

## **ISLAMIC BANKING AND FINANCE EVOLUTION: A PANACEA FOR SUSTAINABLE DEVELOPMENT IN NIGERIA**

**Olanipekun, Wahid Damilola**

*Department of Management and Accounting  
Ladoke Akintola University of Technology, Ogbomoso, Nigeria  
[olanipekundamilola@yahoo.com](mailto:olanipekundamilola@yahoo.com)*

**Brimah, Aminu Nassir**

*Department of Business Administration, Al-Hikmah University, Ilorin, Nigeria*

**Ajagbe, Suraj Tunde**

*Department of Banking and Finance, Al-Hikmah University, Ilorin, Nigeria.*

### **Abstract**

*The transformation of the society and the world's economy on a sustainable basis is one of the most significant challenges in the 21<sup>st</sup> century. This implies that one of human kinds greatest challenge in this century is to ensure sustainable, just and balanced development because the needs of the current and future generations cannot be met unless there is respect for natural system and protecting core economic, social and environmental values. Islamic banking and finance with a unique feature of profit and loss sharing paradigm is conducive to a dynamic economy in which the benefits of growth are shared by the community at large. It becomes the focus of this paper therefore to critically examine the Islamic banking concept (non interest banking) as an alternative and viable system that can achieve sustainable development which the 21<sup>st</sup> century demands. This paper therefore provides an in depth, state of the art knowledge and insights on the meaning of Islamic banking, rationales for prohibition of interest in Islam, Islamic banking financial instruments and the place of Islamic banking in achieving sustainable development. It is therefore recommended that the numerous advantages accrued to Islamic banking and finance practices which constitutes an integral part of the financial development strategy should be encouraged and mainstreamed to meet need for sustainable development which the 21<sup>st</sup> century demands*

**Keywords: Islam, Banking, Finance, Interest, Sustainability, Development**

## **INTRODUCTION**

The term Islamic banking refers to a system of banking or banking activity that is consistent with the principles of the shariah (Islamic law) tailored and protected by Islamic economics. The principle deals with universal appeal and lay emphasis on moral and ethical values in all dealings of human transactions. In particular, Islamic ruling (shariah) prohibits the collection and payment of interest charge called *riba*. Naveed and Kashif (2010) defined the Islamic bank as a non-interest based financial institution which complies fully with Islamic laws which follows creative and progressive financial engineering efforts to offer efficient and competitive banking, investment, trade finance, commercial and real estate financing services.

Islamic Banking is defined as the conduct of banking operations in consonance with Islamic teachings (Mirakhor, 2000; Haque, Jamil and Ahmad, 2007). The main principles of Islamic banking activities comprise of prohibition of interest (*riba*) in all forms of transactions undertaking business and trade activities, based on, fair and legitimate profit (Mirakhor, 2000; Haque et al., 2007). Unlike conventional banking system, the Islamic banking system prohibits usury (*riba*), the collection and payment of interest; instead, it promotes profit and loss sharing in all conduct of banking businesses. Besides that it also promotes giving *zakat* (alms tax), prohibition of monopoly, and cooperation for the benefit of society, and development of all *halal* aspects of business, that are not prohibited by Islam (Haron, 1995; Haron, 1997; Mirakhor, 2000).

According to European Central Bank (2011), an Islamic financial system is one that complies with Islamic religious law (Shariah). Filippo, Pierluigi, Stéphane, Angela, Lauren, Baljeet, Sergio, Steven, and Sajjad, (2013) opined that the Islamic financial system has a distinctive feature that tries to reconcile a secular financial system with the basic tenets of the Islamic faith. Under Islam, there is no concept of an economy functioning independently of the religious criteria that inform every single aspect of human life. The primary sources of the Shariah are the Quran and the Sunna, the sayings and actions of the Prophet Muhammad transmitted orally in the form of the *hadith* (the stories of the Prophet's companions). The Quran and the Sunna leave room for interpretation: they do not cover all of the questions confronting the contemporary Muslim community (Abdul-Majid, Saal, and Battisti, 2010). Accordingly, there is the need to resort to secondary sources of law. These secondary sources are Islamic jurisprudence (*fiqh*), based on the interpretations (*ijtihad*) of experts in particular cases (e.g. ones of implicit or unclear rules), on deductive reasoning (*qiyas*), (Abedifar, Molyneux, and Tarazi, 2012) and on the expert consensus of various schools of thought (*ijma'*) (Aggarwal and Goodell, 2009).

Novethic (2009) opined that Islamic banking and finance stems from the principles of the Shariah (Islamic law) which provides guidelines for Muslims in terms of their relationship with money. The Shariah (Islamic law) governs every aspect of a Muslim's religious practices, everyday life, and economic activities. Muslims, for example, are not allowed to invest in businesses considered non-*halal* or prohibited by Islam, such as the sale of alcohol, pork, and tobacco; gambling; and prostitution. Furthermore, the Quran contains explicit rules regulating personal status, contracts, property, civil and criminal law, and the economic system. The main prescriptions relating to financial transactions are: the prohibition of *riba* (i.e. the payment of a fixed or determinable interest on funds); and the prohibition of economic practices that involve the concept of *gharar* (deceptive uncertainty), *maysir* (speculation) and *harām* (prohibited behaviour) (Aziz, 2012).

## **LITERATURE REVIEW**

### **HISTORICAL PERSPECTIVES ON ISLAMIC BANKING**

The foundation of modern Islamic banking was laid on the notion that commercial banks are needed but inherent challenges that are man-made accounted for a modified banking system that is based on the concept of *mudarabha* or profit and loss sharing; an interest free banking system. Theoretically, Islamic banking is different from conventional banking because interest (*riba*) is prohibited in Islam, i.e., banks are not allowed to offer a fixed rate of return on deposits and are not allowed to charge interest on loans. Adebayo (2010) posited that voices that rose from various quarters against the flaws, shortcomings and exploitation of the conventional financial system clearly indicate that the authors of the system could not redeem the image without resorting to alternative financial system devoid of the exploitative tendencies in the former system. The worldwide acknowledgement of usury as an economic instrument inimical to human welfare, as well as the havoc and misery associated with a usury-based financial system in the modern society is likely a good reason for the wide acceptance of Islamic financial institutions (Adebayo, 2011).

The Conference of the Finance Ministers of the Islamic Countries held in Karachi in 1970, the Egyptian study in 1972, the First International Conference on Islamic Economics in Mecca in 1976, and the International Economic Conference in London in 1977 were the result of institutional involvement in Islamic banking. The involvement of these institutions and governments led to the application of theory to practice and resulted in the establishment of the first interest-free bank (Alao and Alao, 2012; Ajagbe and Brimah, 2013; Ariff, 1987; Naveed and Kashif 2010). The first modern experiment with Islamic banking can be traced to the establishment of the Mit Ghamr Savings Bank in Egypt in 1963. During the past four decades, however, Islamic banking has grown rapidly in terms of size and the number of players. Islamic banking is currently practiced in more than 50 countries worldwide. In Iran, Pakistan, and Sudan, only Islamic banking is allowed. In other countries, such as Bangladesh, Egypt, Indonesia, Jordan and Malaysia, Islamic banking co-exists with conventional banking. Islamic banking, moreover, is not limited to Islamic countries (Chong and Liu 2008).

Kamal, Ahmad and Khalid, (1999) opined that there are approximately 180 Islamic Banks and Financial Institutions operating in Asia, Africa, Europe and the USA with more than 8,000 branches with an estimated \$170 billion. The popularity of the Islamic banking system is not limited to the Islamic banks only. Increasingly large international conventional banks are showing interest in the Islamic banking system as well. Haque et al., (2007) opined that over the past four decades, Islamic banking has emerged as one of the fastest growing industry, at an estimated growth rate of 15-20 percent per annum. It has spread to all corners of globe and received wide acceptance by both Muslims and non-Muslims (Aziz, 2006). The Islamic banking has recorded success beyond Arab nations as there are five wholly Islamic banks in London. Eze and Chiejina (2011) opined that more than 250 Islamic banks (90 institutions of them are in the Middle East) are operating from China to the US through their Islamic Units in U.K, Germany, Switzerland, and Luxembourg. According to the conservative estimates of the Islamic Banker in October 2008, Islamic financial assets globally exceeded \$500 billion. The Islamic Bank of Britain for over four years has attracted over 40,000 customers while HSBC Amanah, the Islamic finance subsidiary of HSBC, has been operating for ten years in London, focusing mainly on institutional clients and business finance (Filippo et'al 2013).

Historically, in Nigeria, the first recorded attempt at establishing a Non-interest bank was in 2004 when the CBN under the leadership of Soludo granted an Approval-in-Principle Licence to Jaiz International Bank PLC to carry on business as a Profit and Loss Sharing Bank. Not much

was heard of the Bank till January 13, 2011 when the Central Bank of Nigeria issued a Framework on Non-Interest Financial Institutions (NIFI). This was followed with the CBN Governor's, (Sanusi Lamido Sanusi) announcement on Monday, June 20, 2011, at a Conference on Islamic Banking in Dakar, Senegal, that it had issued Jaiz International Bank PLC an Approval-in-Principle as the first Islamic Bank (Alao and Alao, 2012)

### **ISLAMIC BANKING AND FINANCE**

The Islamic finance is defined as a financial service or product principally implemented to comply with the main tenets of Shari'ah (or Islamic law). In essence, Islamic finance can be described as finance under Islamic law. In turn, the main sources of Shari'ah are the Holy Quran, Hadith, Sunna, Ijma, Qiyas and Ijtihad (Gait and Worthington, 2007). Islamic finance is based on ethical principles in line with Islamic religious law (Filippo et'al 2013). Islamic finance is an integrated, compound and composite field of knowledge that welds together several compartmentalized branches which include Islamic banking, Islamic insurance, and Equity funds, Islamic investment, Islamic venture (capital leasing) under the Islamic system among others (Ahmed, 1999). Today more than 250 Islamic financial institutions are operating in over 50 countries worldwide (Naveed and Kashif, 2010).

The countries where Islamic financial institutions are functioning include: Albania, Algeria, Australia Bahamas, Canada, Iran, Iraq, Italy, Ivory cost, Jordan, Kuwait, Morocco, Netherland, Niger, Palestine, Qatar, Russia, Saudi Arabia, Senegal, South Africa, Switzerland, Tunisia, Turkey, Dubai, United Kingdom, United States of America to mention few (Ajagbe and Brimah, 2013). Filippo et'al (2013) opined that Islamic finance being an emerging sector of the overall economic system is rapidly expanding and is now considered to be worth over \$1.2 trillion globally. The Islamic model uses money as a measuring tool for value and not as an asset in itself, so income is not received from money as this is seen as exploitative and usurious. Investment vehicles through the Islamic finance structure are based on shared business risk.

According to Novethic (2009), the principles of Islamic finance and motivations behind Islamic finance as laid down by the Shariah, or Islamic law that is based on the writings of the Qur'an and sayings of the Prophet and which also acts as a framework for different aspects of day-to-day life for Muslims includes the following five major principles for dealing with money;

- i. Prohibition of usury (riba)
- ii. Profit and loss sharing between the lender and the borrower
- iii. Prohibition of hazard or uncertainty (gharar), notably speculation
- iv. The existence of an underlying asset, i.e. the obligation to back all investments with real assets
- v. Prohibition of forbidden assets (haraam), determined as such by business sector and the company's financial position.

### **INTEREST AND RATIONALE FOR THE PROHIBITION OF INTEREST**

Riba in Arabic means excess, increase or addition which according shariah law implies any excess compensation without due consideration. In classical Islamic jurisprudence riba means surplus value without counterpart or to ensure equivalency in real value (Adekanye, 2010). Ajagbe and Brimah (2013) opined that Islam categorically and unequivocally prohibits the practice of charging and receiving interest in all forms not only on loans but on other transactions. Riba (Usury) in Islam was well established during the life time of the Prophet Muhammed (SAW) and several verses in the Quran Lay emphasis on usury (Riba) as an unlawful act and totally prohibited Several verses of the Holy Quran pointed out the prohibition of usury and Hadith (saying and deeds or tradition) of the Holy Muhammad (SAW) were also against any transaction involving interest. For example;

*And Allah will destroy riba (usury) and will give increase for sadaqah (deeds of charity, alms etc). And Allah likes not the disbelievers, sinners (Qur'an 2: 276).*

*At another verse, it reads:*

*And that which you give in riba in order that it may increase (your wealth by expecting to get a better one in return) from other people's property, has no increase with Allah; but that which you give in zakat (sadaqah, charity, etc) seeking Allah's countenance, then those, they shall have manifold increase (Qur'an 30: 39).*

The basis for the prohibition of *riba* in Islam may be traced to the common medieval Arabic practice of doubling the debt if the loan has not been repaid when due. This practice in its extreme form had led to slavery in medieval Arabia because of the absence of bankruptcy legislation that protects the borrower from failed ventures. (Chong and Liu, 2008) Therefore, the prohibition of *riba* can be viewed as part of Islam's general vision of a moral economy. In Islamic economics, the lender should bear the risk of the venture with the borrower because it is deemed that neither the borrower nor lender is in control of the success or failure of a venture. Thus, a unique feature that differentiates Islamic banking from conventional banking, in theory, is its profit-and-loss sharing (PLS) paradigm. Under the PLS paradigm, the ex-ante fixed rate of return in financial contracting, which is prohibited, is replaced with a rate of return that is uncertain and determined ex-post on a profit-sharing basis. According to Novethic (2009), Islamic banking and finance is a system intended to be fair, with the aim of improving quality of life. This is why the prohibition of usury is based on two moral principles:

1. The application of a fixed interest rate is considered unfair and discriminatory. First, it prevents the lowest-income groups from having access to credit. For investments, it leads to an uneven distribution of risk and profits: the investor receives fixed income without any correlation to the success or failure of the business, while the entrepreneur bears all the risk. Conversely, in the event of significant profits, the investor receives an insignificant share of the profits while the entrepreneur takes the lion's share. In other words, the profit attributed to the capital is fixed, while that attributed to the labour is variable and tinged with uncertainty (Novethic (2009),
2. Earning interest is by definition not correlated with the business itself. This transgresses the principle that the creation of wealth is based on a real asset and that the money itself cannot be a source of added value. Another moral principle linking finance to the real economy is that of not selling what one does not own. This particularly applies to speculation and partly explains why Islamic banks have not been severely impacted by the crisis: they were not exposed to subprime mortgages.

The principle of zakat also upholds the idea of social equality. By recommending that believers give a portion of their income (2.5%) to the poor, zakat allows for the redistribution of wealth and helps correct inequality. The prohibition of *riba* is mentioned in four different revelations in the Qur'an (Abdallah, 1987). The first revelation emphasizes that interest deprives wealth of God's blessings. The second revelation condemns it, placing interest in juxtaposition with wrongful appropriation of property belonging to others. The third revelation enjoins Muslims to stay clear of interest for the sake of their own welfare. The fourth revelation establishes a clear distinction between interest and trade, urging Muslims to take only the principal sum and to forgo even this sum if the borrower is unable to repay. It is further declared in the Qur'an that those who disregard the prohibition of interest are at war with God and His Prophet. The prohibition of interest is also cited in no uncertain terms in the Hadith (sayings of the Prophet). The Prophet condemned not only those who take interest but also those who give interest and those who record or witness the transaction, saying that they are all alike in guilt (Ariff, 1987).

According to the advocates of Islamic banking and finance, financial intermediation based on Islamic standards increases stability in financial markets in the domestic and international economy (Dudley, 1998; Mills and Presley, 1999; El-Gamal, 2001; Zaher and Hassan, 2001; Siddiqi, 2006; Chapra, 2008). Furthermore, due to financing based on profit and loss-sharing, the entire global system is less susceptible to financial crisis and distress (Zaman and Zaman, 2000; Chapra, 2008). Bernanke (2009) and Turner, (2009) opined in different studies that the origins of the recent financial crisis are perhaps a heavy reliance on interest-based debt financing, high leverage, inadequate market discipline, excessive and imprudent credit growth, investments in risky assets and speculative short selling. Mostly, these causes are either absent from or are partly mitigated in Islamic banking.

For example, the investment account holders of Islamic banks may have a greater incentive to monitor bank activities than the creditors of conventional banks, as they share in the profits and losses of their Islamic bank. Increased monitoring of Islamic banks can help impose the market discipline that is required for financial stability (Bernanke, 2009; Turner, 2009). In addition, conventional banks mainly assess the credibility of the borrower and use collateral to hedge credit risk. Many conventional banks may not appraise the underlying objectives of borrowers and do extend financing for speculative purposes, particularly when the risk of default can be transferred to investors by selling the debt (Chapra, 2008). Islamic banks, however, often specify a stringent project appraisal, particularly in respect of *mudarabah* and *musharakah* financing. Furthermore, large banks may act imprudently because of the likelihood of a government bailout due to their “too-big-to-fail” position. Since the Islamic banking industry is still in its infancy in most of the countries where it is present, this problem does not apply to Islamic banks (Ariff, 2007).

Filippo et al (2013) posits that Islamic finance essentially promotes financial transactions with links to the real economy and abstains from financing activities that are detrimental to society. It supports financial inclusion by offering instruments suited to different socioeconomic groups. Apart from Islamic banking that meets the normal retail needs of consumers (e.g. mortgage and automobile financing, savings accounts), it also serves small and medium-sized enterprises. Islamic finance is ultimately founded on the principle of partnership and cooperation, which calls for a system of equity participation and risk-sharing. Such a system should promote equal distribution of risk and cooperation between the providers of funds (investors) and the users of funds (entrepreneurs).

Islamic finance is community-oriented and entrepreneur-friendly, emphasizing productivity and the physical expansion of economic production and services. Hence, it shifts the overall focus from financial collateral or the financial worth of a borrower (the current predominant practice) to the entrepreneur’s trustworthiness and the project’s viability and usefulness. This feature has important implications for the distribution of credit risk as well as systemic stability. Islamic finance, therefore, falls under ethical finance. This implies that Islam may be considered a system of standards based on moral and ethical values. The purpose of Islamic finance is to improve living conditions and well-being, establish social equity and prevent injustice in trade relations. This is precisely the reasoning behind the prohibition of usury and its replacement with a system whereby profits and risk are shared more equally (Novethic, 2009).

## **ISLAMIC BANKING CONCEPT AND NON-INTEREST FINANCIAL INSTRUMENTS**

**1. Mudarabah:** This practice is a form of business relation in which an investor brings capital (financial or other) and an entrepreneur provides expertise. The entrepreneur is responsible for



managing the business and the profits (excluding capital employed and the entrepreneur's management costs) are shared between the two parties based on pre agreed terms. In the event of losses, they are borne by the investor, and the entrepreneur is not compensated for his labour (Novethic, 2009). According to Adebayo (2011), it is a partnership in profit where the bank provides the capital and the entrepreneur works as the manager. Thus, mudarabah contracts are profit-sharing agreements, in which a bank provides the entire capital needed to finance a project, and the customer provides the expertise, management and labour. The profits from the project are shared by both parties on a pre-agreed (fixed ratio) basis, but in the cases of losses, the total loss is borne by the bank.

**2. Musharakah:** This contract is similar to joint venture agreements, in which a bank and an entrepreneur jointly contribute capital and manage a business project. Any profit-and-loss from the project is shared in a pre-determined manner. The joint venture is an independent legal entity, and the bank may terminate the joint venture gradually after a certain period or upon the fulfilment of a certain condition (Chong and Liu, 2008). Similarly, Novethic (2009) opined that this system is close to mudarabah, except that the parties combine their capital and share profits and losses in the proportion to the capital contributed. Thus, Unlike mudarabah where the bank only provides the capital, in musharakah the bank partners with its client for running a business where both of them contribute capital, either both of them or the client alone take part in the management of the business and later share the profits at a pre-agreed ratio. Where losses are incurred, they are as well going to share them as per their capital ratio (AbdulGhafar. 2010).

**3. Murabaha:** Adebayo (2011) opined that it involves identification of particular goods by a customer for the bank to secure for him; the bank will add the mark-up profit, deliver the goods and collect the payment from the customer in deferred terms. murabaha financing is therefore based on a mark-up (or cost plus) principle, in which a bank is authorized to buy goods for a customer and resell them to the customer at a pre-determined price that includes the original cost plus a negotiated profit margin. This contract is typically used in working capital and trade financing. (Chong and Liu, 2008)

Novethic (2009) opined that this system replaces a traditional bank loan in the sense that the bank buys a given asset then resells it to the customer in exchange for one or more pre-defined payments. It differs from a loan in that the bank becomes the owner of the asset before selling it and is not paid interest but a flat fee. Although the end result is the same, the transaction is considered Shariah compliant as it involves a real asset and payment is provided for a service provided by the bank, rather than for the money itself.

**4. Ijarah:** This involves leasing out an asset by the bank in exchange for rental, where at the expiration of the lease period, the leased asset is returned to the lessor (Adebayo, 2011). This mechanism is similar to the murabaha, except that the buyer actually leases the asset with an option to buy at the end of the lease period. Ijarah therefore mirrors lease financing, except that the buyer is not charged penalties for late payments, and the lessor bears the risk associated with the asset as it is the owner (unless the lessee is guilty of malice or negligence). Novethic (2009) opined that the murabaha and ijara mechanisms can be used as a substitute for a property loan, but the transfer of ownership is gradual in the case of murabaha, and occurs at the end of the contract in the case of ijara. Shariah (Islamic law) permits rental charges on property services, on the precondition that the lessor (bank) retain the risk of asset ownership.

**5. Takaful:** This term refers to a group of people who insure each other. Takaful companies operate similarly to mutual insurance companies as risk is pooled and any losses shared by all the insured parties. The members of a takaful insurance company are both insurers and insured. They own the funds, while the company acts as manager and receives compensation in the form of

fees. The investments made with these funds must of course be Shariah-compliant (Novethic, 2009).

**6. Sukuk:** The Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) defines “sukuk” as certificates of equal value representing undivided shares related to the ownership (and not debt) of tangible assets, usufruct and services or to the ownership of the assets of particular projects or a special investment activity, extending even to contractual rights, which are held in trust for sukuk-holders (IIFM, 2011). To be Shariah-complaint, sukuk must be capable of being owned and sold legally, in accordance with the rules of the Shariah (Filippo et’al 2013). Similarly, Novethic (2009) opines that sukuk instrument is a Shariah-compliant investment certificate equivalent to a private or public bond.

**7. Bay' Salam:** This is structured based on a forward sale concept. This method allows an entrepreneur to sell some specified goods to a bank at a price determined and paid at the time of contract, with delivery of the goods in the future. (Chong and Liu, 2008). Adebayo (2011) further stated that this contract encourages a bank to enter into agreement with a farmer for the advance purchase of products and payment is made prior to the delivery of such commodity.

**8. Istisna:** This contracts are similar to the bay’salam contract, but involving a different objects (industrial goods that have not yet been completed). They are based on the concept of commissioned or contract manufacturing, whereby a party undertakes to produce a specific good for future delivery at a pre-determined price. It can be used in the financing of manufactured goods, construction and infrastructure projects. (Chong and Liu, 2008)

#### **MAJOR PRINCIPLES OF NON-INTEREST (ISLAMIC) BANKING**

The major principles of non-interest banking according to the Central Bank of Nigeria guidelines are summed up as follows:

1. Any predetermined payment over and above the actual amount of principal is prohibited i.e. lender should not charge any interest or additional amount over the money lent.
2. The lender must share in the profits or losses arising out of the enterprise for which the money was lent. Furthermore, Islamic finance is based on the belief that the provider of capital and the user of capital should equally share the risk of business ventures, whether they are industries, farms, service companies or simple trade deals.
3. Making money from money is not Islamically acceptable.
4. Uncertainty, Risk or Speculation is also prohibited on any transaction entered into. Contracting parties should have perfect knowledge of the counter values intended to be exchanged as a result of their transactions.
5. Investments should only support practices or products that are not forbidden e.g. trade in alcohol, construction of casino, lending money to other banks at interest.
6. The policy does not prevent non-Muslims from participating.

#### **ISLAM, ISLAMIC BANKING AND SUSTAINABLE DEVELOPMENT**

Islam means the religion of peace and harmony, therefore Islamic way of life entails peace and harmony. An active promotion of the harmonization of individual social and ecological interest would ensure sustainable development. Islam is a complete code of life that converses every sphere of human life. It is a religion that has a theoretical framework that guides its followers to observe and adopt as a system of life. In Islam, man acts as a steward on earth with the role of protecting natural resources. This concept is consistent with sustainable development as defined in the Brundtland report of the 1987 UN Commission on Environment and Development, chaired by Norwegian Prime Minister Gro Harlem Brundtland, which coined the term sustainable development, referring to “progress that meets the needs of the present without compromising the ability of future generations to meet their own needs.” Sustainability



means not only the survival of the human species but also maintaining the productivity of natural, produced, and human assets from generation to generation. The purpose of Islamic banking and finance is to improve living conditions and social well-being is in full harmony with sustainability issues.

The Islam economic system which owns its framework paradigm, value system and foundational axioms on doctrines such as oneness (tawhid), justice and charity (adl wal-ihsan), self development (tazkiyah) responsibility (fardh) etc have a guideline for attaining sustainable development economically. Al-Jayyousi (2010) opined that the combination of Wisdom (hikma), Justice (adl), Public interest (maslaha), Innovation (ijtihad), yields a set of notions that inform sustainability in islam. Islamic economics is built upon knowledge coming from the basic sources of the religion of Islam which are Quran, plus the accumulated knowledge of Islamic jurisprudence generated by consensus (ijma) analogy (qiyas) and independent interpretation (ijtihad) (Hassan, 2005; Hassan 2006). According to Ahmed (2002) Islamic economics is the science that studies the best possible use of available economic resources endowed by Allah, for the production of maximum possible output of Halal goods and services that are needed for community now and in future and the just distribution of this output within the framework of shariah and its intent.

This shows clearly that a sustainable economy requires an effective mechanism for the distribution of wealth in a society because if poverty prevails, there cannot be a sustainable development (Kates, Thomas and Anthony, 2005). In order to ensure sustainable economic development that ensures intergenerational equity, Islam has put in place certain mechanisms in the Islamic economic system which would encourage different forms of people centred development where local people harness their local resources to achieve local benefits. Islamic ethos encourages the introduction of new technology and innovation (*ijtihad*). Moreover, it urges the industrialists to bear the cost of the dislocation or economic hardship created by the introduction of new technology based on the concept of 'no harm' (*darar* principle). Also, once the economy is organised on the principle of worker ownership, the benefits of new technology would automatically spread over to the whole economy. This is why the banking system in an Islamic economy is based on the concept of sharing profit as well as loss. The general principle is that those who want to earn a return on their savings should also be willing to assume a risk. The banks will have to share the loss of the enterprise as well if they wish to obtain a return on their capital. (Al-Jayyousi 2010).

Right from the advent of Islam, the unfeigned significance of the economy has been emphasized by the Holy Prophet (P.B.U.H) whose first profession was trade and commerce. In order to ensure sustainable economic development that ensures intergenerational equity, Islam has put in place certain mechanisms such as Zakat and Sadaqat, Waqf (charitable endowment and Prohibition of Riba (Interest) which forms the unique feature of Islamic banking (Ansari, Jamal and Oseni, 2012). Islam operates on the principle of Al-takaful which means meeting the needs of all and ensuring equity. Thus, unjust enrichment through interests is prohibited in Islam. The reason for the prohibition of riba is the resultant harmful effect it has on the economy, social life and the psychological well being of the society. For a sustainable economic development to be achieved, all forms of unjust enrichment must be proscribed to allow for equal opportunities to all. This is why Islam encourages Mudaraba (which is partnership in Labour and Capital) and *Musharaka* (which is partnership in capital and showing profits). This, as a matter of fact has led to the advent of Islamic banking system.

## **CONCLUSION AND RECOMMENDATION**

Sustainability concept which emphasizes on the ability to meet the needs of the present generation without compromising the ability of the next generation to meet their own needs is emphasized in Islam and this as a matter of fact forms the bedrock Islamic banking and finance. The financial crisis and the resulting call for a more stable and secure financial system have renewed an interest in Islamic finance. The fact that the Central Bank of Nigeria recognises the viability of non-interest banking is a demonstration of it as an alternative system to the conventional interest based system which has failed to rescue the world from its present economic mess. This Islamic principle of profit and loss sharing fosters the spirit of unity, cooperation and brotherhood among those concerned. Infact, it is the cornerstone of Islamic banking and finance for the fact that it has its root in the Islamic tradition which promotes equity fairness and justice.

Business organizations and likewise countries around the world are struggling with a new role which is to meet the needs of the present generation without compromising the ability of the next generation to meet their own needs (sustainable development). The important role that Islamic banking and finance practices will play in this regard can therefore not be over emphasized. It is therefore recommended that the numerous advantages accrued to Islamic banking and finance practices which constitutes an integral part of the financial development strategy should be encouraged and mainstreamed to meet need for sustainable development which the 21<sup>st</sup> century demands

## **REFERENCES**

- Abdallah, A., 1987. 'Islamic banking', *Journal of Islamic Banking and Finance*, January-March, 4(1): 31-56.
- Abdul Ghafar, I. (2010), *Money, Islamic Banks and the Real Economy*; Malaysia, Cengage Learning.
- Abdul-Majid, M., Saal, D. S. and Battisti, G. (2010), "Efficiency in Islamic and Conventional Banking: An International Comparison", *Journal of Productivity Analysis*, Vol. 34, pp. 25-43.
- Abedifar, P., Molyneux, P. and Tarazi, A. (2012), "Risk in Islamic Banking", *Review of Finance*, Vol. 1(5).
- Abumoghli, I (2009): Sustainable Development in Islam. Retrieved from [www.islamsustainabledevelopment.com](http://www.islamsustainabledevelopment.com)
- Adebayo, R.I (2010), "The Enabling Environment for the Viability of Islamic Banking in Nigeria." A paper presented at the International Conference on Islamic Banking and Finance held at Crescent University Abeokuta between 19th and 22th March, 2010.
- Adebayo, R.I (2011). A Study of the Legal and Regulatory Issues of Non-Interest Banking system in Nigeria. *Journal of Islamic Banking and Finance Jan. – March 2011.Pp. 42*
- Adekanye, F.(2010). *The Elements of Banking in Nigeria*. Fazburn Publishers, Lagos. 4<sup>th</sup> Edition
- Aggarwal, R. and Goodell, J. W. (2009), "Markets and Institutions in Financial Intermediation: National Characteristics as Determinants", *Journal of Banking and Finance*, Vol. 33, pp. 1770-1780.
- Ahmed, I. (1999). *Islamic Banking and Finance. The concept, the Practices and the Challenges*, Islamic Society of North.
- Alao, D.O., and Alao, E.M. (2012).Islamic Banking: The Controversy Over Non-Interest Banking System In Nigeria. *Arabian Journal of Business and Management Review (Nigerian Chapter) Vol. 1, No. 1, Pp.65*

- Al-Jayyousi, Odeh. (2010). 'Islamic and Sustainable Development'. Retrieved from .  
<http://www.gowerpublishing.com/isbn/9781409729012>.
- Ajagbe T. S. and Brimah A. N.(2013). Islamic Banking development and evolution: current issues and future prospects. *Journal of Research in International Business and Management*. Vol. 3(2) pp. 73-79, February, 2013.
- Ansari, A.H. Jamal. P., Oseni, U. (2012): Sustainable Development: Islamic Dimension with Special Reference to Conservation of the Environment *Advances in Natural and Applied Sciences*.
- Ariff, M. (1987). Islamic Banking. *Asian-Pacific Economic Literature*, Vol. 2, No. 2. Pp.40
- Ariff, M. (2007). Islamic Banking: A Variation of Conventional Bank. *Monash Business Review*, 3 (1), 1-8.
- Aziz, ZA. (2006). *Islamic Banking and Finance Progress and Prospects, Collected Speeches 2000-2006*, Bank Negara Malaysia, Kuala Lumpur.
- Aziz, Z. A. (2012), "Islamic Finance in a Challenging Economy: Moving Forward", Opening Address at the 2nd ISRA Colloquium 2012, 27 November.
- Bernanke, B. S. (2009). *The Crisis and the Policy Response*, London School of Economics.
- Brundtland Report. (1987), retrieved from [http:// www.sd-network.eu](http://www.sd-network.eu).
- CBN (2011). Guidelines for the Regulation and Supervision of Institutions offering Non-Interest Financial Services in Nigeria
- Chapra, M. U. (2008), "International Financial Stability: The Role of Islamic Finance" *Policy Perspective*, 4, Institute of Policy Studies, pp. 1-10.
- Chong, B. S. and Liu, M. H. (2007), "Islamic Banking: Interest-Free or Interest-Based?", *Conference Papers*, The European Financial Management Association, Vienna, available at: <http://ssrn.com/abstract=868567>
- Dudley, N. (1998). "Islamic Banks Aim for the Mainstream", *Euromoney*, 349, pp. 113-116
- El-Gamal, M. A. (2001), *An Economic Explication of the Prohibition of Riba in Classical Islamic Jurisprudence*, Rice University, Houston, Texas.
- European Central Bank (2011), *The Monetary Policy of the ECB*, 3rd edition, May.
- Eze, I. and Chiejina, A. (2011). *Furore over Islamic Banking in Nigeria*. In file:/24733-furoreover- Islamic banking- in-nigeria.htm
- Filippo, M., Pierluigi, C., Stéphane, C., Angela, D., Lauren, H, Baljeet, K, Sergio, M., Steven, O., and Sajjad, Z. (2013). Islamic Finance in Europe. European Central Bank, 2013 Occasional Paper Series No 146 / June 2013 available At <http://www.ecb.europa.eu>, <http://www.ifsb.com>.
- Gait A , Worthington AC, (2007). "An Empirical Survey of Individual Consumer, Business Firm and Financial Institution Attitudes towards Islamic Methods of Finance", Working Papers Series University of Wollongong School of Accounting and Finance.
- Haque, A., Jamil, .O. & Ahmad, .Z. (2007). Islamic Banking: Customer perception and its prospect on bank product selection towards Malaysian customer perspectives', *paper presented at the Fifth International Islamic Finance Conference*, 3-4th September, Kuala Lumpur.
- Haron, S. (1997). *Islamic Banking Rules and Regulations*, Pelanduk Publications (M) Sdn Bhd, Kuala Lumpur
- Hassan, A.(2005): Islamic Economics and the Environment : Material Flow Analysis on Society-Nature Interterrationships\* *J.KAU: Islamic Econ.*, Vol. 18, No. 1, pp. 35-40 (2005 A.D/1426 A.H)

- Hassan, Z., (2006). Sustainable development from an Islamic Perspective: Meaning Implications and Policy Concerns. *IJUM Journal of Islamic Economics*. 19(1):3-18 (2006 A.D/1427 A.H). Available Online at [http://mpira.uibm.ac.uk/mpra/paper/view/2784/](http://mpira.uibm.ac.uk/mpra/paper/view/2784) MPRA Paper
- International Islamic Financial Market (2011), *Sukuk Report*, 2edn., available at: <http://www.iifm.net/>.
- Kamal, N., J. Ahmad and A.K. Khalid,(1999). Islamic Banking: A study of customer satisfaction and preferences in Jordan. *Int. J. Bank Market.*, 17: 135-150.
- Kates, R.W., Thomas M.P., and Anthony A. L., (2005). "What is Sustainable Development? Goals, Indicators, Values, and Practice." *Environment: Science and Policy for Sustainable Development*, 47(3): 8-21
- Mills, Paul S., Presley, John R., (1999). *Islamic Finance: Theory and Practice*. Macmillan, London.
- Mirakhor, A. (2000). *General Characteristics of an Islamic Economic System*. Anthology of Islamic Banking, Institute of Islamic Banking and Insurance, London, p.11-31
- Naveed, A.K and Kashif, U.R.(2010). Customer satisfaction and awareness of Islamic Banking System in Pakistan. *African Journal of Business Management* Vol. 4(5), pp. 662-671.
- Novethic (2009). Islamic Finance and SRI: Any Crossover? Working paper, May 2009. Available at [www.novethic.com](http://www.novethic.com)
- Siddiqi, M. N. (2006), "Islamic Banking and Finance in Theory and Practice: A Survey of State of the Art", *Islamic Economic Studies*, Vol. 13, pp. 1-48.
- Turner, A. J. (2009). *A Regulatory Response to the Global Banking Crisis*, Financial Services Authority
- Zaher, T. and K. M. Hassan, K. M. (2001), "A Comparative Literature Survey of Islamic Finance and Banking", *Financial Markets, Institutions and Instruments*, Vol. 10, pp. 155-199.