Manpower challenge of non-interest Banking framework in Nigeria
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Abstract
The release of the framework for the regulation and supervision of Non-Interest Banks (NIBs) in Nigeria in 2011 after four decades of consecutive and concerted effort to establish Islamic banks without success has posed to various stakeholders a serious challenge of manpower development in view of the observed acute shortage of skilled and well trained personnel that is knowledgeable about Islamic banking, particularly the reporting procedures of Islamic Banks (IBs). Using literature survey and responses from group interviews conducted with 120 conveniently sampled certified Accounting professionals and 200 postgraduate students working in conventional banks in Nigeria, this paper examines the manpower challenge of the NIB framework to both the regulator and operators in the country. The paper confirms that at the moment, most Muslim accountants and bankers in Nigeria are not conversant with the modus operandi of Islamic banks, particularly the reporting aspects. The paper therefore recommends that Central Bank of Nigeria (CBN), bank operators and accounting professional bodies should collaborate to train their staff/members on Islamic banking processes and procedure to enable banks wishing to provide non-interest banking in Nigeria comply with the various provisions of the framework.

Keywords: Interest; Islamic banking; Non-interest banking; Profit and Loss sharing; Shari’ah

Introduction
Islamic banking (IB), also called interest-free banking (IFB) or non-interest banking (NIB) is increasingly becoming an integral part of the global financial system. As a system that is consistent with the principles of Shari’ah and its practical application, 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. About two decades ago, IB was still regarded as an infant industry struggling to prove its viability and competitiveness in the global financial environment. At that time, its growth was mainly organic and it was concentrated largely in countries where the Muslim population was significant. But from the early 1990s, it gained 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.

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Many conventional economists and financial experts have tried in the past to dismiss Islamic Banking and Finance (IBF) as a mere religious sentiment and unrealistic effort (Greuning & Iqbal, 2008). However, the ability of the industry to gain recognition of and attract support from even international monetary organisations such as the World Bank and International Monetary Fund (IMF) as evident in the numerous researches and working papers they have sponsored since from the late 1980s has made most of its opponents to accept its viability in and relevance to the international financial system (Raquibuz Zaman & Movassaghi, 2001; Hussein, 2010). Also, the industry’s presence in over 75 countries that include Muslim countries such as Bahrain, Sudan, Egypt, United Arab Emirates (UAE), Saudi Arabia, Malaysia, Brunei and Pakistan, and non-Muslim countries such as the United State of America (USA), United Kingdom (UK), Canada, Switzerland, South Africa and Australia convinced many of them about its position in the mainstream global financial system (Mughal, 2008). In addition, its appeal to leading international banks that include Standard Chartered; Citibank; American Express; Bank of America; Deutche Bank; and Royal Bank of Canada that have opened Islamic banking windows or subsidiaries in different parts of the world indicated to them that IB system has already become part of the global financial system (Ahmad, 2004; Ahmad, 2008; Greuning & Iqbal, 2008).

Realising the potentials of Islamic banking in Nigeria coupled with the desire to reform the financial system and encourage Muslim foreign and local investors to take active part in banking, the Central Bank of Nigeria (CBN) in March 2009 released a draft framework for the regulation and supervision of Non Interest Banks (NIBs) in Nigeria. The draft, which attracted comments and observations from stakeholders for almost two years before a final document was released in January 2011, was seen as a proof of CBN’s readiness to answer the clarion call of the country’s teeming Muslim population particularly from the late 1980s to provide adequate legal and regulatory framework for Islamic banking to enable its proper take-up. It also confirmed the resolve of the apex bank to come to term with the reality of the global search for a new financial architecture since the beginning of the global financial crisis of 2007 through 2008.

Notwithstanding the debate that greeted the NIBs’ guidelines and the criticism labelled against the management of Nigeria’s apex bank of wanting to Islamize the so-called existing secular financial system through the introduction of Shari’ah-based banking particularly from non-Muslim groups and organisations (Dogarawa, 2011), the released framework has posed a serious challenge of manpower development to the CBN, banking operators and accounting professional bodies in the country. Using literature survey and responses from group interviews conducted with 120 conveniently sampled Accounting professionals and 200 postgraduate students working in conventional banks, this paper attempts to examine the manpower challenge posed by the recently CBN’s framework for the supervision and regulation
of NIBs in Nigeria. The significance of the paper is as follows. One, it draws the attention of various stakeholders to the challenge of developing manpower that will cater for the need of the IBF industry in Nigeria. Two, it adds to the pool of literature in the subject area. Three, the paper also contributes to the debate on the readiness or otherwise of the CBN and bank operators to respectively regulate and provide Islamic financial services in Nigeria.

The paper is organised in five sections. Section two discusses the successive efforts made to propagate Islamic banking in Nigeria since 1960s. Section three gives an overview of the new framework for the regulation and supervision of NIBs. Section four highlights the manpower challenges of the framework and discusses responses obtained from the structured questionnaire and interview. Section five concludes the paper and offers some suggestions.

**Islamic Banking in Nigeria**

Over the years, efforts have been made by several institutions to provide Islamic financial services in Nigeria without success. The first recorded effort to provide IB services was made by one Muslim Bank West Africa Limited in Lagos around 1961. The effort was however short-lived as the bank was closed down in 1962 on the instruction of the then Minister of Finance, Chief Obafemi Awolowo (Orisankoko, 2010). It should be noted that the existence of the bank in the first place has remained a subject of controversy in the literature. However, as a proof of its existence and evidence of its operation in 1961 through 1962, Orisankoko (2010) cited two court cases contained in Ajayi (1999) in both of which Muslim Bank West Africa was mentioned as defendant. There is no documented evidence to show that similar efforts had been made throughout the 1970s.

In late 1980s, many conferences and seminars were organised by different groups and institutions to create awareness among particularly Muslims on the evils of interest/usury and to make the Government see reason why Muslims should be given the opportunity to conduct their financial activities in line with the provisions of *Shari'ah*. The effort yielded positive results. Reading materials in the form of textbooks, books of reading, conference proceedings, leaflets and pamphlets arising from the conferences and seminars were made available in both English and some local languages to enlighten people about Islamic banking and its *modus operandi* and why Muslims in particular and Nigerians in general deserve to have it. Having created enough awareness among the people, different groups started calling on government to officially recognise Islamic banking and facilitate its emergence.

In 1991, Bank and Other Financial Institutions Act (BOFIA) as amended was issued. The Act was seen as the first singular effort by the CBN to recognise IB in Nigeria. Under the heading ‘General and Supplementary’, section 39(1) of the Act provides that: “except with the written consent of the Governor, no bank shall, as from the
commencement of this Decree, be registered or incorporated with a name which includes the words “Central” “Federal,” “Federation,” “National”, “Nigeria”, “Reserve”, “State”, “Christian”, “Islamic”, “Moslem”, “Qur’anic”, and “Biblical”. Moreover, section 23 (1) provides:

Every bank shall display at its offices its lending and deposit interest rates and shall render to the Bank information on such rates as may be specified, from time to time, by the Bank; provided that the provisions of this subsection shall not apply to profit and loss sharing banks.

The two sections above were seen to have provided the necessary framework for the establishment of an Islamic bank and any recognised Profit and Loss Sharing (PLS) based banking operations. Two banks were even said to have obtained license based on the provisions of the sections in 1992 to provide interest-free banking services but none could commence operation (Orisankoko, 2010) due largely to the absence of a conducive banking environment. In the late 1990s through early 2000s, the defunct Habib Nigeria Bank Limited created an Islamic banking window for the provision of Shari’ah-compliant financial products based on the provisions of BOFIA. The bank enjoyed a lot of patronage for some time. However, the development could not be sustained due to what appeared to be a boardroom tussle within the bank. Thereafter, United Bank for Africa (UBA) and Access Bank on the one hand were reported to have attempted to introduce what they called No-interest-no-COT current account in order to encourage voluntarily financial excluded people to open account with the bank, and on the other hand, Standard Trust Bank tried to create an Islamic banking window between 2000 and 2003 but without success.

In addition to the efforts of Deposit Money Banks (DMBs), many microfinance banks especially in the North and South-West of the country had tried to blend some of their products to look like Shari’ah-compliant but without much success. In April 2003, Jaiz Bank was registered to carry out banking business in line with the principles of Shari’ah. Adebayo (2010) cited in Orisankoko (2010) noted that around the same time, Zamfara State Government, a Shari’ah implementing state in Nigeria had wanted to establish an Islamic Bank as part of its policy of full-fledged application of Shari’ah in the state but decided to suspend the move and substantially subscribed to the shares of Jaiz Bank in order to facilitate its successful take-up. However, Jaiz was about to take-up in 2004 having mobilised more than the minimum capital base of N2 billion for DMBs when the CBN announced its banking consolidation agenda, which required all DMBs to raise their capital base to a minimum of N25 billion.

Sensitisation campaigns for IB in Nigeria continued even after Jaiz’s inability to obtain a banking license due to inadequate capital base at the end of the CBN’s deadline of 31st December 2005 for banks to have N25 billion. Several studies were
conducted on the potential and economic viability of IB in the country. For instance, Islamic Banking and Finance Committee (2010) documented that in its 2006 annual report, KPMG used a number of proxies to estimate market size for the IBF industry in Nigeria for 2006 through 2010. In arriving at the estimate, the average contributions of the different geographical locations to total deposits for some of the leading banks in Nigeria and the proportion of Muslims in the different geographical areas were considered. Applying the spatial distribution of deposit liabilities of the existing leading conventional banks in the country, which was deemed to be representative of the deposit liabilities of the entire banking industry, the following estimate was arrived at based on the assumption that Muslim population would be the primary market for the generation of deposit liabilities for IBs. The interpolation did not however take into account the large informal sector, estimated at 65% of the bankable and economically active population that was outside the banking system.

<table>
<thead>
<tr>
<th></th>
<th>Average proportion of Muslims (estimated)</th>
<th>Average ratio of deposits</th>
<th>Estimated Islamic banking Market Size</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lagos</td>
<td>50%</td>
<td>30%</td>
<td>18.0%</td>
</tr>
<tr>
<td>Abuja</td>
<td>50%</td>
<td>30%</td>
<td>15.0%</td>
</tr>
<tr>
<td>North (Excluding Abuja)</td>
<td>80%</td>
<td>10%</td>
<td>8.0%</td>
</tr>
<tr>
<td>South-East</td>
<td>1%</td>
<td>4%</td>
<td>0.1%</td>
</tr>
<tr>
<td>South-South</td>
<td>4%</td>
<td>15%</td>
<td>0.6%</td>
</tr>
<tr>
<td>South-West</td>
<td>48%</td>
<td>5%</td>
<td>2.4%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>52%</strong></td>
<td><strong>100%</strong></td>
<td><strong>44.1%</strong></td>
</tr>
</tbody>
</table>

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

It is in view of the potentials of IB in Nigeria as evident from the above table and repeated calls on the Government by the teeming Muslim population who wish to conduct their banking activities based on the provisions of Shari’ah that the CBN developed and circulated a draft IB framework for input in March 2009; and 22 months later, a final document was released in January 2011. The framework was revised in June 2011 to address some of the matters arising from the debate that greeted the framework. On June 20, 2011, the CBN announced that Jaiz Bank had been issued an approval-in-principle to operate as an Islamic bank in the country.
Shortly thereafter, Stanbic IBTC also obtained a license to provide window of IB services in Nigeria.

The introduction of Islamic banking into Nigeria’s financial system is timely. It came at a time when financial experts and policymakers are searching for an alternative financial architecture in view of the financial crisis of 2007 through 2009 that rocked the global economy. IB system has been presented as an alternative to the conventional banking more especially because of the resilience it showed at the peak of the crisis (Chapra, 2009; Karwowski, 2009; Hasan & Dridi, 2010). The system of IB is founded based on the principles of Shari’ah that prohibits receipt or payment of any predetermined, definite rate of return, which close the door of dealing with interest and usury in all financial transactions. It also precludes the use of debt-based instruments and reprehends speculative behaviour in business. Furthermore, the system of IB promotes risk-sharing, encourages entrepreneurship and insists on the sanctity of all contracts (Iqbal, 1997).

IB focuses on achieving social justice. It disallows exploitation and helps in combating poverty. It also incorporates social and equity elements along with normal financing practices. As an alternative to riba-based system, IB has the potential to significantly remove the inequitable distribution of income and wealth that is inherent in the conventional banking (CB), and even lead to a more efficient and optimal allocation of resources when compared with the latter. In Nigeria, IB has the potential to serve as a viable financial intermediation channel in supporting economic growth and a tool to mobilise the significant untapped businesses in the country. It is expected to act as a vehicle for mobilising funds that have been outside the CB system for productive purposes and arouse the interest of many bankable Muslims who voluntarily distance themselves from the conventional system due to religious belief.

**Highlight of the NIB Framework**

According to the CBN (2011a:1), the NIB framework was developed in recognition of the increasing number of requests from persons, banks and other financial institutions wishing to offer Shari’ah compliant products and services in Nigeria. The objective was to provide minimum standards for NIB operation in Nigeria pursuant to Section 33 (1) (b) of the CBN Act 2007; Sections 23(1) 52; 55(2); 59(1)(a); 61 of BOFIA 1991 (as amended) and Section 4(1)(c) of the Regulation on the Scope of Banking Activities and Ancillary Matters, No. 3, 2010. The apex bank further required that these specific provisions are to be read together with the provisions of other relevant sections of BOFIA 1991 (as amended), the CBN Act 2007, Companies and Allied Matters Act (CAMATA) 1990 (as amended) and circulars/guidelines issued by the CBN from time to time (CBN, 2011b:6). To support the framework, two additional guidelines, Guidelines on Shari’ah Governance for Non Interest Financial Institutions (NIFIs) in Nigeria; and Guidelines on Non-Interest Window and Branch Operations of Conventional Banks and Other Financial Institutions were also
released. The apex bank directed that the framework be read along with the two supporting documents for better understanding (CBN, 2011a).

In the framework, the CBN (2011b:5) defined NIFIs to mean:

(i) full-fledged Islamic bank or full-fledged Islamic banking subsidiary of a conventional bank;
(ii) full-fledged Islamic merchant or full-fledged Islamic banking subsidiary of a conventional merchant bank;
(iii) full-fledged Islamic microfinance bank;
(iv) Islamic branch or window of a conventional bank;
(v) Islamic subsidiary, branch or window of a non-bank financial institution;
(vi) a development bank regulated by the CBN offering Islamic financial services;
(vii) a primary mortgage institution licensed by the CBN to offer Islamic financial services either full-fledged or as a subsidiary; and
(viii) a finance company licensed by the CBN to provide financial services, either full-fledged or as a subsidiary.

According to the document, interest-based banks and other financial institutions operating in Nigeria may offer or sell Shari’ah-compliant products and services through subsidiaries, windows or branches only. In addition, the framework requires banks that are licensed to provide IB services to establish a Shari’ah Advisory Committee (SAC) with the approval of the CBN. The SAC should comprise experts in Islamic rulings governing financial transactions or at least a Shari’ah advisor that will ensure that products rolled out by such banks are Shari’ah-compliant and to help minimise the risk that a contract is considered invalid under the principles of Shari’ah. On its part, the CBN is to put in place an Advisory Council of Experts (ACE) that will advise it on matters relating to the effective regulation and supervision of institutions offering Islamic financial services (IIFS) in the country (CBN, 2011b:9).

On audit, accounting and disclosure requirements, the framework obliges NIFIs to comply with relevant provisions of the general financial institutions disclosure requirements contained in CAMA 1990 (as amended) and BOFIA 1991 (as amended). In addition, NIFIs are to comply with the relevant standards issued by IBF standard setting organisations such as Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI); Islamic Financial Services Board (IFSB); and to report and disclose accounting information based on relevant standards issued by Nigerian Accounting Standards Board (NASB). Moreover, the guidelines required all NIFIs to comply with the Generally Accepted Accounting Principles (GAAP) codified in local standards issued by the NASB and the International Financial Reporting Standards (IFRS)/International Accounting Standards (IAS) (CBN, 2011b:9). Apart from audit, accounting and disclosure requirements, the framework also covers prudential requirements and risk management issues for NIFIs.
Manpower Challenge of the NIBs’ Framework in Nigeria

IB is increasingly becoming dear to the Nigerian Muslim and a good number of non-Muslims. With the release of the revised NIB framework in June 2011, many conventional banks are currently planning to open either IB window or subsidiary in addition to the ongoing effort to establish full-fledged Islamic banks. Jaiz Bank and Stanbic IBTC have already started providing full-fledged and window of NIB services respectively.

It is common knowledge that the principles and working procedure of Islamic banks are new and largely different from those of conventional banks. One of the main key success factors for IB is to have employees who are knowledgeable about its operations. Lack of qualified manpower is generally identified as one of the major challenges to the advancement of IB in the world. Specifically in Nigeria, dearth of necessary expertise and trained manpower to implement the NIB framework on the one hand, and on the other hand, appraise, monitor, evaluate an audit the projects that are required to finance is a serious challenge. Going by the KPMG estimate on IB market share, the industry requires not less than 11,600 qualified workers by the end of 2012 (Islamic Banking and Finance Committee, 2010). At the moment, there is lack of experts in Islamic finance that will help drive innovative Shari’a-compliant financial products. In fact, since the 1990s, there was hardly a report or communiqué of conference or workshop on NIB in Nigeria without the mention of lack of human competencies especially in the reporting aspect of Islamic finance.

Not only are the operators, even the regulator faces the challenge of manpower. For example, the CBN’s ACE is expected to comprise members with requisite expertise in Shari’ah principles that relate to financial transactions and a good understanding of modern business activities. In addition, the oversight supervisory functions of the apex bank have to be performed by people who understand the modus operandi of NIB. While outsourcing of some of the members of the ACE could be expensive but affordable, CBN officials that would perform oversight functions could not be outsourced. This therefore underscores the dire need for skilled and well trained manpower in the area of Islamic finance for the IB project to succeed in Nigeria.

One other aspect of the NIB framework that poses a serious manpower challenge is the audit, accounting and disclosure requirements. At the initial stage, IBF industry was not accompanied by internationally recognised accounting rules as a result of which Islamic institutions around the globe had to resort to developing accounting solutions for their new products. This individual effort renders comparisons across institutions difficult and sometimes even creates the impression of lack of transparency in Islamic financial activities (Sole, 2007). As development in the industry unfold and more complex instruments marketed, the need for a body of accounting standards that will cater for the nature and peculiarity IBF institutions became more obvious.
In 1990, AAOIFI was created to design and disseminate accounting and auditing standards that Islamic financial institutions could apply internationally. Through AAOIFI, Shari’ah-based rulings on different financial products are harmonised, new challenges faced by regulators in countries where IBF is just developing are easily addressed, supervision of internationally active institution is eased, Islamic transactions are better understood, and integration of Islamic institutions into the international financial community is fostered (Sole, 2007). The requirement for banks desiring to provide Islamic financial services in Nigeria to comply with relevant standards issued by AAOIFI and IFSB no doubt poses a great challenge to particularly professional accountants. At the moment, there is shortage of knowledge among even Muslim accountants and bankers about the reporting procedures of IFIs, and generally very little is known about AAOIFI and IFSB in the country.

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

The implication of this is that conventional banks desiring to open IB window may have to focus attention on manpower development. Also, the CBN need to develop expertise in IB. Under the IBF system, the regulatory authority is expected to play a dual role. First is to provide prudential supervision especially in the areas of moral hazard considerations and safeguarding the interests of demand depositors and systemic considerations. The second role is to ensure that banks offering Islamic financial products are strictly complying with Shari’ah in their operations and reporting procedure. To successfully implement the provisions of the NIB framework therefore, there is an inevitable need for training of bank and CBN staff as well as accounting professionals to expose them to the new system of financial reporting for IBs.
One way to address the manpower challenge of the framework is to incorporate Islamic finance and/or Islamic economics into Nigerian university curriculum to prepare capable human resources that will operationalise the NIB framework. In addition, students interested in specialising in Islamic finance should be sponsored to travel abroad for practical training from those countries such as Sudan, Malaysia, Saudi Arabia and Bahrain that have succeeded in the implementation of IB over the years. It is noteworthy to say that the effort made by one of the second generation Universities in Nigeria, Bayero University, Kano to establish an Institute for IBF that is expected to concentrate on postgraduate programme is a step in the right direction. Also, the Institute of Administration, Ahmadu Bello University, Zaria in collaboration with Islamic Banking and Finance Institute Nigeria has started a certificate course in Islamic banking. The first set of students that undergone the training has already graduated. Notwithstanding the above effort, a lot more has to be done especially on the fundamentals of IB. Employees of banks offering interest free financial products need extensive and comprehensive training on the modus operandi of IB in order to understand the uniqueness of its operations as well as the marketing of Islamic financial products.

**Conclusion and Suggestion**

In the ever changing and rising competitive era, banks desiring to provide Shari’ah-compliant financial services need to have skilled human resources who are innovative, flexible to market demands and are knowledgeable about their products and services compared to employees of other competitors. Experts maintained that this could only be achieved if they invest in developing staff skills and competencies. One of the expected benefits of IB in Nigeria is the creation of opportunity for manpower development and capacity building through the Islamic Development Bank (IDB) expertise exchange programme.

The introduction of IB will avail Nigeria (as a member of IDB) the opportunity to benefit from its programme of support for Islamic financial institutions with expertise through the technical assistance and training programmes of Islamic Research and Training Institute (IRTI), a specialised unit of the IDB; and extension of assistance to students and provision of scholarships in the disciplines of IBF and Islamic Economics in order to develop human competencies. This means that IB might provide a platform for manpower development and capacity building and might provide more opportunity for people to study and specialise in different branches of IBF. All that is needed is for both the regulator and operators to explore this golden opportunity.
References


