper made effort to explore the opportunities, in this sense, the following recommendations are made, taking Nigeria as the subject:

1. Islamic banking and finance is an ideal choice in this era of CoVid -19 pandemic, for both Muslims and non-Muslims.
2. The Federal, States and Local Governments should ensure that they immediately apply some of the instruments underlined in this paper.
3. Special consideration is expected to be applied to the Zakat and Waqf instruments at all levels.
4. A National Zakat and Waqf Board is expected to be initiated by the Federal Government and also by the States' in order to tackle poverty.
5. The riskiness involved in investing in the instruments of Islamic banking and finance is measurable and secured with high returns, therefore investors are encouraged to explore the opportunities, especially in this era of post CoVid-19.

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