INVESTOR EDUCATION: Tips to Investing Wisely In the Nigerian Capital Markets

NON-INTEREST FINANCE: An Overview

Non Interest (Islamic) Finance, despite its name, is not a religious product/service restricted to Muslims alone but a series of financial products developed to meet the requirements of specific group of investors.

Non Interest (Islamic) Finance is built on principles that uphold a positive ethical message derived from the holy Quran and the Sunnah, moral considerations, fair and just trading practices. This includes the avoidance of ribah (interest and gharar), contractual and legal uncertainty, as well as leniency to debtors where the borrower can prove mitigating circumstances. Also avoided are investments in forbidden commodities such as alcohol, tobacco and companies whose debt exceeds one – third of its assets.

Islamic Finance therefore broadly refers to financial market transactions, operations and services that comply with Islamic rules, principles, philosophy and code of practices.

Main Principles of Islamic Finance

- ✓ Wealth must be generated from legitimate trade and asset based investment
- ✓ Risk should be shared between the capital provider and the expertise. Under Islamic Finance, capital and labour are conceived as a single factor of production.
- ✓ Investment should have a social and an ethical benefit to the wider society beyond "pure return".

- ✓ Prohibition of speculative, gambling, extreme risk or uncertainty and interest are the main principles. Also contractual obligations and disclosure of information are a sacred duty.

Basic Features of Islamic Finance

The underlying principle behind Islamic finance is the distribution of wealth by regulating (soft regulation) the free activities of the market for the collective benefit of the society. Islam believes in free trade, creation of wealth and true private ownership as the means of production. The basic features of Islamic finance are summarised as;

- ✓ Principle of **justice** is an essential requirement for all kinds of Islamic financing; the financier and the beneficiary **share** the actual profit / loss if the contract is equity-based.
- ✓ The financing of Islamic products is restricted to **useful goods** and **services** and **refrain from** financing other **harmful activities.**
- ✓ The **ethical and moral consideration** of Islamic products **cannot be detached** from the standards laid down by the Islamic Shari'ah

The Shariah Advisory Council (SAC) of CBN for now is the only Council that examine the validity of application and screening of Islamic financial products, it also issue Shariah resolutions and decisions relating to both Islamic Capital Market (ICM) and Islamic Banking in Nigeria. The Council will not approve any instruments and activities that are contrary to Shariah principles.

Benefits of Islamic Finance in Nigeria

- ➢ **Furtherance of Financial Inclusion:** According to an EFInA Survey, about 64% of the Nigerian youth are unbanked, hence their economic activities are not properly recorded in the GDP. Most of these categories of people are from the North-West and North-East regions of the country who subscribes to religious beliefs which hinder participation in interest-based financial activities. With the introduction of Islamic Banks, I-REITs, I-Funds etc, many of them could be captured in the financial sector.

- **Foreign Direct Investment (FDI):** Islamic Financial products such as Sukuk (Islamic Bond) Islamic REITs (I-REITS), Islamic Funds (I-Funds) and Exchange-mirrored Traded Funds (Islamic Equity Index) are capable of attracting foreign funds especially from the Middle East and Asian worlds.
- **Alternative Investment Products:** Islamic finance heavily relies on Islamic Capital Market (ICM) as investible outlets for products such as Sukuk (Islamic Bond) Islamic REITs (I-REITS), Islamic Funds (I-Funds) and Exchange-mirrored Traded Funds (Islamic Equity Index). The introduction of Sukuk and other ICM products will bridge the funding gap for financing of projects and further deepen the market. These Products will positively impact key institutions in the Nigerian financial system in the following manner:
  - ✓ CBN requires such products to manage the excess cash reserves and deposit of Islamic Banks.
  - ✓ NDIC requires such products to manage the deposit premium fund of Islamic Banks.
  - ✓ PFAs require the product to deploy the ethical fund of the active and retiree contributors. The guideline for multiple funds which include ethical fund is being finalized by PENCOM.
  - ✓ Non-Interest Financial Institutions (NIFI) such as Islamic Banks Islamic Asset Management firms and Takaful (Islamic Insurance) companies require Islamic Capital Market products for investment and to manage excess liquidity.

- ✓ Others such as Conventional products' investors are also able to buy ICM products especially Sukuk with investment grade rating.

- **Reduction of Income Disparity:** The central maxim of Islamic finance is sharing risk and reward through fair and equitable distribution of benefits and loss. This will reduce income disparity and socioeconomic inequality.
- **Employment Generation:** When project-based, Islamic finance increases the ability to absorb more unemployed youth for both skilled and unskilled jobs.
- **Benchmark for Investment Return:** Issuing local currency Sukuk, I-REITs, I-Fund, Islamic Equity Index and other Capital Market Instruments will help build a yield curve. This will serve as a benchmark for domestic Sukuk issuance by States, state-owned enterprises and private sector enterprises such as banks and corporate organizations. It can also act as benchmark for other products' issuance.
- **Real Economic Growth:** Finally, because of its feature as asset-based or project-based, Islamic financial products especially capital market products such as Sukuk and I-REITS promote financial stability by linking the financial sector with the real sector of the economy.

Conclusion

In conclusion, Islamic finance is not simply just an interest free system but it offers much more such as the promotion of entrepreneurship, the safeguarding of property rights, transparent transactions and the honouring of contractual obligations.

It is a universal system that can operate in developed and emerging markets and takes into account cultural and regional differences. It appeals to those who have a moral approach to money and is an ethical form of financing.

It is not about promoting the interest of one group of people at the cost of others. Risk and benefit is shared between lenders and borrowers. There is an emphasis on keeping the financial sector in sync with the other real sectors of the economy as it deals with the markets for actual goods and services, ruling out gambling and speculation for any interested investor.