



ATTITUDE OF PEOPLE TOWARDS INVESTING IN ISLAMIC FUNDS IN BORNO STATE OF NIGERIA

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ABSTRACT

Islamic fund is somewhat new phenomena in the financial system of Nigeria. Having noted the behavior of the most of the market participant in Borno State, this study seeks the opinion of the populace Borno state. The objective is to see how willing are the people of the state towards investment in Islamic funds despite the existence of the conventional system of financing. In doing so, a hypothesis was stated and tested by administering questionnaire on sample selected using stratified sampling method. In all 600 questionnaires was administered. Conclusion was arrived at using the analysis carried out on these responses. The null hypothesis was rejected on testing, an indication that people are willing to invest in Islamic funds.

Keywords: Mudarib (Entrepreneur), Variable Rate Redeemable Sukuk, Hybrid/Pooled Sukuk, Equity Fund , Ijarah Fund

INTRODUCTION

Borno state is one of the six states in the North-Eastern geo-political region. The application of Islamic fund which derived its origin from Islamic finance in a state with multi religious groups and traditionalist, coupled with the existence of the conventional financial system poses some problems. The refusal of most business men to patronize the conventional financial system for interest element is a clear indication that the system did not cater for the aspiration of the totality of the business community in the State.

Presently, Nigeria is in the period of deregulated interest rate. Islamic finance which encourages interest free financing is guided by the Islamic law, which prohibits interest taking in any form of financing but allows profit sharing. Even though interest free economy is a propagation of

the Islamic law with its total mode of administration, there is no religion that propagates exploitation of which interest financing is known with. Having at the back of our minds the constitutionality, the presence of conventional financing system and differences in beliefs, this study seeks to find out the willingness of people to invest in Islamic funds and security in Borno State.

The objective of this study is to determine the willingness of to invest in Islamic funds and security which is a product of Islamic finance. The study was guided by the question that; are people in Borno state willing to invest in Islamic funds and security?



MUSHARAKAH

Under Islamic jurisprudence, *Musharakah* means a joint enterprise formed for conducting some business in which all partners share the profit according to a specific ratio while the loss is shared according to the ratio of the contribution. (1) *Shirkat-ul-milk* (Partnership by joint ownership): It means joint ownership of two or more persons in a particular property.

MUDARABA

Khan (2008) defined *mudaraba* as the “limited liability contract between two or more parties in which one party provides the capital to the other(s) to start a joint venture to share in profits, according to a mutually agreed upon ratio”. Bello (2000) defined *mudaraba* as a system that the “Banks provide the capital and clients provide the expertise”. The profits generated are shared between the bank and the entrepreneur upon agreed ratio. In the case of loss, the banks bear all the loss provided is not due to the negligence of the entrepreneur.

Leasing (*Ijara*) Facility

Obaidullah (2005) state *Ijara* in simple terms, implies leasing or hiring of a physical asset. It is a popular debt-based product in which the Islamic bank assumes the role of an *ajir* or *mujir* (lessor) and allows its client to use a particular asset that it owns. Through *Ijara*, it receives the benefits associated with ownership of the asset against payment of predetermined rentals (*ujrat*). *Ijara* is for a known time period called *Ijara* period.

One may note here that *Ijara*, is a fund-based business for the Islamic bank. The bank is not a natural owner of the asset (sold under *murabaha* or given in lease under *Ijara*.) *Ijara* rentals are also paid in installments over time, and are supposed to cover the cost of the asset or value of investment for the bank and to provide a fair return on investment.

In *Ijara*, the bank continues to be the owner throughout the *Ijara* period. In *murabaha* on the other hand, the benefits and risks of ownership of the asset are transferred to the client along with ownership. Both the products involve cash

outflows for client or cash inflows for the bank over a definite future time period. The basic rule is transferring of usufruct not ownership. For example money, wheat etc (Obaidullah, 2005).

Interest free finance is one of the methods of financing which is growing fast in recent times. The genesis of non-interest banking in Nigeria (profit and loss share) derived its source from section 61 of Banks and other financial institutions act (BOFIA) 1991. Habib Nigeria Bank started successfully but after the consolidation, as a result of merger with Platinum Bank and further changing its name to Bank PHB on consolidation and now keystone Bank, the PLS is no longer active but they only have a new window called Hajj account. There are only six known Islamic financial institutions in Nigeria. Jaiz bank, PS business consults provide interest free investment to fish farmers (Web). Hududullah investment is currently operating in Taraba, Adamawa and Gombe states, assisting small scale entrepreneurs (Jen, 1999) and lastly, Integrated Microfinance Bank (IMFB) is currently operating on interest free and providing interest free financing products in Lagos (Daily Trust, 2008).

Equity Fund

In an equity fund the amounts are invested in the shares of joint stock companies. The profits are mainly derived through the capital gains by purchasing the shares and selling them when their prices are increased. Profits are also earned through dividends distributed by the relevant companies. It is obvious that if the main business of a company is not lawful in terms of *Shariah*, it is not allowed for an Islamic Fund to purchase, hold or sell its shares, because it will entail the direct involvement of the shareholder in that prohibited business.

Ijarah Fund

Another type of Islamic Fund may be an *Ijarah* fund. *Ijarah* means leasing. In this fund the subscription amounts are used to purchase assets like real estate, motor vehicles or other equipment for the purpose of leasing them out to their ultimate users. The ownership of these



assets remains with the Fund and the rentals are charged from the users. These rentals are the source of income for the fund which is distributed pro rata to the subscribers.

Each subscriber is given a certificate to evidence his proportionate ownership in the leased assets and to ensure his entitlement to the pro rata share in the income. These certificates may preferably be called '*Sukuk*'—a term recognized in the traditional Islamic jurisprudence. Since these *Sukuk* represent the pro rata ownership of their holders in the tangible assets of the fund, and not the liquid amounts or debts, they are fully negotiable and can be sold and purchased in the secondary market. Anyone who purchases these *sukûk* replaces the sellers in the pro rata ownership of the relevant assets and all the rights and obligations of the original subscriber are passed on to him. The price of these *Sukuk* will be determined on the basis of market forces, and are normally based on their profitability.

Commodity Fund

Another possible type of Islamic Funds may be a commodity fund. In the fund of this type the subscription amounts are used in purchasing different commodities for the purpose of their resale. The profits generated by the sales are the income of the fund which is distributed pro rata among the subscribers. In order to make this fund acceptable to *Shariah*, it is necessary that all the rules governing the transactions of sale are fully complied with.

Evolution and Profile of *Sukuk* Structures and Markets

Generally, *Sukuk* are asset-backed, stable income, tradable and *Shariah* compatible trust certificates. The primary condition of issuance of *Sukuk* is the existence of assets on the balance sheet of the government, the monetary authority, the corporate body, the banking and financial institution or any entity which wants to mobilize the financial resources. The identification of suitable assets is the first, and arguably most integral, step in the process of issuing *Sukuk* certificates. *Shariah* considerations dictate that the pool of assets should not solely be comprised

of debts from Islamic financial contracts (e.g. Murabaha, Istisna).

Types of *Sukuk*

According to Ali (2008), the proper classification of the asset will also determine the type of certificates to be issued. It is imperative to note that these assets can be prepared for the issuance of trust certificates in a number of ways conditional to the need of the issuing entity.

Pure *Ijarah Sukuk*

These certificates are issued on stand-alone assets identified on the balance sheet. The assets can be parcels of land to be leased or leased equipment such as aircrafts and ships. The rental rates of returns on these *Sukuk* can be both fixed and floating depending on the particular originator.

Hybrid/Pooled *Sukuk*

The underlying pool of assets can comprise of Istisna', Murabahah receivables as well as *Ijarah*. Indeed, having a portfolio of assets comprising of different classes allows for a greater mobilization of funds as previously inaccessible Murabaha and Istisna assets can comprise a portfolio. However, still at least 51 percent of the pool must comprise of *Ijarah* assets. Due to the fact the Murabaha and Istisna' receivables are part of the pool; the return on these certificates can only be a pre-determined fixed rate of return.

Variable Rate Redeemable *Sukuk*

The above mentioned two types of *Sukuk* would partially represent the strength of the issuer's balance sheet. Under some conditions, implementing *Sukuk* by representing the full strength of an issuer's balance sheet can prove to be beneficial. Already, several corporate entities refer to these *Sukuk* as *Musharakah* Term Finance Certificates (MTFCs). This can be considered as an alternative to *Sukuk* because of its seniority to the issuer's equity, its redeeming nature and its relatively stable rate as compared to dividend payouts. MTFCs have a few advantages. First, employing *Musharakah* returns is preferred from the viewpoint of jurists as such an arrangement would strengthen the



paradigm of Islamic banking that considers partnership contracts as the embodiment of core ideals. Secondly, the floating rate of return on these certificates would not depend on benchmarking with market references such as LIBOR but would instead be contingent on the firm's balance sheet actualities.

Zero-coupon Non-tradable Sukuk

Another possible classification of *Sukuk* structures can be created where the assets to be mobilized do not exist yet. Consequently, the objective of the fund mobilization would be to create more assets on the balance sheet of company through *Istisna'*. However, certificates of this nature would not readily be tradable because of *Shari'ah* restrictions. The primary asset pools to be generated would be of the nature warranted by *Istisna* and installment purchase/sale contracts that would create debt obligations. The certificate on these debt arrangements can be termed as fixed rate zero coupons *Sukuk*.

Embedded Sukuk

These could be *Sukuk* whether zero-coupon, pure-*Ijara* or hybrid, with the embedded option to convert into other asset forms depending on specified conditions.

METHODOLOGY

This study's population comprises of the entire people of Borno State. The state is divided into three Senatorial Districts namely Borno North, South and Central. The population mainly consists of Muslims, Christians and few traditionalist. A total of 600 responses was expected from a sample in the three senatorial districts (two local government councils in each senatorial district). A stratified sampling technique was employed, and the responses were subjected to chi-square analysis through the use of statistical programme for social sciences (SPSS) at 5% level of significance.

DISCUSSIONS

Willingness to Invest Against Religion

The individual questions on willingness to invest were tested against knowledge of religion using both chi-square and Anova. The results are presented in Tables 1 and 2 (appendix A).

Willingness to invest in Islamic funds was tested against belief (religion) with the demography of the respondents. The analysis as presented in table 1 above indicates that despite differences in religion, people are willing to invest in Islamic funds. The asymptotic values of zero throughout the columns indicate that it is less than the 5% significance level, in other words the critical value of 5.991 is far less than the calculated value in all instances as shown in the table (1442.832, 1249.389, 1254.434, 1432.949,, 1430.515 and 1245.525).

At the 5% significance level, analysis of variance also revealed that people are willing to invest in Islamic funds. This is evidenced by the significant value in the Anova Table 2 which is less than 5% throughout. Column six of the table showed that showed a zero percent value in all the columns.

Summary of Findings

The results of analysis carried from Tables 1 and 2 indicate in all instances that the null hypotheses stated should not be accepted rather the alternative be accepted. This is an indication that there is willingness to invest in Islamic funds by people in Borno State of Nigeria.

CONCLUSIONS

A discussion on attitude of people towards investing in Islamic funds in Borno state of Nigeria was made. Attempt was made at testing knowledge of religion against Willingness to invest in Islamic funds. The test revealed no difference in the respondents' religion/belief and knowledge towards investing in Islamic funds and security. Hence, the null hypothesis was rejected. Thus the finding of the study is that



there is likelihood of success of Islamic investment in Borno state.

SUGGESTIONS

- The finding revealed that people are willing to invest in Islamic funds and securities. It is therefore suggested that existing organizations must come up with these Islamic securities for sale to the public. Since the investors are willing, they should be encouraging people to take up shares in institutions like Jaiz bank and Lotus capital.
- The Nigeria Institute of Islamic Banking and Finance in collaboration with the Institute of Chartered Accountants, Nigeria Accounting Standards Board and regulatory bodies must prepare standards to the system.

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APPENDIX A

Table 1: Willingness to Invest in Islamic Funds

Questions	Willing to invest in Islamic equity	Willing to invest in Islamic funds	Willing to invest in Islamic partnership certificate	Deposit your funds in Islamic interest free account	Accept if funds can be loan out on non-interest basis	Accept if government established micro-finance credit companies converted to interest free micro-finance companies
Chi-Square	1442.83 ^a	1249.39 ^a	1254.434 ^a	1432.95 ^a	1430.52 ^a	1245.53 ^a
Df	2	2	2	2	2	2
Asymp. Sig.	.000	.000	.000	.000	.000	.000



Table 2: Anova Test on Willingness to Invest in Islamic Funds

Questions	Source	Sum of Squares	Df	Mean Square	F	Sig.
Willing to invest in Islamic equity	Between Groups	86.468	1	86.468	409.993	.000
	Within Groups	207.528	984	.211		
	Total	293.996	985			
Willing to invest in Islamic funds	Between Groups	185.099	1	185.099	775.110	.000
	Within Groups	234.983	984	.239		
	Total	420.082	985			
Willing to invest in Islamic partnership certificates	Between Groups	185.610	1	185.610	780.567	.000
	Within Groups	233.984	984	.238		
	Total	419.594	985			
Deposit your funds in Islamic interest free account	Between Groups	4.986	1	4.986	16.596	.000
	Within Groups	295.599	984	.300		
	Total	300.584	985			
Accept if funds can be loan out on non-interest basis	Between Groups	.858	1	.858	3.032	.082
	Within Groups	278.517	984	.283		
	Total	279.375	985			
Accept if government established micro-finance credit companies converted to interest free micro-finance companies	Between Groups	59.645	1	59.645	160.407	.000
	Within Groups	365.888	984	.372		
	Total	425.533	985			