

## A SURVEY ON THE CONTRIBUTIONS OF ISLAMIC FINANCIAL INSTITUTIONS TO THE NATIONAL DEVELOPMENT IN NIGERIA

BY

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### Abstract

This paper investigates the operations and impact of various Islamic Financial Institutions in Nigeria that comprises Banking, Insurance, and Capital Market sectors. Islamic Financial institutions abstain from transactions that do not conform to the dictates of Islamic Shari'ah such as paying or receiving interest (*riba*), transactions in prohibited items, investment in uncertainties (*Gharar*) and speculation (*maysir*). The instruments with which Islamic Financial institutions trade in are the use of (*Musharakah*) a profit and loss sharing partnership, (*Mudarrabah*) a profit-sharing and loss-bearing contract, (*Ijarah*) a contract of sale of the right to use an asset for a period of time, (*Murabahah*) *Sharia* compliant sale transaction mostly used in trade and asset financing, (*salam*) a sale where the seller undertakes to supply some specific goods to the buyer at a future date) (*Istinah*) a mode of financing where the commodity involved is manufactured to the specifications of the purchaser and (*Sukuk*) Islamic bonds. Unlike conventional financial institutions, Islamic financial institutions which focus on the business ethic, wealth distribution, social and economic justice, that are at the center of moral economy. The success of these institutions are enormous ranging from poverty reduction, infrastructural development, improved standard of living, job creation, financial inclusion, safety of investment, easy access to non-interest financing, socio-economic development, educational advancement and improved Muslim *ummah* literacy levels in Nigeria. Islamic financial institutions and Islamic windows have largely supported private consumption, business investments of its customers, aid government spending via *sharia* bonds (*sukuk*) to fund developmental projects of its customers. The methodology used in conducting this research is survey where data were collected from both primary and secondary sources. The paper concludes that Islamic financial institutions have contributed greatly to the development of Islam and the Nigerian economy in general. The paper recommends the use of Islamic Financial Institutions for the betterment of Nigerians and Nigeria at large.

**Keywords:** Islamic, financial institutions, financial instruments, Interest, uncertainties

### Introduction

Islamic financial institutions refer to organizations whose system of operations are based on Islamic principles of business and its practical application through development of Islamic economics. The principles of Islamic Finance

emphasize moral and ethical values in all its dealings and have wide universal appeal. Islamic law prohibits the payment or acceptance of interest charges (*riba*) for the lending and accepting of money, as well as carrying out trade and other commercial activities that are at variance with the dictates of Islamic law. Conventional financial systems were used as the basis for a flourishing economy in earlier times; it is only in the late 20<sup>th</sup> century that a member of Islamic banks emerged formed to provide an alternative basis to Muslims.

The global financial crisis of 2007-2008 exposed the weaknesses of the conventional financial system in the global economy. More importantly, the crisis adversely affected many giant conventional financial institutions around the world such as Lehman's brothers of United States of America and Union Bank of Switzerland (UBS). However, the potential of Islamic financial institutions against the crisis made it more appealing beyond the Muslim world. This is because many countries deemed it necessary to search for a financial system that can withstand the test of time. As a result, the debate on the practicability of Islamic financial system has not only grown but has considerably widened (Ahmed, 2010)

In Nigeria, the evolution of Islamic banking can be traced back to 1991 when the Bank, Insurance and other Financial Institution (BOFIA) act was amended. This gave birth to an Islamic window in 1992 that was practiced by Habib Bank, Platinum Habib Bank (Now Keystone Bank). In addition, to that, an approval in principle was granted to *Jaiz* Bank to operate as a full-fledged Islamic bank in the country in 2003, but could not commence operations before the recapitalization of Banks in 2005. The Central Bank of Nigeria (CBN) in 2011 released a framework for Non-Interest Financial Institutions (NIFI's) which further categorized Non-Interest Financial Institutions into two (2): Islamic Financial Institutions and other Non-interest financial institutions (Fada 8). Nigeria is among the top 15 most advanced Islamic finance markets globally.

### **Islamic Financial Institutions in Nigeria**

Islamic financial institutions in Nigeria are examined based on their components: Islamic Banking, Islamic insurance (Takaful), Sukuk (Islamic Bond) and Islamic Fund.

A breakdown of the Islamic Financial Institutions in the Nigerian economy are as follows:

- a. Non interest Banking (3)
- b. Non interest Banking Windows (4)
- c. Takaful Companies (4)
- d. Islamic Ethical Funds (3)
- e. Non interest Microfinance Banks (2)
- f. Islamic Cooperative Society (Over 100)
- g. Sovereign *Sukuk* Issuance (4)

### **Islamic Banking**

There are three full-fledged Islamic banks in Nigeria presently, these are Jaiz bank Plc, Taj Bank and the third Islamic Bank- Lotus Bank Limited which has just been granted operational license (June 2021) and four non-Islamic banks with Islamic windows namely, Keystone Bank, Stanbic IBTC, Standard Chartered Bank and Sterling Bank. . The sector has witnessed tremendous growth over time because as at the end of 2019, the total assets of Islamic banks in Nigeria

stood at N97.3 Billion. (CBN Statistical Bulletin Report, 2020). Al *barakah* microfinance bank was the first to be established in Nigeria in 2010, with its head office in Lagos. The second is *Tijarah* microfinance bank.

### ***Takaful (Islamic Insurance)***

The African Alliance Insurance Company Limited introduced Islamic Insurance (*Takaful*) into the market in 2003. Since then other two conventional insurance companies have joined the fray. These are Niger Insurance Plc and Cornerstone Insurance plc (Abubakar and Burhan, 2017).

Cornerstone is an ethical, dynamic and innovative custom product for the large Muslim population in Nigeria and decided to establish *Halal Takaful* Nigeria for that purpose. Of all the three existing *Takaful* underwriting companies, only Cornerstone offers a separate *Takaful* office; being run by one of its subsidiaries *Halal Takaful* Nigeria where assets of *Takaful* are not merged with the conventional insurance funds. Just as things were getting quiet, Nigeria's Islamic financing Industry got a boost with the licensing of two new *takaful* operators by the National Insurance Commission (NAICOM) in September 2019. The two operators, Cornerstone *Takaful* Insurance Company Ltd and Salam *Takaful* Insurance Company Ltd, where granted approvals in principle (AIP) to operate family and general *takaful* across the country. The new operators joined two existing full-fledged *takaful* companies, *Jaiz* *Takaful* and *Noor* *Takaful*, effectively doubling the number of full-fledged *takaful* operators in the country to four. *Takaful* could help to break the cultural stigma that has weighed on insurance penetration in Muslim-majority areas (Gambo 9-16)

### ***Sukuk (Islamic Bond)***

This is an Arabic word which refers to investment certificates or notes which evidence proportionate interest in ownership of tangible assets, usufructs and services or investment in the assets of particular projects or special investment activity that adhere to the principles of *Shariah* (Security and Exchange Commission, 2019). The basic principle behind *Sukuk*, popularly known as an Islamic or *Shariah*-compliant "Bond", is that the holder has an undivided ownership right in a particular asset and is therefore entitled to the return generated by that asset. As a component of Islamic finance, *Sukuk* is a non-interest based investment and financing instrument but its application is not restricted to Muslims as it conforms to ethical standards and justice (Security and Exchange Commission, 2019).

The first *Sukuk* launched in Sub-Saharan Africa which worth N11.4 billion (\$70.6 million) was by Osun State Government (OSG) of Nigeria through Special Purpose Company on 8<sup>th</sup> of October 2013. The *Sukuk* was issue at a rate of 14.75% per annum at N 1,000 per unit and matures on 08 October 2020. After the issuance by Osun State Government, the appetite for ethical finance in Nigeria increased, and led to three successful issuances in Nigeria with a total of N350bn by the FGN from 2017 until 2021, which has been largely oversubscribed. Taj Bank announced N150 Billion *Sukuk* Bond in which it was appointed by the Federal Government of Nigeria as a receiving agent this year (Rauf, 2021)

The FGN is set to fix forty-four 44 roads with *sukuk* funds raised in the bond market. The sum of 162.55 Billion has been raised and the sovereign *sukuk* symbolic cheque was presented to the minister of works and housing Mr. Tunde Fashola by the Minister of finance Mrs. Zainab Ahmed in June 2020. Eight roads were to be constructed in each geopolitical areas in Nigeria. (CBN Statistical Bulletin Report, 2020).

### Islamic investment Fund

Islamic investment fund refers to a joint pool of funds wherein the investors contribute their surplus money for the purpose of its investment to earn *halal* profits in strict conformity with the precepts of *Shariah*. The subscribers of the fund may receive a document certifying their subscription and entitling them to the pro rata profits actually earned by the fund. These documents may be called certificates, units, and share or may be given any other name, but their validity in terms of *Shariah* will always be subject to two basic conditions. Any investors, whether they are Muslims or non-Muslims, can invest in Islamic funds. Some investors may invest in Islamic funds for religious reasons and some may regard them as socially responsible products. Other investors may invest in Islamic funds in order to seek diversification in their portfolios (Muhammad 2020).

Lotus Capital is a full-fledged Islamic fund management company that was founded in June 2004. It has a total asset size of N5.953B as at 2020. Its share index gained by fifty point zero three 50.03% as at year 2020. (Lotus Capital Financial Report, 2013). It was the first Islamic financial institution that traded in this financial sector in Nigeria. (Issa, Thouraya, & Thierry 136-151). Islamic investment funds can be invested in equities or fixed income securities.

### Equities

Sharia law allows investment in company shares (common stock) as long as those companies do not engage in forbidden activities. Investment in companies may be in shares or by direct investment (private equity).

Muslim scholars have made some concessions on permissible companies, as most use debt either to address liquidity shortages (they borrow) or to invest excess cash (interest-bearing instruments). One set of filters excludes companies that hold interest-bearing debt, receive interest or other impure income, or trade debts for more than their face values. Further distillation of the screens above would exclude companies whose debt/total asset ratio equals or exceeds 33%. Companies with "impure plus non-operating interest income" revenue equal to or greater than 5% would also be screened out. Finally, Islamic scholars would exclude firms whose accounts receivable/total assets equal or exceed 45% (Muhammad, 2020)

### Fixed-Income

Retirees who want their investments to comply with the tenets of Islam face a dilemma in that fixed-income investments which include *riba* (interest), which is forbidden. Therefore, specific types of investment in real estate could provide steady retirement income while not conflicting with Sharia law. These investments can be direct or securitized, such as a diversified real estate fund.

In a typical *ijarah sukuk* (leasing bond-equivalent), the issuer will sell the financial certificates to an investor group. The group will own the certificates before renting them back to the issuer in exchange for a predetermined rental return. As with the interest rate on a conventional bond, the rental return may be a fixed or floating rate pegged to a benchmark, such as London Interbank Offered Rate (LIBOR). The issuer makes a binding promise to buy back the bonds at a future date at par value. Special purpose vehicles (SPV) are often set up to act as intermediaries in the transaction (Muhammad, 2020)

### Philosophical foundation

The philosophical foundation of an Islamic financial system goes beyond the interaction of factors of production and economic behaviour. The Islamic financial system can be fully appreciated only in the context of Islam's teachings on the business ethic, wealth distribution, social and economic justice, which are at the centre of a moral economy. Whereas the conventional financial system focuses primarily on the economic and financial aspects of transactions with their material outcomes, the Islamic system places equal emphasis on the ethical, moral, social, and public interest dimensions, to enhance equality and fairness as well as the role of the state. The principles underlying the shari'ah (referred to as Islamic law) and its practical application through the development of Islamic economics. Practitioners and clients need not be Muslims, but they must accept the ethical and moral prohibitions underscored by values emphasized in Islamic teachings founded on the Qur'an, the Hadith (the sayings and conduct of Prophet Muhammad (pbuh) and interpretation by Islamic scholar (Iftikhar, & Samreena, 45-60)

### Principles of Islamic Finance

Islamic finance strictly complies with Sharia law. Contemporary Islamic finance is based on a number of prohibitions that are not always illegal in the countries where Islamic financial institutions are operating:

#### 1. Paying or charging an interest

Islam considers lending with interest payments as an exploitative practice that favors the lender at the expense of the borrower. According to Sharia law, interest is usury (*riba*), which is strictly prohibited. Allah (SWT) says

Those who eat *Riba*<sup>1</sup> (usury) will not stand (on the Day of Resurrection) except like the standing of a person beaten by *Shaitân* (Satan) leading him to insanity. That is because they say: "Trading is only like *Ribâ* (usury)," whereas Allâh has permitted trading and forbidden *Ribâ* (usury). So whosoever receives an admonition from his Lord and stops eating *Ribâ* (usury) shall not be punished for the past; his case is for Allâh (to judge); but whoever returns [to *Ribâ* (usury)], such are the dwellers of the Fire - they will abide therein (Q2:276).

#### 2. Investing in businesses involved in prohibited activities

Some activities, such as producing and selling alcohol or pork, are prohibited in Islam. Therefore, investing in it is equally forbidden. Allah says:

O you who believe! Intoxicants (all kinds of alcoholic drinks), gambling, *Al-Ansâb*, and *Al-Azâlâm* (arrows for seeking luck or decision) are an abomination of *Shaitân's* (Satan) handiwork. So avoid (strictly all) that (abomination) in order that you may be successful (Q 5:90)

### 3. Speculation (*Maisir*)

Sharia strictly prohibits any form of speculation or gambling, which is called *maisir*. Thus, Islamic financial institutions cannot be involved in contracts where the ownership of goods depends on an uncertain event in the future. Allah says:

They ask you (O Muhammad SAW) concerning alcoholic drink and gambling. Say: "In them is a great sin, and (some) benefit for men, but the sin of them is greater than their benefit." And they ask you what they ought to spend. Say: "That which is beyond your needs." Thus Allâh makes clear to you His Laws in order that you may give thought (2:219).

### 4. Uncertainty and risk (*gharar*)

The rules of Islamic finance ban participation in contracts with excessive risk and/or uncertainty. The term *gharar* measures the legitimacy of risk or uncertainty in investments. *Gharar* is observed with derivative contracts and short-selling, which are forbidden in Islamic finance.

The Messenger of Allah (peace be upon him) prohibited *gharar* sale (and pebble sale) (*Māja* 12:2279)

In addition to the above prohibitions, Islamic finance is based on two other crucial principles:

- Material finality of the transaction: Each transaction must be related to a real underlying economic transaction.
- Profit/loss sharing: Parties entering into the contracts in Islamic finance share profit/loss and risks associated with the transaction. No one can benefit from the transaction more than the other party. (Ibrahim, M.L. 98-119).

### Basic financial instruments in Islamic Financial Institutions

***Musharakah*** is a profit and loss sharing partnership and the most authentic form of Islamic Financing. It is a contract of partnership where two or more partners provide capital to finance a project or own real estate or movable assets, either on a permanent or diminishing basis. Partners in *Musharakah* have a right to take part in management; they seem to bear the greatest risk among all Islamic financing modes with the potential for earning the highest reward. However, whereas profits are distributed according to pre-agreed ratios, losses are shared in proportion to capital contribution (Clews, 2016).

***Murabahah*** is a popular *Sharia* compliant sale transaction mostly used in trade and asset financing. The bank purchases the goods and delivers them to the customer, deferring payment to a date agreed by the two parties. The expected return on *murabahah* is usually aligned with interest payments on conventional loans, creating a similarity between *murabahah* sales and asset-backed loans (Orhan 2020)



**Mudarabah** is a profit-sharing and loss-bearing contract where one party supplies funding (capital owner) and the other provides effort and management expertise (manager) with a view to generating a profit. The ratio in which the total profits of the enterprise are distributed between the capital-owner and the manager of the enterprise is determined and mutually agreed at the time of entering the contract, before the beginning of the project. In the event of loss, the capital owner bears all the loss and the principal is reduced by the amount of the loss. It is the risk of loss that entitles the capital-owner to a share in the profits. The manager bears no financial loss, because he has lost his time and his work has been wasted. This is, in essence, the principle of *mudarabah*

**Ijarah**, leasing is a contract of sale of the right to use an asset for a period. It is essentially a lease contract, whereby the lessor must own the leased asset for the entire lease period. Since ownership remains with the lessor, the lessee can repossess the asset in case of nonpayment. However, the lessor is also responsible for asset maintenance, unless damage to the leased asset results from lessee negligence. This element of risk is required for making *ijarah* payments permissible (Orhan, 2020).

**Salam** is another mode of financing in Islamic Finance. It is a sale where the seller undertakes to supply some specific goods to the buyer at a future date is specified in exchange of an advanced price fully paid at spot. This mode of financing is used to finance the agricultural sector.

**Istisna** is another mode of financing where the commodity involved is manufactured to the specifications of the purchaser. This is widely used in the housing finance sector, where the client seeks finance for the construction of a house. The financier may undertake to construct the house on a specified land either belonging to the client or purchased by the financier, on the basis of *Istisna* with payment fixed in whatever manner the parties may wish (Nikonora, et al 2015).

**Sukuk** is the Islamic equivalent of bonds and they are similar to asset backed securities. Whereas a conventional bond is a promise to repay a loan, *Sukuk* constitutes partial ownership in receivables practice; Islamic finance often involves structuring transactions in a manner that closely mimics conventional finance insofar as a periodic rate of return is provided. In certain types of *Sukuk* instruments, a predetermined rate of return is often paid to the investor; this rate is based on the expected return of the underlying assets that collateralize the *Sukuk*. In the case of debt-like financing by Islamic banks, interest is not charged; instead, debtors will provide predetermined and periodic payments to the bank, based on the expected profit that would accrue to the underlying asset (in the case of a capital investment), or on the rent that might be charged for the use of the underlying asset (in the case of a home or car loan), (Al-Zuhayli, 2003).

## Contributions of Islamic Financial Institutions to the Development of Islam in Nigeria

**Economic Empowerment:** The various successes recorded by some Islamic financial institutions in Nigeria have positively affected the economic well-being of the shareholders, customers and other stakeholders. For example, *Jaiz* bank recorded 54% growth in PBT from 2.1 billion in September 2020 to 3.3 billion in September 2021. The bank also declared 32% increase in Gross income from 14.24 billion realized in September 2020 to N18.78 billion at the end of September 2021. The banks total asset grew by 22% from ₦ 210 billion as at September 2020 to ₦ 256 billion at the end of September 2021. Shareholders' funds grew from N17.85 as at end of September 2020 to N20.31 billion as at end of September, 2021. Earnings per share for the period experienced a surge by 45% from 6.28kobo in the third quarter of 2020 to 9.09 kobo at the end of third quarter of 2021.

The bank has consistently delivered remarkable results in the last three years and the whole of the three quarters in the current year (2021) which clearly is a reaffirmation of its continuous growth trajectory as the clear leaders in Nigeria non interest banking space to its shareholders and the general banking public (Jaiz Bank Press Release, August 2021).

TAJ Bank, is the Nigeria's second non-interest banking services provider, which has recorded the highest earning per share (EPS) in the nation's banking industry with its shareholders earning N11.82 per share, this represent an appreciation of 1,182% on every N1 investment. This is even as the lender reported N845 million Profit after Tax (PAT) in its first year of operations at December 2020 just as its other performance indices were upswing, demonstrating the management's superior financial competencies to create sustainable value for its various stakeholders. TAJ Bank's financial statements already approved by the monetary authorities indicated that the lender, which had achieved its breakeven mark barely nine months after it debuted in the non-interest banking terrain, grew its total assets from N9.2 billion in 2019 to N50 billion in 2020, representing 443% increase and a remarkable growth. A further analysis of the ethical and value-driven bank's financials showed 1,495% growth in its deposit base displaying the lender's capacity to thrive in the non-interest banking sub-sector through innovation and efficient service delivery in the face of the COVID-19. Quite remarkably, at a time when electronic frauds are threatening the global banking system, TAJ Bank has guaranteed the safety of depositors and investors' funds, recording no single incidence of fraud since its inception.

TAJ Bank Limited has recorded 471 per cent growth in Profit before Tax (PBT) in its 2020 financial year. During the financial year, the bank reported improvements in its gross earnings, which rose from by 6,066 per cent in the financial year to N3.456 billion. (Goddy, 2021)

Lotus capital financial statement released in March 2021 for the financial year as at 31/12/2020 indicates a profit after tax of N236, 552,823. The asset stands at N646, 451,187.00 (Lotus capital Audited Financial Statement, 2021).

Noor Takaful Insurance recorded growth from the gross contribution of N243 million to about N1.2 billion in 2020. "Takaful is part of the growth trajectory of Islamic



finance that was influenced by the introduction of Islamic banks and Islamic capital markets entities.

A total amount of N1billion has so far been paid in claims to policyholders since inception.

For the third year in a row, Noor Takaful, has announced the distribution of surplus (cashback) payment worth over N36 million to participants (policyholders) who did not make claims, in line with its commitment to promoting ethical insurance in Nigeria.

About 621 participants including individuals, private, public organizations, banks and higher institutions of learning, would receive this surplus payment. The list of customers to receive surplus include BUA Group, Engee Pet Manufacturing Limited, Kano Agric Supply, JAMB, Modibbo Adama University Yola, Sterling Bank and *Jaiz* Bank. Engee Pet Manufacturing will receive one of the highest amounts worth N1.13 million. The company has also announced the launch of a new product targeted at serving the varying insurance needs of its customers most especially in the retail market (Noor Takaful Press Release august 2021).

*Jaiz* Takaful insurance benefits 30 per cent from the premium paid for management expenses, which it uses to pay salaries and shareholders. The 70% is paid to a separate account known as participant account and is used in settling claims, reinsurance and commissions to intermediaries' brokers and agents other statutory fees. *Takaful* is based on the Islamic principle of *Taawun* or mutual benefits. The premium paid by a customer remains as his investment if it does not suffer loss. (Momodu, 2021). Other contributions of Islamic Financial institutions to the Development of Nigeria includes:

1. Financial inclusion: In Nigeria, since the introduction of Islamic finance about two decades ago, had made tremendous contributions to the development of Muslim *Ummah* in area of financial inclusion. Many Muslims have imbibed the culture of savings, insurance and investing in Islamic financial products in Islamic financial institutions since the fear factor of dealing in interest (*riba*) has been removed. For instance, *Jaiz* Bank Plc has expanded its footprint in Nigeria with five additional branches across the country. The new branches have increased the total network of the branch to 39. The new branches are located in Funtua, Katsina State; Zaria, Kaduna State; Iwo Road and Saki both in Oyo State, and Osogbo in Osun State. This implies wider access to financial services for the Muslims.
2. Improving the standard of living of Muslims: *Jaiz* Bank recorded a revenue after tax of N8.01 Billion as at December 2019. This is an economic empowerment of the shareholders who are mostly Muslims. The 26,000 shareholders of the Bank will share this profit in form of dividends which will ultimately increase their economic prowess and improve their standard of living. (Gambo, M. 9).
3. Job creation for the Muslim *Ummah* ; This is another giant stride made by Islamic financial institutions, for instance *Jaiz* Bank currently employs 499 staff, *Taj* Bank has employed 50 staff on their payroll, while other Islamic financial institutions such as the four *takaful* insurance companies, Islamic funds managers etc have reasonable number of employees on their payroll. This has gone a long way in reducing unemployment among the muslim *ummah* and ultimately poverty reduction.

4. **Infrastructural Development:** The '*Sukuk*' instrument largely has supported the provision of public infrastructure. Presently, there are 44 road projects financed by Sukuk bonds. This will facilitate easy movement of goods and services provide employment and infrastructural development of Muslim dominated states.
5. **Poverty alleviation:** Introduction of the Non-Interest (Islamic) Microfinance Banks in Nigeria has engendered a wave of healthy competition in the microfinance industry that brings about a possible reduction of interest rates. This helps drive the Nigerian economy and ensure its steady growth considering the fact that Nigeria not too long ago was in recession. Muslim Traders, artisans, rural farmers have boosted their businesses through non –interest loans from these Islamic financial institutions, thereby reducing the level of poverty within the Muslim society (Hassan, 2021).
6. **Educational advancement and improved literacy levels:** The Osun State N60 Billion Debt Issuance Programme was used to fund the development of 20 High Schools, 2 Middle Schools and 2 Elementary Schools in Osun State. This has enhanced educational development in the state that is predominantly Muslim state (Rauf, 2020).
7. **Easy access to non- interest financing:** Over the years, the Nigeria Stock Exchange has helped issuers to raise non-interest instrument by directing long-term capital towards infrastructure and high social impact projects including education. Islamic finance institutions is doing a lot in helping the Central Bank of Nigeria to actualize some of its economic targets. The Islamic finance institutions continued to create awareness and enlightenment on their activities and their value to the local financial market. The Capital market has leveraged more with '*Sukuk*' provisions and '*Takaful*' covering the Insurance sector.

### Prospects

1. **Bridging the Housing Deficit,** with a huge population of about 213,215,121(as at November 22<sup>nd</sup> 2021, based on Worldometer elaboration of the latest United Nations data), people and a housing deficit estimated at over 20m, the Islamic Finance Instruments '*Sadaqah*' and '*Waqf*' have been described as veritable tools that is helping in address housing deficit among Muslim *Ummah* in Nigeria (Qazeem 2020).
2. **Socio-Economic Development:** Islamic Finance could catalyze Nigeria's socio-economic development, especially in the area of budget 2021 and even the Economic Sustainability Plan; Nigeria can look into alternative sources of funding that the non-interest finance provides (William 2020).
3. **Provision of ethical financial services to the Muslim ummah in line with Islamic rules of transaction**
4. **Growth of Micro, Small and Medium enterprises.** Islamic Microfinance Banks have been described as vital agents that can support the growth of Micro-enterprises in Nigeria. They have created opportunities for funding of micro-businesses, which constitute over 70% of the micro, small and medium-sized enterprises (MSME) in the domestic production value chain. There are several models that have non-interest products and components, which include *Wakala*, *Zakat*, *Qard Hasanah*, *Mudarabah* and *Musharakah*. To promote these non-interest products, we must survey the needs of the MSMEs, low-income earners and the unbanked people based on their demographics. Islamic microfinance

has the potentials of contributing to the socio-economic development of the nation, especially addressing poverty eradication and financial exclusion among the Muslims as well as the Non- Muslims in Nigeria. ( Abdulateef, A. 2020)

## Conclusion

Islamic finance is an interest free institution that is gaining more recognition throughout the world in the recent time. The ethical and economic principles of Islamic finance are drawing interest within and outside Muslim community. Islamic finance is addressing some challenges posed by conventional financial institutions such as investment policy and portfolio theory. Islamic finance has not been harnessed fully by Muslims in Nigeria and globally.

The paper has highlighted the impacts of Islamic financial institutions on the development of Islam in Nigeria and discoursed the Islamic standpoint on the basic financial instruments such as Installment Sale, Profit and lost sharing contract and leasing. It has also looked at the contributions of Islamic Financial Institutions to the Development of Islam in Nigeria. The Article had discovered that Islamic finance concepts and tools are mostly used in Nigeria by some private sectors. Although there is growing interest in public activities on how to implement Islamic financial instruments for the over all benefit of not only Muslims in Nigeria but the generality of all Nigerians. For Islamic finance to be accepted generally there is the need for awareness by various Islamic financial products and benefits associated in order to harness the great potentials and opportunities therein. Raising the profile of Islamic finance for development could help to apprise the current framework behind the use of these financial tools.

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