



## **Islamic Economic System: A Better Approach to Revive the Nigerian Economy**

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### **Abstract**

Nigeria, over the decades has been known to have economic stability, which other countries in Africa relied on which made it to be called giant of Africa. But it has recently been affected by recession due to the rise and fall in the price of crude oil in the market. In addition, the impact of the novel disease of covid-19 has worsened the nation's economy in which attempts to retain her precedent nature prove abortive. Islamic economic system adopted over the years by some countries has proven to be a better alternative in restructuring and revitalizing the economy. This paper therefore, examines the challenges of Nigeria's economy and how the Islamic economic system can improve the accessibility of welfares of the society through these well-structured channels such as Zakat, Interest-Free loans, Gharar, Market mechanism, and policymaking.

**Keywords:** Nigeria's economy, Stability, recession, Gharar, Islamic economic system.

### **1. Introduction**

The Economy of Nigeria (the giant nation of Africa) was already in a perilous stage before the emergence of and pandemic outbreak of Corona Virus (Covid-19). In 2014, the oil price had depreciated in the market with the G.D.P of 2.3 percent in February (Onyekwena& Ekeruche, 2020). However, the IMF reduced the G.D.P's growth rate from 2.5 percent to 2 percent as the output of the market price and limited fiscal policies (Onyekwena& Ekeruche, 2020). This effect precipitated the critical downfall of economic stability in the nation, which hindered the welfare of the people.

Nigeria got her independence in 1960, which oil production and agriculture have been the prominent sector of her economic reliance(Dike, 2014). The products of the nation were in a declined state due to the emergence of the pandemic that struck the world. The emergence of the covid-19 has caused restriction in physical contact and market interaction within the country and globally (Inegbedion, 2021). This critical incident has worsened the economic infrastructure, which propels to have its position stabilize from the peril withstood in the past.

The nation that has encountered the dwindle of economic deterioration of four years recession(World Bank, 2021). Perceived the resumption of her growth, when the ban of the movement was lifted. At this stage, before the covid-19, the GDP of the nation was designated to be 3.2 but dropped to 1.8 during the pandemic. The favorable lift of the hindrance of the economic market has not still yielded positive results (World Bank, 2021).

According to The National Bureau of Statistics, "Nigeria's Gross Domestic Product grew up to 5.01(year on year) in real terms in the second quarter of 2021 (Ajibola, 2021).Therefore, the citizens of the country still perceive the peril of economic disconformities; hunger, kidnapping and all such of



immoralities. All the efforts to stabilize the economic system of Nigeria through the western ideologies since 1960 proves abortive with references to crises menacing the nation.

The Islamic Economic system has its basic foundation from the period, when Adam was created as a vicegerent on earth, which Allah promised Adam and his progeny wealth on earth (*Qur'an.*), which calls for distribution and allocation of properties as an economical principle having its stance from the norm and value promulgated by Allah through Qur'an and hadith (Kuran et al., 2009). Therefore this statement envisages the favor of Allah and how to live peacefully within the guiding rules stipulated for mankind to achieve this life and a heavenly world without the segregation of the animal (*Qura'n*). The three prominent aspects of the Islamic economic system will be examined; Zakat, Usury, Market strategy and Policymaking.

## **2. Nigeria Economic System**

Since Nigeria gained her independence in 1960, Nigeria's economy has been categorized as the second-largest in Africa. From then till date, Nigeria's economy has been able to flourish as a result of the reliance on market production of crude oil and agriculture. In 1973, there was rapid growth in the aspects of communication and manufacture. The migrating of those in the rural area to urban areas enhanced the new development. Although in 1975, the enforcement of food importation such as rice and cassava became important. This however, has a negative influence on the Agricultural sectors (Britannica, n.d.). Thus, the mixed system of economy has been playing a key role in the economic system of the nation. The crude oil is noteworthy to have taken significance after the declination of the zeal in cocoa production.

The nation has encountered with a recession in 2014 due to the price of market on the constant fall in global demand which affected several things. Putting all considerable factors to stand from the slumber of recession, the covid-19 outbreak in 2020 has eventually added to its setback to the economic stability, with all effort to liberate the havoc that awestruck the economy from the length of getting downtrodden, the inflation rose to 11.4% in 2019 whilst it was 12.8% in 2020(Muliadi, 2020).

The economy is established to grow by 1.5% in 2021 and 2.9 in 2021. It is based on the redemption in the crude oil market. The financial act of 2020 could boost the other sectors on a narrow fiscal deficit 2.3% of Growth Development product as global growth. However, the risks embedded in this policy are fiscal space, the stagnation of oil price, inflation and deflation, and security challenges disrupting the agricultural sector for instance in Zamfara, Maiduguri, and Kaduna. The depletion in foreign reserves is 35 billion and could lead to the depreciation in the exchange market, high employment (27%). Also, growing inequality remain crucial factors in Nigeria's economic system (AFRICAN DEVELOPMENT BANK, 2021).

The challenges that face the Nation through the Economic system failures:

Nigerian economy has been experiencing low growth due to fluctuations arising from inconsistent economic policy arising from the type of economic system adopted by the nation. This has made the Nigeria economy to rely basically on imported goods for its survival (Nwobia, Ogbonnya & Udo2020). This has further led to the following challenges for Nigerians and the Nigerian Economy:

1. Poverty: the citizens of the nation are suffering from relative and abject poverty Sokoto, Taraba, Jigawa, and Ebonyi (PricewaterhouseCoopers Limited., 2016) perhaps inequality has been among the contributed factors which served as a dilemma that resulted in the impoverishment pervading the nation. The level of unemployment is so high because Nigeria produces more than thousands of graduates every year and the non-Educationist is also affected by the scenario of unemployment.
2. Insecurity: It has vehemently disrupted the economic system of the nation that is built on the agricultural sector. Since 2013, the Northeast has been restive and it's citizenry has been prevented



from participating perfectly in farming due to the Boko Haram invasion, therefore displacement of persons has been recorded as the purported outcome of the conflict in the nation (Olowa, 2012). However, the insecurity formulated their strength from poor policymaking in the political-economy sector of the nation.

3. Political Corruption: The exploitation of policies and formulation of the procedure in distributing resources and financing by political decision-makers, who abuse their portfolio to accumulate wealth (PricewaterhouseCoopers Limited., 2016). This has widened the inequality level between the upper and lower class of the society. Also, looting, embezzlement and siphoning of public funds meant for capital project has been on the increase.
4. Labor Market deficiencies: The most impoverished estate is the labor market. A viable labor market is crucial in the reduction of poverty and inequality. When there is a defect in labor, the poor will be affected by a certain job scale (Olowa, 2012). Therefore, failure in the labor market is a detrimental factor to the economic stability.
5. Interest-based system: This system of marketing has not to evade from the sojourn of degeneration behind the economic growth of the nation. A person who borrows money from the third partner, which the lender added money as an interest for lending him the fund to start a business, fortunately, when the borrower lost, he would be the only one to bear the loss. This system has affected the economic infrastructure of the nation. Perhaps, Nigeria has seen to be practicing this erroneous policy transaction.

### **3. Islamic Economic System as the Solution to The Challenges of the Nigerian Economy**

Islamic economic system is the knowledge and implementation of the verdicts and rules of the noble creator governing mankind concerning the acquisition and distribution of worldly materials endowed by Allah to his creature to provide satisfaction for mankind and enable them to perform their duty following His ordinances (S.M. Hasanuz Zaman, 1984). In other forms which does not curb individuals' freedom or creating macroeconomic and ecological imbalance.

The definition has acquisition and disposing of wealth imbued in it. Allah has informed Adam in the glorious Quran that he has blessed him with the materials in this world, to acquire and dispose of it but to do away within justice and inequality, Allah has promulgated it. Therefore, economic justice and equitable distribution of income are so vital criteria in the economic system in Islam.

Ibn Qayyim emphasized that the basis of shar'iah is wisdom and the welfare of the people in this world as the hereafter as a basic of his economic approach (Islahi, 2012). It shows that man is entitled to search for property in the right means to satisfy his want and his family and extend the same tentacle to the society.

Adopting the Islamic economic system in Nigeria as a panacea to the challenges revolving around the nation, it would practically and be proactive in restoring the welfare of the masses through an achievable economic strategy. In the pursuance of economic stability, Europe and the Middle East have a cordial relationship, which developed their social-political sector. The United State of America has welcomed the Islamic economic system which brought growth to the global profitable increment (Mustapha et al., 2016). This economic system will be examining relative and abject poverty, insecurity, and kidnapping and how to improve it through the economic policies of Islam.

Islamic economic system by source is traceable to the creation of Adam when Allah endowed the resources of the earth to him and his descendant. Moreover, the system has played its role in developing the economic growth and solving the crises that befall the countries today without secluding the western world through the effective mechanism of Zakat (obligatory alms giving from wealth), Riba free (prohibition of interest), Sadaqa (charity), Gharar (uncertainty), and policymaking.



### **3.1 Zakat as a Prominent Sector in the Islamic Economic System**

Zakat is an institution that has been in existence since the time of Prophet Muhammad in Mecca, it is a voluntary aspect in which the companions were encouraged to participate in due to the circumstances surrounding them in the city of Makah. When they migrated to Madinah, then the tenet of Islam became ascending to the throne of expansion, the involvement in Zakat was now mandatory upon the Muslim (Muliadi, 2020).

The prominent and pertinent method of giving in Islam is known as Zakat because it serves as a spiritual and religious mechanism in building a firm with your Lord. Thus, it is known as the fourth pillar of Islam, which must be essentially performed by all Muslims whose estate reaches nisab amount of 2/5 wealth accumulated. Zakat is a part of the economic sector that allows the poor to meet the demand of the market; therefore this improves the balance between the supply, demand, and macroeconomic (Muliadi, 2020).

The giving out of Zakat is important to be done by those who are capable of it. Therefore, equitable distribution is one of the applications that need to be carried out. According to the translation of Qur'an, (Chapter 6 verse 165)" And He is who has made you successors in the land and raised some of you above other by grades, He might try you by what he has given you; surely your Lord is quick to require and He is more sure of forgiving, the merciful"

This verse call for the equitable distribution of resources, if you are wealthy, dedicating oneself by sharing what is accumulated with your brethren to liberate their soul to the context of social welfare. Eight categories of people are entitled to a portion of Zakat distribution; poor, needy, Zakat collector, reverts to Islam who are poor or in need, stranded wayfarer, to free a slave, those who are away because of Allah (Khasandy& Badrudin, 2019).

### **3.2 Interest-Free is one of the Pivotal Role in Islamic Economic System**

Interest-free has seen as one of the machineries instruments in enhancing the economic growth of the Arab and other countries that have adopted the Islamic economic system. The word 'Riba' is an Arabic terminology deriving its basic meaning as grow, extension. The meaning has appeared in different portions in the Holy Qur'an, otherwise, not all, which are in the category of Riba, is prohibited. According to the Shari'ah, riba is money which the borrower will pay along with the original money to the lender when the extension of the maturity of payment is due(Ahmad & Hassan, 2014).

The effects of this economic system have been proved crucial in enhancing the economic system and alleviating the poverty-stricken in the society. In line with 'Riba' the Bible supports the prohibition of interest in Islamic economic system. In the book of Exodus chapter 24vs 25, it says: "People who are poor among you, you shall not be like a money lender to him; you shall not charge him interest (*BILINGUAL AND PARALLEL BIBLE*, 2009)"

The above verse of the Bible explains the purpose of social and economic justice engendered in the Islamic economic system. The Qur'an has placed more emphasis on the prohibition of interest in our affairs entirely without a negation. However, it shows equitability in the proportion of wealth, and designating it out that would not harm the receivers and giving it out to them freely would earn you greater reward. The translation of suratul Rumm verse 39, Allah says;

“And whatever you lay out with people to obtain an increased return this increases you nothing with Allah but whatever you give in alms, seeking Allah's pleasure, it is those who received multiple recompenses". Professor Harrod confirmed that the havoc recycling the trade market that causes unemployment through the economic system is rated by the prominent scholar as fluctuating of interest, therefore he said for a proper system to be achieved interest should be erased (Ghazali Sheikh Abod, 1992).



It is glaring that Nigeria's economic system is propounded on interest theory, even though with the advent of the Islamic banking system that its framework is opted out from interest basis. The Divine book has stated that those who swallow usury cannot arise because they proclaimed trading is only like Usury, which is disapproved by the injunction of the creator. The economic system of Islam has encouraged partaking in partnership and sharing profit and loss rather than exploiting one another. The interest-free system would give the poor the ability to perform a small-scale business that will reduce the impoverished status. Gharar is a method of business strategy in which the Islamic economic system has been prohibited due to the absence of clarity.

Gharar is referring to uncertainty in a business relationship that the buyer is not clarified on the product, he wants to purchase from the seller (Ghazali Sheikh Abod, 1992), for instance selling the yam inside the heap, the Islamic economic forbids the process of the commercial trade because it revolves around on uncertainty. In the theological aspect, the glorious Quran stated that "No soul knows what it will earn tomorrow" (Suratul Luqman vs 31). The verse emphasizes the power of the creator, that no man knows his sustenance tomorrow. The yam beneath the heap can get rotten, who would bear the loss if sold under the tenet of certainty and otherwise, who bears the profit.

Islamic economic system has generated the best form of marketing policy that would not depict the exploitation of individual resources and avert the burden of deficiency on a particular person in partnership marketing.

### **3.3 Charity is a Great machinery to Improve Economic Stability**

Charity or voluntary donation is crucial in developing the economic sector of the nation. Islam encourages the wealthy to give out in charity to enrich the less privileged one and not to spend extravagantly in satisfying their luxury life by depriving others the share of allocation of property. The accumulation of wealth is purely cleared through the channel of trading and property honestly attained has to be spent properly.

The amassing of wealth is prohibited in the formulated system of Islamic economic system ordained by the creator and give what they earn in charitable designation (Q104:2-) In the tradition of prophet Muhammad, He said "I had gold equal to the mountain of Uhud, it would not please me that anything of it should remain with after three nights except what I will keep for repaying debt (Samii, 2007).

The above narration indicates that man should hide his property while others severely perceive poverty-stricken. Giving out in charity will enable the poor to have the asset of establishing a small-scale business that will remove them from the garment of poverty and uplift the economy of the nation.

Outstretching hands are manifested in the prophet marvelous saying "It is not permissible for any Muslim who has something to will, to stay for two nights, without making the effort to have it written and keep with him" (Bukhari, 4:51:1), there is a restriction of bequeathing one-third out as a charity. However, the system is a vital alternative to the taxation enforcing on the poor, who cannot barely have a meal two times a day and regulate the beggar on the street which can be easily lured with little money to participate in the violence disruption of the nation.

### **3.4 Market Strategy and Policymaking**

The Capital market mechanism is concerned with the demand of those who can purchase the resources not thinking of those who are less privileged in the market scheme. Market justified price in Islamic economic system is based on the mutual will and co-operation communication of the buyer and seller, supervised competition and conscious control (Muhammad Abdul Mannan, 1990).

The Islamic economic system thus provides for flexibility and gives room for transparency in the market interaction vis-a-vis the following assumptions:



1. The individual should have a mutual agreement in the market price rather than bringing market mechanism and price control force.
2. The making of the market free for the poor to have direct contact without any transfer of the message.
3. The Market mechanism to function as a means through necessary basis in providing for the needs of the society not focusing on goods and services only; all immoral action during business should be deprived of taking place, hoarding, exploitation is provided.

**4. Islamic Economic system as a better Approach to revive the Nigerian Economy**

1. The synergy of Islamic economic system as a suitable systematic structure to revive the economy of the nation is not undermined through the effective system, which the rich will allot some certain portion of their estate to the poor. Perhaps, this paves the scale for the poor to start a small-scale business that hope to remove them from the abject poverty persisting the country. The rich will also have peace of mind to concentrate on their daily routine that will increase their income. However, the nation on the brink of crisis; insecurity, unemployment, kidnapping, and hunger as the crux of all. Zakat, as the alms giving by the rich to the poor, propounded in the features of Islamic economic system, has the multiplier effect and role to play to liberate the economy from the adversity that embattled it. This system shows justifiable method of acquisition and disposition of wealth to balance the societal differences. Critically observing this system, it will eliminate the insecurity and serves as poverty alleviation to the economy infrastructure, as the acquisition and distribution of property to satisfy one needs and society is among the standpoint of economic of any nation. Human has different nature, when it comes to being famished, little can endure; otherwise, will take on any path to satisfy their quest. Meanwhile, a nation tenaciously facing insecurity cannot experience economic prosperity and stability.
2. The disavowal of usury in Islamic economic market, will enhance and enable the poor, who are in need of borrowing to establish a business to be free from being bewildered by harm of manipulation and the lender also will not be defrauded of anything. The eradication of exploitation of one another is one of the pivotal characteristics of the Islamic economic system. Capitalism and Socialism, which seems to care for the state have partaken in money lending market, digressing from the welfare of society, which can be overlooked in a second. As discussed in the interest-free, a man who lends money will now receive the multiple of money, he did not deserve, without participating in the market procedure. As a result, Islamic economic system outshines all other systems, by introducing the partnership in marketing, whereby, both partners will share the profit and loss. This familiarity of system will make revertible for those who were eschewed from business, to have the opportunity to engage in it. It will alleviate the exploitation of the local institutions, like; Lapo and Gurumi, through which some people lives have been in a destructible state, due to loans obtained from them, and perhaps, businesses were collapse. This approach will employ the economy of the nation to reach its peak of reformation.
3. The precepts in Islamic economic system have a great dichotomy from the systems considered polluted that endanger the life of the inhabitants, who have no assets. Other systems like capitalism and socialism have displayed aggrandizement by supporting the hoarding in the market, to inflate the market price, and entwined the people who want to consume it in a pedigree of inconformity. Islamic economic system regards this strategy as an absurdity that invoke hardship on the people, however, the system encourages storage for a preservation for future use, that will surpass the burdens of the masses during the time of its need and enrich the circulation of the materials stored, it is far different from hoarding, which refers as a threat to the life of the people through the appreciation of the price. The negligence of uncertain goods is strictly warned against the nobility of market negotiation. More so, the market price is between the buyer and the seller in Islamic economic system, except when there is a sign of misconduct



found in the transactions. Strategic approach of Islam economic system will eventually restore the economy to its hierarchical best position.

4. Charitable organizations are one of the veritable methods of achieving a grounded economic profitable stage. Islamic economic system shows the concerned of giving out our wealth in free will, perhaps, it will stabilize the economy from deterioration and strengthen society. Meanwhile, this is one of the aims of any economic standard nation. There is different way of stretching your hands to people, such as; bequeath, goodwill and other organizations.

## 5. Conclusion

Islamic economic system will serve as the veritable approach in renewing the economy destabilization that hamper the development of the nation and unwarranted crises as it offers useful ways in redistribution of income. The aim is to satisfy the equitability of every economic being. It has been recognized by some people, who heard the name Islamic, especially, within the Muslims. Conversely, the system has been absorbed as one of the fastened developments in some western countries. It emphasizes on the acquisition and disposal of estate, equitable and justification in market strategy. The dignity possess of this functional approach cannot be compared with like of capitalism, which ideology is folds of interest-based market as money making. This approach of producing efficacy outcome can be acquired through the channels of Zakat, Interest-free market, Certainty in market, policies making and fixation of price. If these itemize are strictly accord in to practice, the Nigeria economy will perceive new direction and speculation.

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