Ahmad Bello Dogarawa¹, PhD

Abstract
The global financial crisis of mid 2007, which is said to be more severe than any other one in the past has had devastating spillover effects worldwide as over 100 million more people were forced into poverty. Despite the allocation of about $11.7 trillion of public funds in the form of bailout and liquidity injections by the US, the UK, Europe and a number of other countries to decrease its intensity, there are still fears that the crisis might have exposed the global economy to a long period of economic slowdown. The crisis further provoked some intellectuals to revisit the question of whether conventional financial system has failed. Academics and policymakers have since been searching for a new financial architecture that can re-stabilise the financial system and prevent reoccurrence of the crisis. This paper presents Islamic finance as an alternative to conventional financial system. The paper is analytical with presentation based on literature survey. The paper posits that the profit-risk sharing characteristic of and socio-economic function, which Islamic finance stands for, along with a more effective regulation and supervision can help inject greater discipline into the system and, thereby, substantially reduce financial instability and promote faster development. The paper therefore, suggests that Islamic finance should be given a trial alongside its conventional counterpart in Africa.

Keywords: Bailout; Global financial crisis; Islamic finance; Riba (interest/usury); Shari’ah

Introduction
The global financial crisis that has hit the world economy has brought the most significant economic recession, which has devastated the world as over 100 million more people are forced into poverty. According to Chapra (2008), one estimate documents that there have been more than 101 crises over the last four decades whose effect did not spare a single geographical area or major country including some countries that have generally followed sound fiscal and monetary policies. Of particular significance are the 1998 Long-Term Capital Management (LTCM)

¹ Department of Accounting, Ahmadu Bello University, Zaria, Nigeria
breakdown and the subprime mortgage crisis in the United States that started in the summer of 2007 through 2008. The prevailing financial crisis, which is said to be more severe than any in the past has had devastating spillover effects worldwide. Despite the allocation of about $11.7 trillion of public funds in the form of bailout and liquidity injections by the US, the UK, Europe and a number of other countries to decrease its intensity (Hassan, 2009), there are still fears that the crisis might have exposed the global economy to a long period of economic slowdown (Chapra, 2009).

Since the aftermath of the crisis, which led to an increased level of inequality and an ever growing population that is living far below the poverty line, academics and policymakers have been searching for a new financial architecture that can re-stabilise the financial system and prevent reoccurrence of the crisis on the one hand, and on the other hand, an economic system that is concerned with fulfilling basic human needs and creating opportunities for the poor. Many proposals have been made on the new financial architecture ranging from full-fledged implementation of the principles of capitalism to the latter, to adoption of an ethical financial system that is concerned with the welfare of the poor.

This paper accordingly presents Islamic finance (IF) as an alternative to conventional financial system and its potential to provide solution to the ongoing global financial crisis and prevent its reoccurrence. The paper is analytical. It builds on both theoretical and empirical literature on the causes and consequences of the recent global financial crisis on the one hand, and on the other hand, the efficacy of Islamic financial system (IFS) to solve the ethical problems of conventional financial system (CFS) and adequately take care of the poor. The approach is justified in the sense that it contributes to the current debate on the problems of and solution to the global financial crisis that rocked the global economy since 2007 by critiquing the arguments for and against CFS and adds generally to the pool of available literature.

The remainder of the paper consists of 5 sections. Section 1 gives an overview of the global financial crisis and its consequences on both developed and developing economies. Section 2 presents Islamic finance as an alternative financial arrangement to CFS. Section 3 gives an overview of IF and its dynamic nature. Section 4 discusses the principles of Islamic finance and their efficacy in preventing financial crisis in an economy. Section 5 concludes the paper.

**Causes and Effects of the Global Financial Crisis**

Several efforts have been made to adduce the causes of global financial crises over time with no consensus (Chapra, 2008). Particularly, Chapra (2009), Ahmed (2009), Rasem and Hassan (2009) and Elmeskov (2009) variously pointed out that some
economists consider financial liberalization in countries with improper regulation and supervision to be the root cause in line with the arguments earlier presented by Glick (1998) and Bisignano (1998). Another group of financial experts who took queue from the studies of Chang and Velasco (1998) and Radelet and Sachs (1998) feel that the bursting of the speculative bubble in asset prices was responsible for the financial menace; yet another group argue that the root cause of the crises was basically maturity mismatch.

However, Chapra (2009) observes that though the afore mentioned causes might have contributed to the crisis especially in the past, inadequate market discipline that has become a permanent feature of the CFS due to the absence of profit and loss sharing (PLS) and lack of exercise of moral restraint largely due to the so-called notion of ‘too big to fail’ are the two primary causes of the crises over the decades. He argues as anchored by Hassan (2009) that institution of the receipt and payment of interest and lack of PLS arrangements that presume the safety of loans on the one hand, and on the other hand, the notion of ‘too big to fail’, which tends to assure mega banks that their central banks will at all cost always come to their rescue in the event of failure through bailout and other packages have over the years motivated banks to excessively lend imprudently, accept too much leverage, allow unacceptable asset prices, live above means, and engage in high risk speculative investment.

This latter view was shared in part by the Bank for International Settlements (BIS) in 2008 and Elmoskov in 2009. On its part, BIS posits that excessive imprudent lending practice by banks over a long period is the most important cause of almost all economic crises including the one of 2007. Elmoskov (2009) on the other hand, observes that the main driver of the crisis that has affected both developed and emerging economies with varying degree was the unwinding of asset price hikes, financial leverage and risk appetite built up prior to its occurrence. Hassan (2009) adds that the crisis is in reality a crisis of failed morality; caused by excessive greed, exploitation and corruption, failure in the relationship between originators of investments and investors, and failure to communicate potential transactional risk to borrowers.

The crisis, according to Elmeskov (2009) originates in Organisation for Economic Cooperation and Development (OECD) countries following a number of developments that could be seen to have had a bubble character depicted in the form of benevolent growth and inflation conditions, rising saving rates, easy monetary policy and financial innovation. According to him, the economic causes of the bubble are the fall in bond yields, both in nominal and real terms, in many OECD
countries to unusually low levels in historical comparison; skyrocketing of real house prices, which give rise to mortgage equity withdrawal and increase consumption beyond any wealth-type effects, leading to rapid expansion in housing construction to reach historical highs in terms of GDP in many countries; growth in bank credit at rates more than usually in excess of GDP due largely to rapid development in financial innovation; and unexpected share prices increase in OECD countries.

The degree of the crises was so severe that from a world credit loss of $2.8 trillion in October 2009, 33% (approximately $14.5 trillion) of the value of the world’s companies has been wiped out, some world’s largest financial institutions have gone under, many other financial institutions bought out by competitors at take away prices, and in other cases, governments of world’s wealthiest nations have resorted to extensive bail-out and rescue packages for the troubled financial institutions with US, UK and other European countries leading the team. According to Elmeskov (2009), these countries have spent over $11.7 trillion by mid-2010 with some of the bail-outs even accompanied with pretentious charges due to the emergence of “socialisation of costs and privatisation of profits.” Over 1 million gainfully employed people lost their jobs to the crisis and there is the fear that many more would be laid-off.

Despite their own share of the effect of the crisis, some studies documented that employees of financial institutions were rarely sympathised as they were seen by many investors and market participants to have gambled with other people’s money and lived for fat bonuses and high pay over the years. Many governments particularly in Europe have tried to reassure investors and savers that their money is safe while in others, governments have to increase or provide full insurance cover to deposits. However, it was argued that despite the popular criticisms levelled against bailouts, smaller businesses and individual poor have been excluded from the bailout and rescue programmes and packages of these governments thereby making the peril of the crisis more intense.

At the beginning of the crisis, it was thought that Africa’s general weak integration with the rest of the global economy will provide some form of immunity to many African countries but affect to a small extent the wealthier ones among them (Ahmed, 2009; Dewi & Ferdian, 2009; Hasan & Dridi, 2010). It is posited that since in recent time, Asia and China have developed unparallel interest in developing trade relationship with Africa, it follows that as the financial crisis is hitting the Western nations the hardest, Africa may continue to enjoy increased trade at least for a while. However, in mid-2009, International Monetary Fund’s (IMF) shocking revelation about the dwindling economic performance of particularly sub-Saharan Africa due to
slump in commodity prices and credit squeeze and the evident recession that stepped in the Africa’s largest economy, South Africa due to a sharp decline in the key manufacturing and mining sectors marred all the hope for Africa’s immunity against the global financial crisis.

In Nigeria specifically, despite repeated reassurance to market participants and the Government by the immediate past Governor of Central Bank of Nigeria (CBN) Professor Charles Soludo that all was well with the banking sector and that the financial system of the country was not rocked by the global financial crisis, the new management of CBN having suspected gaping holes in the banks’ balance sheet instituted an all-encompassing special audit of banks. The outcome of the investigation led the CBN to bail out 9 banks with a total sum of ₦620 billion barely 5 months after the last reassurance given by the former CBN Governor with a view to restoring the lost investors’ confidence, and sack the executive management of 5 of the leading banks in Nigeria. Pursuant to the global search for new financial architecture in the aftermath of the global crisis, the apex bank took a deliberate measure to restructure the financial system. As part of its financial system restructuring effort, the apex bank has recently released guidelines for the regulation and supervision of Islamic financial institutions (IFIs) in the country in order to give IF a chance to prove its worth.

**IFIs and the Global Financial Crisis**

The global financial crisis of 2007 through 2008 has rekindled the interest of policymakers and academics in the relationship between IF and financial stability and renewed their quest for allowing alternatives to conventional financial arrangements following the resilience of the IF industry during the crisis that caused a lot of damage to the global economy. Evidence documented by many researchers, including the one sponsored by the IMF in 2009 indicate that IFIs on the average showed stronger resilience during the global financial crisis compared to their conventional counterpart (Hasan & Dridi, 2010). This documented evidence has stimulated the emerging Islamic financial industry to present an alternative paradigm by presenting a new vision and creative ways to manage assets, invest wealth, and engineer innovative Shari‘ah-based financial products.

Several arguments have been raised on why IFIs are said to be immuned from the global financial crisis. Some have argued that lack of exposure of IFIs to the type of assets associated with most of the losses that many CFIs experienced during the crisis
and the risk-sharing and asset-based nature of Islamic finance are what protected IFIs from the impact of the crisis. In view of this therefore and despite several proposals by many financial experts and economic analysts on the alternative financial architecture that would not only address the menace of the crisis but also prevent its future reoccurrence, Chapra (2008) and Hassan (2009) have, in line with the identified causes of the crisis, proposed Islamic finance as the appropriate alternative. They argued that given its fine blend of community welfare, ethics and morality, and investments in the real economy, Islamic finance is well equipped with all that an economy required to achieve financial stability and economic growth.

Rationalizing the result of the studies indicated above and justifying the proposal to adopt Islamic finance as an alternative financial architecture, Chapra (2009) observes that the impact of the crisis on IFIs was minimal due in part to the fundamental principle of prohibition of payment and/or receipt of interest in all financial transactions, which in no small measure helps IFIs get immuned from venomous assets. He further argues that the profit-risk sharing characteristic and socio-economic function, which Islamic financial system stands for, could help inject greater discipline into the system and, thereby, substantially reduce financial instability. His view was shared by a number of researchers that include Hassan (2009) who posits that the crisis would have been avoided or at least kept to minimal had Islamic finance was in full force in most of the affected countries.

**Overview of Islamic Finance Industry**

History has shown that practices of certain forms of Islamic Banking and Finance (IBF) activities go back to 1200 years ago in Baghdad, Damascus, Fez and Cordoba (Kahf, Ahmad & Hamud, 1998). However, the early contemporary IFIs came in the first part of 1960s. Abdul Gafoor (1997) divides the history of modern Islamic banking into two parts: when it still remained an idea and when it became a reality through private initiative in some countries and in others, by law. According to him, the earliest references to the exposition of the evils of interest-based banking and a proposal for interest-free alternative based on the concept of PLS include Anwar Qureshi, Naiem Siddiqi, Mawdudi and Mahmud Ahmad between 1946 and 1952. Within two decades thereafter, the subject matter of interest-free banking had attracted a lot of attention, leading to the emergence of a number of specific works devoted to the subject by young Muslim economists such as Muhammad Uzair, Abdullah al-Araby, Nejatullah Siddiqi, al-Najjar and Baqir al-Sadr between 1955 and 1974.
IF is increasingly becoming an essential part of the global financial system. Since its development in the 1960s, it has continued to cater for the specific need of not only the Muslim community but also non-Muslims who want to pursue their economic activities devoid of interest. The first IBF experiment, which lasted until 1967, started with a saving-investment bank in the town of Mit Ghamr, Egypt in 1963. Earlier, Pilgrims Funds was established in Malaysia in 1962 based on PLS (Kahf et al., 1998). Iqbal and Mirakhor (2007) posit that the Mit Ghamr savings bank experiment was a huge success. Though small in size and not into real commercial banking, the bank maintained savings, investments and Zakah accounts. The savings accounts attracted no interest, but withdrawals could be made on demand. Funds kept in investment accounts were invested on the basis of PLS. Small interest-free loans for productive purposes were allowed for only short-term but with a lot of caution. Although Mit Ghamr Islamic banking project was eventually abandoned for political reasons, the experiment had shown that it was possible to organise commercial banking on interest-free basis. At the time the bank closed in 1967, the number of small banks offering Islamic financial services had phenomenally increased in Egypt.

The 1970s witnessed involvement by institutions and some governments in the joint effort to establish a full-fledged IBF system. Sequel to the international conferences held in Karachi in 1970, Egypt in 1972, Mecca in 1976 and London in 1977, the theory of IBF that had been substantially covered in the literature was applied in practical term. Consequent to the conferences, Nasr Social Bank, Egypt, Philippine Amanah Bank and the Dubai Islamic Bank were established in 1971, 1973 and 1975 respectively. Also in 1975, the Islamic Development Bank (IDB), an inter-governmental bank was established (Raquibuz Zaman & Movassaghi, 2001). The establishment of IDB gave a lot of boost and impetus to the IBF industry.

The 1980s witnessed the expansion of IBF to many Muslim countries. In 1983 through 1984, Iran, Pakistan and Sudan openly announced their intention to implement full-fledged Islamic financial system in their countries. In 1988, the idea that was initially criticised by opponents of IBF materialised in view of the convincing responses provided by Muslim economists to all the apprehensions of the critics (Greuning & Iqbal, 2008). Few years thereafter, the Islamic financial industry that was regarded throughout the 1980s as an infant struggling to prove its viability and competitiveness in the global financial environment started gaining international recognition as a viable and competitive form of financial intermediation not only in Muslim countries but also in the secular world, offering a wide range of financial products and services.
Thus, within 40 years from a modest start in 1963 in Mit Ghamr, Egypt, Islamic finance had penetrated into many Muslim dominated countries and widely accepted in the USA, Europe and most part of Asia. By 2008, Islamic financial industry was considered the fastest growing segments of the international financial services industry (Farooq, 2009; Hasan & Dridi, 2010). The industry is represented by over 250 institutions spread across more than 75 countries that include Muslim countries such as Bahrain, Sudan, Egypt, UAE, Saudi Arabia, Malaysia, Brunei and Pakistan, and non-Muslim countries such as USA, UK, Canada, Switzerland, South Africa and Australia (Ahmad, 2004; Mughal, 2008).

The wide acceptability that the industry enjoys and the support it attracts from even international monetary organisations such as the World Bank and IMF as evident in the numerous researches and working papers they sponsored especially from the late 1980s are considered enough proof of its viability and relevance to the international financial system especially in view of the industry’s appeal to leading international banks such as Standard Chartered; Citibank; HSBC; ABN Amro; UBS; American Express; BNP Paribas; Bank of America; Commerzbank; Barclays; Deutche Bank; ANZ Grindlays; Golman Schs; Royal Bank of Canada; Pictet & Cie; Flemings; Merrill Lynch and Kleinwort Benson that have opened Islamic banking windows or subsidiaries in different parts of the world (Ahmad, 2004; Greuning & Iqbal, 2008).

Today, IBF has become systemically important in the global financial system and is too big to be ignored by countries desiring financial system stability (Hasan and Dridi, 2010).

Estimate of the total size of assets held globally under Islamic finance varies between $800 billion and $1.3 trillion, with growth rates of 12% to 15% annually over the past ten years. It was estimated that by the end of 2012, Islamic finance assets will reach about $1.6 trillion. On the other hand, amount of assets held by Muslim investors worldwide was estimated at $2.7 trillion by the end of 2010 (Hussein, 2010). Two factors were responsible for this splendid development (Rivlin, 2008). First was the bottom-up Islamic banking experiment in Mit Ghamr, which proved the feasibility of Islamic finance. Second was the top-down support that members enjoyed since the establishment of IDB in 1975, which gave impetus to the dissemination of Islamic finance through centralised expertise. This swift development of Islamic finance as an alternative form of financial intermediation particularly from mid-2000s is argued to be a testimony of its viability and a reflection of its ability to meet the insatiable and changing pattern of its clientele’s demand as well as its ability to withstand the challenges of the ever changing environment. Consequent upon the global financial
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meltdown, Islamic financial system is said to be superior to the conventional system due to what Karwowski (2009) refers to as the morality of the homo Islamicus, which surmounts moral hazard and adverse selection problems; the socio-economic and developmental character of the system, which promote growth and wealth redistribution; and the inherent stability of IF in economic fluctuations reduction and taming of crisis reoccurrence.

In early 2000s, many Muslim economists that include Chapra (2007) acknowledge the popular assumption that the interest-based financial system was superior to the interest-free, Islamic financial system on the criterion of efficiency while on the criterion of equity or socio-economic justice, the latter was normally considered to be superior. However, recent developments in the conventional financial system seem to have made the notion of its superiority to Islamic finance on efficiency criterion at least contestable. Chapra (2008) therefore observes that the persistent instability and crises that international financial system has become disposed to over the last few decades particularly the global financial crisis of 2007 that put the number of crises to 36 in just 40 years and the problems that it has created to the world economy have raised doubts about the assumed superiority of conventional, interest-based financial system on even the efficiency criterion. Thus, Farooq (2009) noted that as the contemporary financial crisis unfolded, advocates of the IBF have increasingly shown confidence in the industry, a development that led many of them to boldly assert the superiority of IBF system and even suggest to the West that they should also consider adopting it in full-scale.

**Principles of Islamic Finance**

Islamic finance is based on some principles that distinguish it from its conventional counterpart. The principles derive from the axiom of justice and are in harmony with reality and the nature of human beings. The system, which is founded strictly based on the principles of Shari’ah, absolutely prohibits receipt or payment of any predetermined, guaranteed rate of return thereby closing the gate to the concepts of interest and usury in all financial dealings. It also rules out the use of debt-based instruments and reprehends speculative behaviour in business. It further promotes risk-sharing, encourages entrepreneurship and insists on the sanctity of contracts (Iqbal, 1997). These in summary are the basic principles of Islamic finance.

The first principle, which also forms the main departing point between Islamic and conventional finance is the 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 the *Shari'ah*-compliant system therefore, it is forbidden to charge, pay or receive interest. The system does not recognise the time value of money where money gives birth to money by charging interest through lending activities, rather, 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. Jain (1929) cited in Visser and McIntosh (1998) traces back the practice of interest to approximately four thousand years. Throughout its succeeding history, interest has been variously condemned and prohibited by religious institutions of Hinduism, Buddhism, Judaism, Christianity and Islam on the one hand, and on the other hand, Western philosophers such as Plato, Aristotle, Catos, Cicero, Seneca and Plutarch and ancient politicians and various modern socio-economic reformers mainly on moral, ethical, religious and legal grounds (Birnie, 1958 cited in Visser & McIntosh, 1998).

According to Chapra (2007), criticism of interest in Judaism is found in many biblical references (Exodus 22:24-25; Leviticus 25:36-38; Deuteronomy 23:19-21; Ezekiel 18:8, 13:7, 22:12; Proverbs 28:8; Psalms 15:5; Nehemiah 5:7). In addition to these biblical roots are various *Talmudic* extensions of the prohibitions of interest (The Jewish Encyclopedia, 1912 cited in Visser & McIntosh, 1998) one of which compares money-lender to a murderer who the *Mishnah* disqualifies from giving evidence in a court of law (Chapra, 2007). In Christianity, provisions of the Old Testament vis-à-vis interest were sustained and a New Testament reference, Luke 6:35 was added to reemphasized the prohibition of interest.
The Qur’an condemned interest (riba) in 12 verses. The word riba occurred in 8 places: 3 in 2:275; 1 each in 2:278, 2:279, 3:131, 4:161 and 30:39. In 2:279, the Qur’an declares that those who take riba are at war with the Almighty Allah and His Prophet (peace and blessing of Allah be upon him). It was stated in Prophetic Hadiths that: (i) interest is one of the seven destructive things; (ii) the Prophet (peace and blessing of Allah be upon him) cursed the giver of, the receiver of, the scribe and the witness to riba; (iii) eating a dirham from riba knowingly is worse than committing Zina (adultery/fornication) 36 times; (iv) riba is of 73 gates the least of which is similar to marrying one’s mother; and that (v) none takes much of riba except he ends with very little wealth (Dogarawa, 2010). Chapra (2007) points out that while the Qur’an and Hadith prohibit interest in an unequivocal term, no distinction was made between interest and usury, and even a small gift is not allowed as a condition for a loan.

Second, profit-making from speculation/gambling (mayseer) activities is not permissible. However, since there is hardly any commercial activity that is devoid wholly of speculative element, prohibition on realising a gain from speculation is not in absolute term. The ruling, unlike the case of riba, depends on the extent of speculation and whether or not the intention behind the transaction is to realise a gain from some productive effort (Hussien, 2010). 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 would 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. Under prohibition on speculation, transactions such as Options, Futures, Swaps and forward contracts that insure profit ex ante are not allowed for IFIs.

Third, certainty of key terms is a key requirement for any transaction under the IF. 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. In the case of leasing, the transaction will not be permissible if the clarity of the leased assets or lease duration or the rent payable under the lease is not determined (Hussien, 2010). IFIs 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 IF is to minimize possibilities of misunderstanding and conflicts between contracting parties (Imam and Kpodar, 2010). Fourth, IF activities are based on sanctity of contracts. A necessary code of conduct for IFIs is they deal in only halal (legally permissible) activities. IFIs are not allowed to lend to individuals or invest in companies involved in activities considered to have a negative impact on society such as gambling, pornography, cinema, etc, or that are illegal under Shari’ah such as financing construction of a plant to make alcoholic beverages or tobacco and pork business (Imam & Kpodar, 2010). Thus, under IF, transactions generally should be for lawful not unlawful activities.

Ahmed (2002) identifies a number of areas of difference between IFIs and their conventional counterparts, CFIs. According to him, other than the departing point of prohibition of interest and other related issues covered by the principles of Islamic finance, IFIs differ from their conventional counterpart in the areas of sources and uses of funds. In addition to deposits and investment accounts, IFIs obtain funds from religious institutions of Waqf and other forms of charities. On the uses of funds, while CFIs derive the bulk of their assets from interest-bearing activities, on their own part, IFIs draw their assets from different types of non-interest bearing financial instruments based on equity, sales and rental modes. In addition to these two, IFIs can combine the institution of Zakah and other forms of voluntary charity to provide financial services to the poorest members of the society.

Ahmad (2004) identifies a number of advantages of IF. According to him, IF has the following advantages

(i) Efficient allocation of resources to profitable and more productive use of capital that will lead to promotion of economic growth, equitable distribution of wealth and employment generation
(ii) Information cost saving through partnering with the entrepreneur or firm
(iii) Debt burden reduction through encouraging conversion of debt into equity
(iv) Promoting ethical behaviour
(v) Reduction in run-on-deposits since IFIs use PLS to mobilize resources
(vi) Less likelihood of flight of capital
(vii) Reduction in speculative transactions
(viii) Reduction of inflationary pressures
(ix) Reduction in unproductive use of borrowings since under PLS, lending is directly related to project appraisals and feasibility.
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It is believed that an efficient financial system should aim at realising greater justice in human society. According to Hussein (2010), a financial system may help in realisation of justice if, in addition to being strong and stable, it satisfies at least two conditions: that the financier shares in risk in order not to shift to the entrepreneur or borrower the entire burden of losses, and that a share of the society’s financial resources becomes available to even the poor on reasonable terms bearing in mind their ability to repay so as to enable them realize necessities of and basic objectives in life. Interestingly, IF has been confirmed to have satisfied these conditions and it is therefore, argued that it has all the necessary in-builds to promote justice.

Conclusion

The global financial crisis of mid 2007 is no doubt the severest of all the 101 financial crises witnessed over the last four decades. Given the seeming agreement among various stakeholders that the main cause of the crises has always been lack of adequate market discipline in the conventional system, an alternative financial architecture is definitely needed to correct the ills embedded in the conventional system. In view of its viability and strong resilience to the global financial crisis, Islamic finance is proposed as an alternative to the failed conventional system in order to address the problems caused by the latter and at the same time help prevents reoccurrence of the crisis. Accordingly, it is recommended that Islamic finance should be given a chance in African countries such as Nigeria to operate side by side with the dominant conventional financial system.

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