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Financial Inclusion in Nigeria and the Prospects and Challenges of Islamic Microfinance Banks

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Abstract

The new framework for Non Interest Financial Institutions (NIFIs) released by Central Bank of Nigeria (CBN) in June 2011 has laid to rest the argument of why Islamic financial products could not be provided over the years and also brought to the fore the potentials and challenges of Islamic Microfinance Institutions (MFIs). Using literature survey and responses obtained through interviews, this paper assesses the potentials and challenges of Islamic microfinance banks in Nigeria under the new guidelines. The paper confirms that with Muslim population of more than 54% across the regions, Islamic microfinance has a lot of potentials in Nigeria as justified by a number of empirical literature and responses obtained from enthusiastic respondents. It also confirms that unless serious attention is given to skill development, manpower challenge of the new guideline can present hiccup to the successful implementation of the NIFIs framework. The paper concludes that manpower development is central to successful implementation of the newly released framework and should therefore be given immediate attention.

Keywords: ***Financial inclusion; Interest; Islam; Microfinance; Poverty***

Introduction

Nigeria, Africa's most populous country has been rated as one of the 20 poorest countries in the world with poverty incidence of about 70% among its population of well over 140 million since 2005 (Central Bank of Nigeria (CBN), 2005; International Fund for Agricultural Development, 2008). Earlier in 2005, CBN asserts that since the 1980s, poverty in Nigeria has been a recurring problem with an average of 60% of the population living below poverty line; a situation that disagrees with the nation's abundant human and enormous natural resources. The situation in Nigeria over the years has continued to present a serious challenge to the world's struggle to reduce the gap between the have and have-nots through financial inclusion.

A 2008 World Bank document defines financial inclusion otherwise called broad access to financial services as "an absence of price or non price barriers in the use of financial services." It is the broad based delivery of banking and other financial services to the poorest and economically disadvantaged section and low income group of the society at affordable cost. The essence of inclusive finance is to ensure that a variety of suitable financial services is made available to every individual and to enable them know about and access the services. It is however, argued that inclusive growth is impossible to achieve in any economy without promoting effective microfinance institutions (MFIs).

In order to achieve financial inclusion and create appropriate financial institutions to serve the economically active poor and low income households, the Microfinance Policy, Regulatory and Supervisory Framework for Nigeria (MPRSFN) was launched on December

15, 2005 with a view to addressing the financial needs of the low income people. The policy, according to CBN (2005), provides for the establishment of more viable and vibrant microfinance banks, which are expected to, among other things, make diversified financial services accessible to a large segment of the potentially productive but unbankable Nigerian population and enhance participation of the poor in economic development. The policy is also expected to help the Government achieve its objective of financial inclusion of the vast majority of Nigerians.

As at 31st January 2009, a total of 846 microfinance (MF) banks were licensed by the CBN to provide micro-finance services in Nigeria (Lemo, 2009). Of this number, only 170 are in the Muslim dominated Northern part of the country (Bashir, 2009), though the region including Abuja (the capital city) has a population of 75 million out of the total population of 140 million. Kano state, the commercial centre of the North with its population of about 10 million, 95% of which is Muslim, has only six (6) MF banks (Lemo, 2009) and the highest number of economically active poor, while Yobe State, with its population of 2.3 million of which 90% is Muslim has only one (1) MF bank.

The situation drew a lot of attention especially when studied in the light of the shocking statement made by the immediate past CBN Governor in July 2008 that the alarming and persistent level of poverty in Nigeria is a phenomenon in the North (Ezeliora, 2008) and that in the Muslim dominated states of Jigawa, Kebbi, Kogi, Bauchi, Kwara, Yobe, Zamfara, Gombe, Sokoto and Adamawa, an average of 75% of the population is living below poverty line. Overall, incidence of poverty in the three Northern regions was said to be very high compared to the three southern regions with 71% in North-West, 72% in North-East and 67% in North-Central as against 43% in South-West, 23% in South-East and 35% in South-South (Dogarawa, 2009).

A number of reasons have been discerned as responsible for this serious gap despite concerted effort made by CBN to sensitise the people and create awareness on the important economic role of microfinance in the Northern region. In February 2009, CBN organised Microfinance Forum in Kano and Jigawa states to find out the causes of low patronage and/or participation in microfinance by the Muslim dominated Northern region. The outcome of the open discussion indicates that despite its recorded success, conventional interest-based microfinance has been rejected in most Muslim communities, principally due to its non-compliance with the Islamic principles, particularly the issue of paying and receipt of interest (*riba*), which is forbidden under the *Shari'ah*. This, the hundreds of participants argue, has to some extent caused failure of government initiatives to overcome poverty and promote economic development through conventional MFIs.

More recently, Sodiq (2010) documents evidence showing that rejection of conventional MFIs is also a phenomenon in the South-West Muslim dominated part of the country. He finds that most Muslims in the region reject conventional interest-based microfinancing due to religious belief and persistently canvass for Islamic alternative. Several earlier researches on the acceptability of conventional MFIs in Muslim dominated states across Nigeria seemed to have supported this recent finding.

Realising the potentials of Islamic finance in Nigeria coupled with the desire to reform the financial system and encourage people to actively participate in the Government's financial inclusion stride, CBN in March 2009 circulated a draft framework for the regulation and supervision of Non Interest Financial Institutions (NIFIs) in Nigeria. The draft attracted comments and observations from various stakeholders over 22 months before a final document was released in January 2011 and a revised version released in June 2011. The new NIFIs framework, which covers both mainstream financial and microfinance institutions, provides for the provision of Islamic microfinance products and services on the basis of full-pledged Islamic MFIs, subsidiary or window within conventional MFIs.

This paper assesses the potentials and challenges of Islamic microfinance banks in Nigeria under the new guidelines for NIFIs. The aim is to survey literature and conduct interviews on the potential of and the role full-pledged Islamic microfinance banks that are about to join the mainstream financial system would play in the light of the CBN's objective of promoting financial inclusion in the country as well as the challenges posed by the new framework. The paper is both descriptive and survey. It describes the existing condition and forecasts the future of financial inclusion policy of the Government through microfinance.

The paper is justified in the following ways. First, based on some documented evidence, it will provide first-hand information on the perception of people and operators of micro enterprises about Islamic microfinance and their expectations as well as their readiness or otherwise to benefit from its role in poverty reduction in the light of the financial inclusion strides of the country. Second, the paper will add to the pool of both theoretical and empirical literature from the perspective of developing countries with large Muslim population but economically active poor such as Nigeria. Third, the research will have policy implications to CBN and other international organisations such as Islamic Development Bank (IDB), World Bank and United Nations (UN) that have been championing the course of financial inclusion.

The paper is structured in 8 sections. Section 2 discusses the concept of financial inclusion and the various ways financial inclusion can be measured. Section 3 provides a chronology of effort made in Nigeria to provide Islamic microfinance products and services over the years. Section 4 overviews the framework for the regulation and supervision of

NIFIs and highlights the salient issues contained in the document. Section 5 discusses the basic principles of Islamic microfinance. Section 6 presents evidence showing the potentials of Islamic microfinance in Nigeria. Section 7 presents interview results on manpower challenges for Islamic MFIs and section 8 concludes the paper.

Concept of Financial Inclusion

Financial exclusion generally results in poverty. Sanusi (2011) explains that 70% of Nigeria's population is living below the poverty line and 46.3% are financially excluded. He notes that as at September 2010, the 24 Deposit Money Banks (DMBs) operating in Nigeria have a total of 5,789 branches and when added to the 816 microfinance banks, Nigeria has a total of 6,605 bank branches with each branch serving an average number of 22,710 people.

The increasing realisation of the correlation between financial exclusion and poverty has given rise to the need to come up with a deliberate policy that would address the financial needs of the disadvantaged sections of the society. Substantial research has been conducted to determine the financial needs of low income and financially excluded people. It is found that financial exclusion is not only characterised by a lack of affordable credit facilities but also by not having savings, bank account, assets, access to money advice, and insurance (HM Treasury, 2007 in Jones, 2008). Inclusive finance policy has been recommended for use through MFIs to cater for the financial needs of the economically disadvantaged without any form of discrimination.

Delivery of inclusive financial services to the unbanked members of society through microfinance has continued to attract the interest of academics, policymakers and practitioners who consistently emphasize financial inclusion as a policy objective. The aim is to make microfinance provides more opportunities to the poor and properly align to the formal financial system. Theoretical and empirical literature documents that a financial system that focuses on economically disadvantaged people helps promote growth of the poor (Jones, 2008). Thus, microfinance has emerged as an important instrument to help a large number of "unbankable" members of the society benefit from the global financial inclusion stride.

Financial inclusion is the delivery of financial services to the sections of the poorest, economically disadvantaged at affordable costs to sections of disadvantaged and low income segments of society. The concept of financial inclusion has been gaining considerable attention since the early 2000s in view of a number of research findings on the negative impact of financial exclusion and its relationship with absolute poverty on the one hand, and on the other hand, the argument that as banking services are in the nature of public good, it is necessary that availability of banking and payment services to the entire population indiscriminately should be the prime objective of public policy.

The notion of inclusive finance builds around concerted effort to not only incorporate as many poor and hitherto excluded people as possible into the formal financial system, but also assign to the mainstream financial institutions the responsibility of reaching out to the unbankable (Otero & Rhyne, 1994 in Hannig & Jansen, 2010). The assumption generally is that where the poor section of the economy is given the opportunity to generate economic surplus, they will be able to repay the real costs of loans advanced to them and to even save enough money to start up small businesses (Hannig & Jansen, 2010).

Countries with inclusive financial system allow people to equitably share the benefits of economic development, facilitate effort toward poverty reduction and create productive economic opportunities for the poor and weak in the society. Such a system enables the poor engages in economic activities that will generate employment, increase earnings and improve standard of living and consequently lead to economic growth and development. Inclusive financial system also paves ways for small enterprises to have access to adequate finance and develops entrepreneurial activities of the people.

Hanning and Jansen (2010) posit that financial inclusion can be measured through four lenses. First is the availability and accessibility of financial products and services from formal institutions without barriers to opening and using a bank account for whatever purpose. Second, the financial product and/or services should be relevant and appropriate to the need of the consumer, and should enable people measure the nature and depth of the relationship between the financial institution and the consumer on the one hand, and on the other hand, the choices available to consumers and their levels of understanding of those choices and their implications. The third gauge of financial inclusion is the permanence and depth of financial service and product use. Fourth is the ability of the financial services to create impact on the lives of consumers.

Sanusi (2011) outlines some the challenges of financial inclusion in Nigeria to include sparse location of target groups, infrastructural decay, lack of awareness about the policy, low income, social exclusion, illiteracy, distance from banks branch, cumbersome documentation procedure, unsuitable products, high transaction costs, difficulty in proving identity and easy accessibility of informal credit. He however, alludes that empowering the disadvantaged sections of the population is a sine qua non to a robust and inclusive economic growth and development that for long the country has been hoping for.

Effort to Provide Islamic MF Services in Nigeria

Islamic Microfinance services are currently not available in Nigeria. Over the past 40 years, concerted efforts have been made by several mainstream conventional financial institutions to provide window of Islamic financial products and services. Orisankoko (2010) documents that the first recorded effort to provide Islamic financial services was made by a bank called Muslim Bank West Africa Limited in Lagos around 1961. He however, observes that the effort suffered a setback as the bank was closed down in 1962 on the instruction of the then Minister of Finance, Chief Obafemi Awolowo. Though neither popular nor pronounced in the literature, Orisankoko (2010) argues that proof of its existence and evidence of its operation in 1961 through 1962 are found in the two court cases cited in the work of Ajayi (1999) in both of which Muslim Bank West Africa was mentioned as defendant.

In late 1980s, a number of conferences and seminars were organised by University based Islamic centres and various Islamic groups to create awareness among Nigerians on the evils of interest/usury and the need for adopting an Islamic alternative to interest-based banking on the one hand, and on the other hand, to make the Government see reason why Muslims who constitute more than half of the population should be given the opportunity to conduct their financial activities in line with the provisions of *Shari'ah*. The effort yielded positive results. In addition to Reading material in form of textbooks, books of reading, conference proceedings, leaflets and pamphlets arising from the conferences and seminars were made available in both English and some local languages to enlighten people about Islamic banking and its *modus operandi* and why Muslims in particular and Nigerians in general deserve to have it. Having created enough awareness among the people, different groups started calling on government to officially recognise Islamic banking and facilitate its emergence.

The year 1991 was a new dawn for Islamic banking in Nigeria. The then military administration headed by General Ibrahim Badamasi Babangida (retired) issued Bank and Other Financial Institutions Decree. The Decree is generally recognised as the first singular effort by the Government to recognise and facilitate the emergence of Islamic banking in Nigeria. Under the heading 'General and Supplementary', section 39(1) of the Decree provides: "except with the written consent of the Governor 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", "Islamic", "Moslem", "Qur'anic", "Biblical". In section 23(1) provides:

> Every bank shall display at its offices its lending and 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.

The two afore mentioned sections of the Decree were seen to have paved way and provided the necessary legal framework for the establishment of PLS-based mainstream financial and microfinance institutions in Nigeria. Orisankoko (2010) even asserts that based on these provisions, two conventional banks were said to have obtained license in 1992 to carryout banking business based on PLS but none could commence operation. In the early 2000s, Habib Bank Nigeria Limited created a window for *Shari'ah*-compliant financial products based on the provisions of these sections. 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 over the years, the bank was only able to obtain license in early this year and is billed to commence operation in September 2011.

In addition to the efforts of Deposit Money Banks (DMBs), few MFIs in especially the North and South-West parts of the country had tried to render PLS-based financial services and offer particularly *Murabaha*-based products. Dogarawa (2009) documents evidence showing that most of these banks had enjoyed patronage from many unbankable members of the society even though most of the products could not satisfy many of the requirements of *Shari'ah*. The effort, though not very successful, has confirmed the potential of Islamic MFIs in Nigeria.

Framework for Regulation and Supervision of NIFIs in Nigeria

Realising the potentials of Islamic finance in Nigeria coupled with the desire to reform the financial system and encourage people to actively participate in the Government's financial inclusion stride, CBN in March 2009 released a draft framework for the regulation and supervision of Non Interest Banks (NIBs) in Nigeria. For almost two years, the CBN entertained observations and comments from various stakeholders. In January 2011, the apex bank released the final framework to guide the establishment and operations of NIFIs in Nigeria. The document was revised in order to address some matters arising and released it again in June 2011.

The new framework is seen as a proof of CBN's readiness to answer the clarion call of the teeming Muslim population particularly from the late 1980s to provide adequate legal and regulatory framework for Islamic banking and Islamic microfinance that will enable their proper takeoff. 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 through 2008. Since the 2007 global financial crisis that has hit and devastated the world economy forcing over 100 million more people into poverty, effort has been on the increase to search for new financial architect that will help stabilise the global economy. The new framework, which covers Islamic MFIs is a bold step taken in the right direction by the licensing and regulatory authority to promote financial inclusion without excluding any segment of the country.

According to CBN (2011:1), the framework was developed in recognition of the increasing number of requests from persons, banks and other financial institutions wishing to offer Shari'ah compliant products and services in Nigeria. The framework whose objective is to provide minimum standards for non-interest banking operation in Nigeria is issued pursuant to Section 33 (1) (b) of the CBN Act 2007 and Sections 23(1); 32(1); 52; 55(2); 59(1)(a); 61 of BOFIA 1991 (as amended). To support the framework, two additional guidelines, Guidelines on Shari'ah Governance for Non Interest Financial Institutions (NIFIs) in Nigeria; and Guidelines on Non-Interest Window and Branch Operations of Conventional Banks and Other Financial Institutions were also released. The apex bank requires that the framework be read along with the two supporting documents for better understanding.

CBN (2011:2) defined NIFIs in the framework to mean: (i) full-fledged non-interest deposit money bank or subsidiary; (ii) full-fledged non-interest microfinance bank or subsidiary; (iii) non-interest branch of a conventional bank or financial institution; (iv) non-interest window of a conventional bank or financial institution; (v) a development finance institution registered with the CBN to offer noninterest financial services either full-fledged or as a subsidiary; (vi) a primary mortgage institution registered with the CBN to offer noninterest financial services either full-fledged or as a subsidiary; and (vii) a finance company registered with the CBN to provide non-interest financial services, either full-fledged or as a subsidiary. According to the document, interest-based banks and other financial institutions operating in Nigeria may offer or sell Shari'ah-compliant products and services through subsidiaries, windows or branches only.

Principles of Islamic Microfinance

Islamic MFIs are guided by the principles of mainstream Islamic financial institutions. They operate based on some principles that distinguish them from Conventional MFIs. The principles are derived from the axiom of justice and in harmony with the reality and nature of human being.

The first principle of Islamic MFIs, which also is the main driving force behind its development, is prohibition of interest and usury, known as *riba* in Islamic terminology. *Riba* is a term that literally means "an excess" and is interpreted as "any unjustifiable increase of capital whether in loans or sales" (Greuning & Iqbal, 2008) or "any positive, fixed, predetermined rate tied to the maturity and the amount of principal regardless of the performance of the investment" (Iqbal and Mirakhor, 2007). Explaining the rationale for prohibition of interest, Iqbal, Askari and Mirakhor (2009: 12) wrote:

> Prohibition of *riba* is based on arguments of social justice, equality, and property rights. Islam encourages the earning of profits but forbids the charging of interest because profits, determined ex post, symbolize successful entrepreneurship and creation of additional wealth whereas

> interest, determined ex ante, is a cost that is accrued irrespective of the performance of the business and may not create wealth if there are losses. The argument is that social justice demands that borrowers and lenders equitably share rewards as well as losses and that the process of wealth accumulation and distribution in the economy be fair and representative of true productivity.

Under Islamic finance therefore, Islamic MFIs are forbidden from charging, paying or receiving interest. The system does not recognise the time value of money where money gives birth to money by charging interest through lending activities. According to this principle, money must be used to create real economic value and it is only permissible to earn a return from investing it in *Shari'ah*-permissible commercial activities that will make the financier or investor take some commercial risk.

Second, it is not permissible for Islamic MFIs to engage in speculative or gambling activities. However, since there is hardly any commercial activity that is devoid totally of speculative element, Hussien (2010) argues that prohibition on realising a gain from speculation is not in absolute term. According to him, the ruling, unlike the case of *riba*, will depend on the extent of speculation and whether or not the intention behind the transaction is to realise a gain from some productive effort. It is however argued that the distinction between prohibited and legitimate speculation is sometime blur, not often clear in practice. Making an equity investment in a company that engage in an Islamically permissible business activity in order to realise future dividends and capital gains on the investment for instance will be allowed provided the intention is not to make quick profit by speculating the expected share price movement over a very short period of time but based on a careful assessment of the company's past results and future prospects.

Third, certainty of key terms is a key requirement for any transaction under Islamic MFIs. Transactions involving high level of uncertainty where for example, clear description of the assets being sold, the sale price and the time of delivery of the assets to the purchaser are not know are not permissible in Islam (Hussien, 2010). Islamic MFIs are therefore not allowed to engage in contracts in which there is uncertainty about the subject matter, price, or both such as hedging and derivatives. Uncertainty in contract is similar to asymmetric information. The import of making certainty about contract under Islamic Microfinance is to minimize possibilities of misunderstanding and conflicts between contracting parties (Imam and Kpodar, 2010).

Fourth, Islamic banking activities are based on sanctity of contracts. A necessary code of conduct for Islamic MFIs is they deal in only *halal* (legally permissible) activities. Islamic MFIs are not allowed to lend to individuals or invest in companies involved in activities considered to have a negative impact on society (for example, gambling, pornography, cinema, etc) or that are illegal under *Shari'ah* such as financing businesses that deal in alcoholic beverages, tobacco or pork (Imam & Kpodar, 2010).

Ahmed (2002) identifies a number of areas of difference between Islamic MFIs and their conventional counterparts. According to him, other than the departing point of interest, Islamic MFIs differ from their conventional counterpart in the areas of sources and uses of funds. Conventional MFIs source their funds mainly from foreign donors, government and the central bank. Islamic MFIs on the other hand, can, in addition to the above sources, obtain funds from religious institutions of Waqf and other forms of charities. On the uses of funds, conventional MFIs derive the bulk of their assets from interest-bearing activities. Islamic MFIs on their part draw their assets from different types of non-interest bearing financial instruments based on equity, sales and rental modes. In addition to these two, Islamic MFIs can combine the institution of Zakah and other forms of voluntary charity to provide financial services to the poorest member of the society.

Potentials of Islamic Microfinance Institutions in Nigeria

The release of the framework for Supervision and Regulation of NIFIs in Nigeria is undoubtedly not only timely and important but also in line with the Nigerian Government's Vision 20-20-20, of which one of the cardinal issues contained in the document, is poverty eradication through financial inclusion. Islamic MFIs is expected to serve as a tool that will be used to achieve the Vision.

Islamic microfinance, arguably, could help correct the shortcomings of the interest-based microfinance in Nigeria as it focuses on achieving social justice, disallowing exploitation and battling poverty. This is further strengthened by the fact that the system incorporates social and equity elements along with the normal financing practices, which will ultimately be beneficial to the segment of the population that has been excluded from financial services and help to alleviate poverty. As an alternative to *riba*-based system', profit and loss sharing (PLS) based microfinance will be able to significantly remove the inequitable distribution of income and wealth, and lead to a more efficient and optimal allocation of resources as compared to the interest-based system.

Islamic MFIs have the potential to serve as a viable financial intermediation channel in supporting economic growth and a tool to mobilise the significant untapped businesses in the country. Dogarawa (2010) posits that its introduction is a response to the needs and aspirations of Muslim community that has been struggling for it for over four decades. The system is expected to act as a vehicle for mobilising funds that have been outside the interest-based MFIs for channelling into productive uses, in particular for Muslim communities. Islamic MFIs are also expected to arouse the interest unbankable Muslims who hitherto show lukewarm attitude toward Conventional MF system to participate in the financial inclusion policy of the Government. Furthermore, Islamic MFIs will emerge as a tool that will help fulfil the demands of not only the teeming Muslim but also non-Muslim population.

A number of theoretical and empirical researches conducted over the years have confirmed the potentials of Islamic MFIs in Nigeria. In its 2006 document, KPMG used a number of proxies to estimate market size for Islamic finance industry in Nigeria for 2006 through 2010. In arriving at the estimate, the average contributions of the different geographical locations to total deposits for some of the leading banks in Nigeria and the proportion of Muslims in the different geographical areas were considered. Applying the spatial distribution of deposit liabilities of the existing leading conventional banks in the country, which was deemed to be representative of the deposit liabilities in the entire banking industry, the following estimate was arrived at based on the assumption that Muslim population would be the primary market for the generation of deposit liabilities for Islamic Banks. The interpolation did not however take into account the large informal sector, estimated at 65% of the bankable and economically active population that was outside the banking system (Islamic Banking and Finance Committee, 2010).

Table 1: Estimated Islamic Banking Market Size (2006 – 2010)

	Average proportion of Muslims (estimated)	Average ratio of deposits	Estimated Islamic banking Market Size
Lagos	50%	30%	18.0%
Abuja	50%	30%	15.0%
North (Excluding Abuja)	80%	10%	8.0%
South-East	1%	4%	0.1%
South-South	4%	15%	0.6%
South-West	48%	5%	2.4%
Total	**52%**	**100%**	**44.1%**

Source: *KPMG Analysis adapted from a report submitted to Professional and Academic Board, Institute of Administration, Ahmadu Bello University, Zaria*

Table 1 provides information on the estimated size of Islamic banking market and indicates the potential of Islamic finance. It shows that by year 2010, the estimated size of Islamic banking market will be 44% of the average deposit ratio for the country. It should be noted however, that over 65% of this market size, is meant for Islamic MFIs as documented by Dogarawa (2010).

Manpower Challenge of Islamic Microfinance in Nigeria

Islamic MF no doubt is increasingly becoming dear to Nigerian Muslims and a good number of non-Muslims. With the release of the revised NIFIs framework, many mainstream conventional banks are currently planning to open either Islamic banking window or subsidiary in addition to the ongoing effort to establish full-pledged Islamic banks. Some conventional MFIs are also planning to obtain license to offer window and many new full-pledged Islamic MF banks are in the pipeline. As at first week of June, 2011, JAIZ International Bank and Stanbic IBTC have already obtained licence to provide full-pledged and window of interest-free banking services respectively. JAIZ bank is billed to commence operation in September 2011.

The key to success in this noble effort is by having employees who are knowledgeable about Islamic finance so that they may better serve the industry. As it is now, lack of human competencies in the emerging industry is the most significant challenge given that the industry in Nigeria requires approximately 11,600 qualified bankers by the end of 2012 (Islamic Banking and Finance Committee, 2010). Moreover, the principles and working procedure of IFIs are completely new and largely different from conventional finance. The NIFIs framework released by the CBN has further underscored the dire need for skilled and well trained manpower in the area of Islamic finance particularly the aspect of reporting.

One aspect of the NIFIs framework that needed serious attention in Nigeria is the audit, accounting and disclosure requirements. The requirement for banks, mainstream and microfinance, desiring to provide Islamic financial services to comply with relevant standards issued by AAOIFI and IFSB no doubt poses a great challenge to the industry particularly professional accountants. At the moment, there is dearth of knowledge among even Muslim accountants and bankers about the reporting procedures of IBFIs. Generally very little is known about AAOIFI and IFSB. There is hardly a report or communiqué of conference or workshop on Islamic banking in Nigeria without the lack of human competencies especially in accounting and audit requirements being mentioned since the late 1990s.

Despite the popularity of AAOIFI and IFSB among Islamic banking practitioners across the globe, very little is known about the two bodies or their documents in Nigeria. In separate group interviews conducted in 2010 with 120 judgementally sampled Muslim members of Institute of Chartered Accountants of Nigeria (ICAN) and Association of National Accountants of Nigeria (ANAN), and 200 postgraduate students working in different conventional banks, we gathered that 265 respondents representing 82.8% are only hearing about non-interest banking but have no idea about it though as Muslims they believe that Islam has its own financial system. Of the remaining 55 that indicated they have read something about it, only 13 respondents representing 23.6% and 6 respondents representing 10.9% respectively demonstrated fair and good knowledge of Islamic banking principles and procedures. However, none of the interviewees is conversant with the unique reporting procedure of IFIs and virtually 90% of them have not read the first draft framework for the regulation and supervision of NIFIs in Nigeria released in March 2009.

The implication of this is that conventional banks desiring to open Islamic banking window need to focus attention on manpower development. Under Islamic finance system, the regulatory authority is expected to play a dual role. First is to provide prudential supervision especially in the areas of moral hazard considerations, safeguarding the interests of demand depositors and systematic considerations. The second role is to ensure that banks offering Islamic financial products are strictly complying with Shari'ah in their operations and reporting procedure. To successfully implement the provisions of the NIFIs framework therefore, there is an inevitable need for training of bank staff and accounting professionals to expose them to the new system of financial reporting for IFIs.

Conclusion

Islamic banking has come to stay in Nigeria. The recent framework for NIFIs released by CBN has laid to rest the argument of why Islamic financial products could not be provided over the years. It has also brought to the fore the potentials of Islamic MFIs in the country that has over 54% Muslim population. The framework however, raises a number of manpower-related challenges to various stakeholders. To face the challenge head-on and justify the struggle for its implementation over the years, CBN, MFIs operators and accounting professional bodies need to provide lead in the areas of training and development of skilled and qualified manpower in Islamic finance processes and procedures.

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