

Obstacles to the Development and Performance of Para-Islamic Financial Institutions in Ondo and Lagos States of Nigeria

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Abstract - The study examined the obstacles to the development and performance of Para-Islamic Financial Institutions in Ondo and Lagos State of Nigeria. It also recommended suitable remedies to overcome these obstacles. The study explored both primary and secondary sources of data collection. For primary data, a non-probability sampling technique was adopted in selecting 150 respondents for the study because it provided a better opportunity for administering questionnaires directly and individually to the respondents. The study employed both descriptive and inferential methods of analysis. The secondary data were sourced from quranic commentaries, books, journals and the internet. The findings revealed that inadequate legal framework, lack of sharia courts to settle disputes, paucity of reliable operation template, poor financial literacy, lack of profit sharing finance, competition, inadequate human resources, religious differences, lack of trust, sincerity and discipline, myopic and monotonous goals, unreliable feasibility study, people's attitude towards Para-Islamic financial institutions and inadequate enlightenment and awareness programme on interest-free financial institutions constitute obstacles to the development and performance of these institutions in the two states. The study concluded that suitable measures should be taken in order to overcome these obstacles. **Keywords** - Interest-free Banking, Islamic Banking, Para-Islamic Financial Institutions

I. INTRODUCTION

Banks play important role in any modern economy. They perform some important functions in society and significantly influence the distribution of income the level of economic activity and the level of cost in a country positively.

The global economic meltdown which has started closed to a decade ago has brought about serious contemplation on what could be the way out. Islamic banking is seen as antidote to the problem created by capitalist interest-built economy which empowers the rich to become richer and the poor to become poorer (Ibrahim & Malami, 2015).

With over five decades, Islamic banking has been successfully developing into a viable alternative banking

framework all over the world. The initial demand for Islamic banking product was "grassroots driven". It was initiated by a small group of business and retail investors who wanted to invest financially in line with their beliefs.

Moreover, the implementation of the Islamic financial eliminates the stranglehold by which the elites control the police of the world and milk its resources. It has been reported that there are approximately 500 Islamic banks worldwide controlling about one trillion worth of assets and the figure is estimated to reach four trillion dollars by the year 2020 (Aliyu, 2010).

More importantly, Islamic finance sees masses as a point of target and well-to-do as instrument of poverty alleviation using *zakat* as method of even economic distribution. It focuses on availability and widen the distribution of basic life-sustaining good such as food, shelter, wealth and protection to raise levels of living, including in addition to high incomes, the provision of more better education, and greater attention to cultural and human values all of which serve not only to enhance material well-being but also to generate greater individual and national self-esteem.

Furthermore, Para-Islamic banking is a simplified way to practicing Islamic banking operation in accessible approachability for the down trodden and the middle class at grass root and in urban areas. It is semi-formally designed as a strategy for poverty alleviation and a step to economic development. The main aim of Islamic economy is strictly retained in Para-Islamic banking which is interest free. It is introduced into Muslim and non-Muslim societies in response to the failure of the conventional interest based banking system to cater for the development needs of most countries, particularly the developing economies (Ahmed, 2000). It would however, be understood that specialized banks such as Islamic banks are not without challenges. Accordingly, this study seeks to assess the obstacles to Para-Islamic financial institution in Nigeria and offer remedies that can overcome these obstacles.

II. STATEMENT OF THE PROBLEM

Existing studies on Para-Islamic financial institutions are concentrating on Para-Islamic financial products and their achievement. Assessment of the obstacles to Para-Islamic financial institutions has not been given due attention by researchers. Understanding these obstacles will help improving the development and performance of these institutions not only in the two states but Nigeria as a whole. The study seeks to fill this gap.

III. OBJECTIVES OF THE STUDY

The objectives of the study are to examine the obstacles to Para-Islamic Financial Institutions in Ondo and Lagos States of Nigeria.

IV. SCOPE OF THE STUDY

The research work focuses on the obstacles to Para-Islamic financial institutions in Ondo and Lagos States of Nigeria. This will cover four Islamic Cooperative societies in the two states.

V. EXPECTED CONTRIBUTION TO KNOWLEDGE

The study will deepen knowledge on Para-Islamic financial system is being practiced within the two states of the federation. It will also contribute to the understanding of the obstacles to these institutions with a view of improving their performances.

VI. CONCEPTUAL FRAMEWORK

This section provides an explanation on the concept of Islamic banking and Para-Islamic financial institutions vis-a-vis their challenges and benefits.

Concept of Islamic Banking

Islamic banking is a well-known as conventional banking minus the word "interest" that is based on the principles of sharia law and a derivative of Islamic economics. It is a known fact that sharia prohibits the fixed or floating payment or acceptance of specific interest or fees that in Christian principle is referred to as usury and *riba* (surplus value) in Islam for loans granted.

The Organization of Islamic Conference (OIC) defined an Islamic Bank as a financial institution whose statutes, rules and procedures expressly state its commitment to the principles of Islamic-sharia and to the banning of the receipt and payment of interest on any of its operations.

Lawal (2010) described Islamic banking as a system of banking that is consistent with the principles of Islamic law (sharia) and its application through the development of Islamic economics.

Sanusi (2011) also viewed Islamic banking as an alternative form of financial intermediation that is market driven but with a moral dimension based on the Islamic value system. Thus, Islamic banking is the banking system which is carried out based on sharia principles and guidelines.

Evolution of Islamic Banking in Nigeria

The establishment of Islamic banking in Nigeria started with the amendment to the Banks and other financial institutions Act, (BOFIA, 1991). This prompted Habib Bank to apply for setting up on Islamic Banking Window in 1996 and eventually got the approval that same year. Some other insurance companies started alternative insurance products, based on Islamic principles. It was called *takaful*, Jaiz International Bank also applied to the Central Bank of Nigeria (CBN) to set up a full-fledged non-interest bank in 2004. It got the approval in principle in 2005 but could not commence operation due to its inability to meet the CBN capital requirement of twenty five billion naira. It got licensed six years later when CBN lowered the capital requirement for Islamic Banks to ten million naira.

In January 2009, CBN joined the Islamic Financial Services Board (IFSB) as a full-council member and in March 2009, the Central Bank issued the draft framework for the regulation and supervision of non-interest banks in Nigeria. Similarly, the CBN under the governorship of Mallam Lamido Sanusi, announced in June 2011, a set of regulations on non-interest banking which include: non-interest financial products and services based on principles of Islamic commercial jurisprudence, as well as financial products and services based on any other established rules and regulation.

According to Adebayo (2010), some Nigerian commercial banks have introduced Islamic branded products. They include Unity Bank, First Inland Bank Plc. (Fin Bank), United Bank for African Plc. (UBA) and Platinum Habib Bank Plc. This has really served as a good starting pointing for Islamic Banking in Nigeria (Adegbite, 2011).

Para-Islamic Financial Institution in Nigeria

Para-Islamic banking refers to Islamic Cooperatives and microfinance institutions that have almost all the features of Islamic banking except in term of bigness and full corporate difference. Ahmed (2013) asserted that these institutions emphasize short-term lending; the need to change market or near-market rate of interest; importance of mobilizing savings among the poor; simplified transaction process and social collateral to ensure repayment. Non-availability of full-fledged Islamic financial institution in the Ondo and Lagos led to establishment for Para-Islamic financial institutions.

It is generally believed that the policy of the Central Bank of Nigeria to establish Para-Islamic financial institutions is

easier than full-fledged Islamic banking. The former capital deposit is N20million while the latter is N25 billion.

Muslims in the Ondo and Lagos States have established Islamic micro-finance banks and cooperatives like Al-Barakah Microfinance Benevolent Islamic Co-operative Multipurpose Limited, Egbeda, Lagos State, Zero Interest Islamic Multipurpose Cooperative Society, Alausa, Lagos State; Al-Birr Islamic Multipurpose Co-operative Society Limited, Akure, Ondo State and Al-Amanah Islamic Cooperative Multipurpose Society Limited Araromi, Akure, Ondo State. It is therefore pertinent to look at the Islamic Banking and Para-Islamic financial institutions in the country.

Obstacles to Islamic Banking in Nigeria

Despite the rapid growth of Islamic banking, these are several obstacles militating against its development and performance in Nigeria. Eze and Chiejina (2011) opined that these obstacles include: disclosures of accounting information, valuation, accounting bases revenue and expense matching to Islamic banks, shortage of experts in Islamic banking and uncertainty in accounting principles involving revenue realization.

Bello and Abubakar (2014) categorized these obstacles into institutional and operational obstacles. The institutional obstacles include: inappropriate institution framework, inadequate legal framework, lack of equity institution, poor supervisory framework, and disparity in accounting standard, lack of short-term financial instruments and institutions and absence of secondary financial market. They identified the operational challenges to include religious, and cultural differences, inadequacy of financial innovations, lack of profit sharing finance, sharia related issues, inadequate human resources, inadequate awareness and competition.

Having stated this, it is imperative to discuss the obstacles to Para-Islamic financial institutions in Ondo and Lagos states of the nation.

VII. OBSTACLES TO PARA-ISLAMIC FINANCIAL INSTITUTIONS IN ONDO AND LAGOS STATES OF NIGERIA

According to Mahamud (2016), there are many obstacles to the development and performance of Islamic Cooperatives. They include: lack of funds, default, little experience in management and operation, indiscipline, low-savings and absenteeism.

In a study conducted by these researchers to four Cooperatives in Ondo and Lagos States, they discovered that there are many obstacles militating against the development and performance of Para-Islamic financial institutions in these two states. They are discussed below.

Lack of sharia court to settle disputes: This occurs because all English courts in Ondo and Lagos state do not understand the principles of Islamic financial system.

Inadequate Legal Framework: The existing legal framework is a major setback to Para-Islamic financial system because it is designed to suit the conventional settings. Para-Islamic banking cannot adequately operate if there is no legal framework for its institutions.

Paucity of Reliable Operation Template: This is one of the major obstacles to Para-Islamic financial system not only in Ondo and Lagos States but Nigeria in general.

(d) *Poor Financial Literacy:* According to Adebayo (Ibid), Para-Islamic financial institutions are faced with the task of simultaneously contributing in raising the level of financial literacy as well as showing the viability of interest free services to attract customers.

Lack of profit sharing finance: Para-Islamic financial system may be hindered by lack of profit sharing financial instrument. This is because profit sharing finance has remained relatively small in the operation of Islamic banking and Para-Islamic financial system.

Competition: Para-Islamic Financial institution are now facing serious competition in the financial system assume conventional banks are now converting to full fledge Islamic banks or providing Islam banking windows.

Inadequate human resources: The performance and survival of Para-Islamic financial institutions depend on adequate and qualified human resources in Islamic finance with knowledge of both Islamic and conventional finance as well as economics.

Religion: Ondo and Lagos States are multi religious states. Experience shows that religion has been very volatile in the two states and Nigeria in general. The former president of the Christian Association of Nigeria (CAN) Pastor Ayo Oristajafor accused the former CBN Governor and current Emir of Kano Alhaji Sanusi Lamido Sanusi of being too religious bias by his introduction of Islamic banking into Nigeria banking system. He argued that this would encourage disunity and discrimination in the country. He also blamed the for CBN Governor for changing the guidelines in order to suit his hidden plan. This increasing religious divide in the country deters the patronization of Para-Islamic financial institution by non-Muslims because the see it as an islamization process.

Lack of Trust, sincerity and disciple among staff and members: This has hindered the development and performance of Para-Islamic financial institutions in the country. Members use non-charging of interest and penalty as a loophole to default even when having the ability to pay.

Myopic and Monotonous Operations: The goals of some Islamic cooperative societies are restricted to membership capacity. There is few product development making operations to be monotonous and primitive.

Unreliable Feasibility Study: The feasibility study of some Para-Islam financial institutions were established through unreliable feasible study. They are emotional than being realistic. This is the reason the why the institutions have not been patronized by non-Muslims in Ondo and Lagos states and Nigeria in general.

People’s attitude towards Para-Islamic Financing System: They believe that these institutions are charity organizations and this mentality has made many customers not to pay their debts.

Inadequate Enlightenment and awareness programme on Interest-free financial Institutions: This has created a lot of misperception about Islamic financial system in Nigeria. Also, there is dearth of information about Para-Islamic banking in Nigeria even among Muslims. This is a serious setback to Islamic financial system in the country thereby leading to unnecessary oppositions and lack of public acceptance.

VIII. DATA, METHODOLOGY, PRESENTATION AND ANALYSIS OF RESULTS

Data and Methodology

This study adopted descriptive and inferential methods of analysis. Primary data were collected through questionnaires while secondary data were sources from Quranic commentaries, books, journal articles and the internet. A sample size of 150 respondents was constituted from the four cooperative societies in Ondo and Lagos States of Nigeria. The four cooperative societies are Islamic Co-operative Multipurpose Limited Egbeda, Lagos, Zero Interest Islamic Multipurpose Cooperative Society, Alausa, Lagos, Al-Birr Islamic Multipurpose Co-operative Society Limited Akure, Ondo State and Al-Amanah Islamic Cooperative Multipurpose Society Limited Araromi, Akure, Ondo State. This study utilized non-probability sampling technique. 50 staff and 120 customers were sourced via questionnaires from the four cooperative societies. The variables captured in the model are:

Dependable Variable

Para-Islamic financial Institutions: This is measured as a dichotomous variable taking the value of 1 if a customer operates with Bank and 0 other.

Independent Variables include inadequate legal framework, competition, inadequate human resources poor financial literacy, lack of profit sharing finance, competition, lack of trust, sincerity and discipline, myopic and monotonous operations, unreliable feasibility, lack of sharia courts etc.

IX. PRESENTATION AND ANALYSIS OF RESULTS

Descriptive Analysis and Analysis of Results

TABLE 1A: PROFESSIONAL TRAINING ON PARA ISLAMIC FINANCIAL INSTITUTIONS

Professional Training	Frequency	Percentage
Yes	9	23.1
No	29	74.4

Source: Fieldwork (2016)

TABLE 1 B: NATURE OF ACADEMIC TRAINING ON PARA ISLAMIC FINANCIAL INSTITUTIONS

Academic	Frequency	Percentage
Diploma certificate	9	23.1
Degree	0	0
Conference / Workshop on Islamic Banking	29	74.4

Source: Fieldwork (2016)

TABLE 1C: WORKING EXPERIENCE IN ISLAMIC BANKING /PARA ISLAMIC BANKING

Experience	Frequency	Percentage
Yes	13	33.3
No	25	64.1

Source: Fieldwork (2016)

Table 1a, b and c revealed that only 23.1% of the respondents have professional training while 74.4% were not professional training trained. Moreover, 23.1% of the respondents have academic diploma certificate, none had academic degree on Islamic finance while 14.4% had attended conferences /workshops on Islamic banking.

Lastly, 33.3% of the respondents had working experience on Islamic banking while 64.1% had no experience.

Table 2 revealed that 73.2% of the respondents attested to the fact these lack of sharia courts to settled disputes, inadequate human resources, inadequate legal framework, lack of profit sharing finance, paucity of reliable operation template, competition, religion and myopic and monotonous operation are obstacles to the development and performance of Para-Islamic financial institutions in Ondo and Lagos states of Nigeria.

TABLE 2 OBSTACLES TO PARA-ISLAMIC FINANCIAL INSTITUTIONS

Obstacles Lack of Sharia Court to Settle Disputes, Inadequate legal Framework, lack of Profit Sharing finance, Inadequate human resources, Paucity of Reliable Operation Template, Competition, Religion Myopic and Monotonous Operation	Percentage	Frequency
Strongly Agree	38	39.2
Agree	33	34.0
Undecided	15	15.5
Disagree	10	10.3
Strongly Disagree	1	1.0
Total	97	100

Source: Field Work (2016)

TABLE 3: OTHER OBSTACLES TO PARA-ISLAMIC FINANCIAL INSTITUTIONS

Other Obstacles Unreliable Feasibility Study, Peoples Attitude toward Para-Islamic Banking, Inadequate Enlightenment and Awareness, Lack of sincerity and Disciplinary among Staff and Customers	Percentage	Frequency
Strongly Agree	39	40.2
Agree	39	40.2
Undecided	11	11.3
Disagree	7	7.2
Strongly	1	1.0
Total	97	100

Source: Fieldwork (2016)

In table 3, 80.4% of the respondents agreed that unrealizable feasibility study, people's attitude towards Para-Islamic Banking, Inadequate enlightenment and awareness, lack of trust, sincerity and discipline among staff and customers constitute obstacles to the development and performance of Para-Islamic financial institutions in Ondo and Lagos States of Nigeria.

Inferential Analysis

Firstly, the chi-square statistic was used to test the hypotheses that lack of sharia court to settle disputes inadequate legal framework, religion, competition, inadequate human resources, lack of trust, sincerity and discipline, people attitude towards Para-Islamic banking etc. constitute obstacles to the development and performance of Para-Islamic Financial institutions in the two states.

TABLE 4 THE OBSTACLES ARE DIVIDED INTO THREE TO TEST FOR CHI-SQUARE STATISTIC

Variable	Percentage	Frequency
a) Lack of Sharia Courts, Inadequate legal Framework, Paucity of Reliable Operation Template, Poor Financial Literacy and Lack of Profit Sharing Finance.	1.9404	0.002
b) Competition, Inadequate Human Resources, Religion, Lack of Trust, Sincerity and Discipline	3.2885	0.040
c) Myopic and Monotonous Operation Template, People's Attitude towards Para-Islamic banking, Unreliable Feasibility Study, and Inadequate Enlightenment and Awareness Programme.	3.2885	0.030

Source: Authors Computation Using SPSS

The results from table 4 above showed that chi-square coefficient on the list obstacle are significant based on their asymptotic probability values. Thus we reject the null hypotheses that they are not obstacles to the development and performance of Para-Islamic financial institutions in Ondo and Lagos States. Therefore, their positive signs suggest that these variables are potential obstacles of hindrances to development and performance of Para-Islamic financial system in the two states and Nigeria in general.

X. CONCLUSION AND RECOMMENDATION

From the finding of this study, it could be concluded that lack of sharia courts to settle disputes, inadequate legal framework, lack of proof sharing finance, paucity of reliable operation template, competitions, religion, people's attitude, inadequate enlightenment among other constitute obstacles to the development and performance of Para-Islamic institutions in Ondo and Lagos States respectively. Evidently, these obstacles have made it difficult for the Para-Islamic financial institutions to expand and perform creditably well in the two states and Nigeria in general. Based on the finding of this study, and conclusion draw, the following suitable remedies are made with a view to address the obstacles to the development and performance of Para-Islamic financial institutions in Ondo and Lagos States and Nigeria in Nigeria.

1. Central Bank of Nigeria should enlighten the people on the need for Para-Islamic financial institutions in Nigeria.
2. Para-Islamic financial institutions are Ondo and Lagos states need to be proactive and standardized. To achieve this, there should be government policies that would make the financial institutions have access to non-interest loan from Central Bank of Nigeria (CBN).
3. Officers in charge of disbursing loans should do their verification and appraisal very well to prevent default.
4. Government should promote Islamic banking policies that will encourage innovation and competition in the financial industry.
5. Para-Islamic financial institutions such as cooperative societies and microfinance banks should be well staffed.
6. Government should establish Institute of Islamic finance in the South West of Nigeria. This will serve as center to train staff of Para-Islamic financial institutions.
7. Owners of Para-Islamic financial institution should ensure high rate of discipline trust and sincerity among staff and customers in order improve the performance of these institutions.
8. Government must establish sharia court in south west region to adjudicate on matters related to Islamic financial institutions.
9. Para-Islamic financial institution should corporate social responsibilities. They will attract these, more customers to the institution.
10. There should be government participation in the patronage of Para-Islamic financial institutions through financing of socio-economic programmes like, women empowerment youth skill acquisition programmes, and small-scale industrial development programmes.
11. There should be a friendly collaboration between the stakeholders of Para-Islamic financial institutions and Christian religious clerics in Nigeria.
12. Central Bank of Nigeria should constitute the Sharia Advisory Council to regulate the operations of Para-Islamic financial institutions.
13. Any group or individual that wants to set up these institutions should do through research and develop more operation packages that would make these institutions perform well not only in Ondo and Lagos states but Nigeria as a whole.

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