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Utilizing Islamic Finance for Socioeconomic Development of the people in Katsina, Nigeria

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ABSTRACT

The paper attempts to examine Islamic finance as source of socio-economic development to the people of Katsina. Two important aspects of Islamic finance; Zakat and Waqf are discussed in this regard. This is based on the Islamic theory of social solidarity which zakat is considered to be the most important pillar. Questionnaires and interviews were used as methodologies for data collection. Eighty questionnaires were distributed to two categories of Muslims; learned and unlearned, seventy were filled and returned. The data is presented, analyzed and computed by statistical formula of chi-square distribution. The main research hypothesis is that, the application of Islamic finance could promote socio-economic development in Katsina. The research question is that, can the collection and distribution of zakat bring economic development to the people of Katsina. The research is limited to Katsina metropolises where the people are predominantly Muslims. The main findings include that: poverty, lack of enough capital for investment, unemployment and corruption are the major economic challenges of Katsina people. The people of Katsina however believe that the utilization of Islam finance can solve these economic problems. Finally, the paper recommends for the need of adequate knowledge of Islamic finance, and that government should assist in collecting and distributing Zakat. There is also need for the abolition of usury and establishment of Islamic financial Institutions in the state.

Introduction

There are several verses of Qur'an dealing with economics and touching on issues such as lawful and unlawful, usury and extravagance, private property and their limitations, economic responsibilities, inheritance, Zakat, to mention but a few. The prophet (SAW) and his Companions (RA) also gave practical examples on matters such as trade, commerce and many other economic undertakings. Katsina being a Muslim city in the far north west of Nigeria is an important area where the application of Islamic finance is deemed possible. The task of the paper is to discuss the relevance of Islamic finance to the socio-economic development of the people of Katsina city.

The word Islam is a noun, formed from the infinitive verb which means to agree to terms, to indicate formal agreement to the terms and conditions in a contract "to commit oneself", "to submit" or "to surrender". The word Islam is derived from the Arabic word Aslama which literally means submission. Technically, Islam is to believe in Allah, His Messenger, His Books, His Angels, Day of Judgment, and Predestination. These belief systems in Islam are not complete without duties. In Islam therefore, submission to Allah requires exclusive obedience to Allah and the Messenger. Islam implies Tauhid and duties of Islam which include the five Pillars of Islam. The pillars of Islam are: Tauhid, Prayer (al-salat), Fasting, Zakat, and Hajj. Islam a path to be followed by those who believe. Ezzati A (1996)

Literature Review

Islamic and economic developments are new areas of research in Katsina. According to Babajo, generally speaking, when historical studies are undertaken in the Northern-Katsina, especially on the aspects of economic history, in relation to various economic activities of the people is neglected. It has been established that, there is no adequate research that has direct relation.

Gusau A (1411 H) analyzed the State of the Hausa economy before Jihad of 1804. He discussed about taxes excluding Zakat and other aspect of Islamic finance. But there is reference to the collection or distribution of Zakat in Katsina.

Also, Sani, A in his article explained the impact of Waqf on the development of the Muslims in the area of education, social and economic levels. He gave various examples in Al-azhar University, al-Nuri School in daniayas, Syira, Mansuri Hospital in Cairo. The author did not, however gave examples with Nigeria or Katsina in particular.

Ingawa, T.B in his PHD thesis has explained some points on Zakat. He said that Zakat is a religious tax levied on all adult Muslims fixed at about one tenth of their normal income. He further explained that, the colonialist changed the pattern of Zakat by the introduction of taxes. This thesis did not talk on Islamic finance and its relevance to the economic development of the people of Katsina. This paper has its focus in examining Zakat and Waqf as a way to socio-economic development of the people in Katsina.

The Frame Work of Islamic Finance

The word finance is a noun which is defined as “control of money” or “money required”. Finance is related to money, economics, business, investment or sponsorship. Finance is a branch of economics. Development is a noun which means event causing change. It is also referred to as a process of change which brings advancement. [Encarta dictionary] Sa'id (2006) explains that, finance in its true meaning indicate “distribution of wealth” and technically in the eyes of Islamic Shari'ah it is a system of:-

- Disbursement of wealth that determines the financial needs (of the people) in the light of Shari'ah, (through which) this system critically examines the required limits of lawful financial, conducts (in the Muslim community). At the same time, it clarifies the way of financial dealings for the establishment of fundamental goals of Islam. All must be in conformity with Shari'ah not against it. Islamic finance is part of Islamic economics. The basis financial system is the Qur'an and sunnah of the Prophet (SAW). The Prophet (SAW) used to distribute the wealth to people. This practice continued during the reing of Abubakar (RA).Umar bin Khattab (RA) used to distribute the wealth with the help of some companions in the following ways:
- All those wealth collected from the Muslims was disbursed from the central treasury for the benefit of the poor, volunteers for the wars, for redemption of slaves. Marzuq, RA (2000)

The author also explained that Umar bin Kattab (RA) adistributed wealth to established propagation of Islam to different categories of people in the following order:

- Those who attended Badr from the ‘helpers’ and ‘migrants’ had six hundred Dirham annually. The wives of the Prophet (SAW), A'isha (RA) 1200 Dirham per year, the remaining wives 1000 Dirham per year. The wives of migrants 1000 Dirham per year. To each Muslim women had at least 500 Dirham per year.
- Islamic finance as a segment of Islamic economics covers anumber of areas. In the first place, the Islamic finance is limited to lawful and un-exploitative dealings.

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Islam encourages earning profit and disapproves and condemns monopoly, profiteering and the creation of artificial shortages. Islam encourages earning profit and disapproves and condemns monopoly, profiteering and the creation of artificial shortages. Saleh, A. (2003)

The sources of Islamic finance are Zakat (poor due), Kharaj (tax), ghanimah (spoils of war), al-jizya (capitation tax), al-ushr (tax charge from the Muslim landowners), sadaqat (voluntary alms), ushur (import duties and tolls), waqf (endowment), diyyah (ransome), amwalal-fadila (estate of the deceased persons), Madan and Rikadh (mines and treasure Trove). According to Rufu'at, Islamic finance has its sources from the following: Zakat, voluntary Sadaqat, Zakat al-fitr, fidya and hadya, some trade practices, al-salamal-Qirad, al-Rahn, al-shirka (partnership), al-wakalah, al-musafah, al-ijara, al-waqf, ihya'I al-maut, al-mirath, wasiyyah and al-nafaqah. Rufaat, AA (1990). Economic development in Islam is a purposeful economic activity intended to bring real material benefits, visible, social advantages and spiritual satisfaction in varying proportions to a target of group of people over a given period of time. Mamman, M.A (1989).

Islam in Katsina City

Islam was introduced to the African continent as early as the first century after Hijrah (around 7th century of the Christians era). Salihu, L. (2009). According to this view, 'the activities of Uqbah bin Nafi'I and his Muslim armies penetrated deeply south across the Sahara desert through Borno from where it came to Hausa land. Some historians believe that Islam has been in Hausa Land since 14th century. To them, the influence of Islam fluctuated according to who happened to be in power. If the ruler was inclined to Islam, Islam would be the State religion. The exact date when Islam was first introduced to Katsina is not certain:

Just like the establishment of Katsina was shrouded in mystery the exact date when Islam was introduced to the city was also obscure. Tsiga, I and Adam (1983)
It was further explained by the author that:

Islam became well established in Katsina during the reign of Muhammadu Korau (1348 – 1398 C.E.) a contemporary ruler of the first Muslim ruler of Kano king Aliyu Yaji (1349 – 1385)

Zakat: Concept, Scope, Conditions and Application

Zakat in Arabic simply means to purify or to cleanse. It is also mean growth and increase and the tax has been named Zakat because it leads to the increase of the blessing of the property in this world and also increase reward as provision for the hereafter. Zakat (obligatory charity or poor-rate) is one of the five pillars of Islam. It has been established as an obligatory duty by the Qur'an, the Sunnah and the Ijma. Two verses are cited here as examples: Of their goods take alms so that thou mightiest purify and sanctify them Qur'an 9:103. And establish regular prayers and give regular charity Qur'an 73:20. The Sunnah of the Prophet (SAW) has also spoken on Zakat in many traditions. Example:

Ibn Umar (may Allah be pleased with him) reported the messenger (Peace be upon him) saying: Islam is built upon five (pillars): to testify that there is no god except Allah and that Muhammad is his servant and Messenger, to establish regular prayer, pay Zakat, perform pilgrimage to the House and fast (the month of) Ramadan. (Related by Bukhari and Muslim)
On the scope of Zakat, there are numerous kinds of properties or wealth on which Zakat is obligatory. Zakat is payable on gold, silver, merchandise, crops, livestock, minerals, treasure trove and oil seed. Abdulghalib, A. (1996). Nisab is one of the most important conditions of Zakat. Nisab means, the minimum amount of wealth on which Zakat is payable. And the specified amount of Zakat payable to the due recipients. In gold for example, whoever

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possesses twenty Dinars for a complete lunar year should give its Zakat. The Zakat on this amount is quarter of tenth or 1/40 (i.e. half a Dinar). And whoever possesses 200 Dirhams of silver for a complete lunar year should give Zakat: a quarter of tenth (i.e. 5 Dirhams).

The laws of Islam has explained on all the properties that Zakat is payable. The recipients of Zakat are categorically mentioned in the Qur'an. Allah says:

Alms are for the poor, the needy and those employed to administer the (funds), for those whose hearts have been (recently) reconciled (to truth), for those in bondage and in debts; in the cause of Allah and for the wayfarer (thus is it) ordained by God and God is full of knowledge and wisdom Qur'an 9:60

Application of Zakat in Katsina City

Investigation has shown that Zakat is not being collected and distributed as it should be in Katsina city. In a questionnaire distributed to different categories of people in Katsina city, sixty out of eighty respondents believe that Zakat is not properly collected and distributed. In an interview with a scholar and member of Zakat and Waqf board, it has been established that Zakat commission in Katsina is not receiving the desired cooperation from the Muslim community as regards to the collection and distribution of Zakat.

Closely related to the above is an interview with one of the chieftains in Katsina who explained to the researcher that the introduction of various un-just taxes by the colonialists made some Muslims to be reluctant in paying Zakat. This fact was emphasized by Ingawa, B.I (1997) in his PhD thesis where he upheld that:

Colonial administrator in Katsina such as Palmar had to organize tax collection by force...In Katsina Emirate; tax was raised by between 60% to 70% during the days of the emir of Katsina, Abubakar.

The Amir al-Muminina (or the emir under Sokoto Caliphate) used to collect and distribute Zakat. This is not the case in present time. Some Muslims are not willing to give out Zakat and there is no strong body to force people to pay Zakat.

In an interview, it was explained to the author that some people in Katsina have enough money to give out Zakat but are not willing to declare their assets. He cited example with politicians in April, 2011 during the general elections when politicians were seen displaying money and materials to buy votes in Katsina and other places. It is the belief of this paper that Zakat can be organized in Katsina city for the economic development in the following ways:

- i. To have a powerful Muslim body and its members are to be drawn from different Muslim organizations in Katsina city. And the Government should be fully committed to Zakat collection and its distribution.
- ii. The leaders should set a good example in giving out, with the state Governor, the emirs, Legislators, Judges, prominent businessmen e.t.c.
- iii. That Katsina city can be divided into sections: Wakilin Arewa, Wakilin Kudu, Wakilin Gabas and Wakilin Yamma for easy collection and distribution.
- iv. There should be a rigorous orientation and public enlightenments on radio and television stressing the obligation and also the significance of giving out Zakat.
- v. To liaise with neighbouring States like Zamfara and Kano who are collecting and distribution Zakat, so as to learn from their experiences.
- vi. To have a separate department or ministry for the collection and distribution of Zakat.

Waqf: Concept, Scope, Conditions, Implication and Usage

Waqf may be defined as holding a mal (asset) and preventing its consumption for the purpose of repeatedly extracting its usufruct for the benefit of an object representing righteousness/ philanthropy. Sani, A.(2009). According to this author:

The general aim of Waqf includes assisting the needy, helping the oppressed, uplifting the lives of downtrodden, regulating the economy, raising the standard of living of people, dissemination of sciences and knowledge, constructing and administration of mosques, libraries schools, hospitals and welfare centres.

The above quotation gives a precise idea on the scope of Waqf in Islam. Waqf was practiced in the early days of Islam. A well at bayrurah purchased by Abu Talha was one of the first examples of Waqf in Islam. Umar bin al-Khattab also granted gardens of date and said that the revenue from its proceeds should be spent on the needy and the gardens should be excluded from property to be inherited neither should it be given out as donation to anyone after his death. Aljaza'iri, AT (1996) cited a hadith on the importance of Waqf:

When someone dies, his deeds come to an end, except for three: A charity whose effect continues, knowledge (that he leaves behind) that is benefited from, and a righteous son who supplicates for him (Transmitted by Muslim)

- The property to be given as Waqf must be lawfully acquired by the donor
- The assets must be given to persons that are readily in existence, not to unborn child or a person who is in bondage or slavery.
- It must be expressed in clear terms by the donor
- Waqf should be in form of assets, and not perishable items like food (Minhajul Muslim).

There are two types of Waqf: al-waqf al-khairi and al-waqf al-zurri. The first one is the type of waqf which is made exclusively for the Muslim community in the way of Allah. This may include things like building of mosques, road schools and so on for the sake of Allah without deriving any worldly benefits from it. The other is also an endowment for the sake of Allah but the worldly gain goes to his/her children. An example of building an Islamiyyah school for the sake of Allah as an endowment. The children cannot sell the school and cannot convert it to anything rather than Islamiyyah.

Application of Waqf in Katsina City

Investigation has shown that in Katsina, the common properties of Waqf are mainly mosques. Few Islamiyya schools are built and given as endowment. Most of the Islamiyyah schools are privately owned not as Waqf. There are however two important organizations in Katsina that are closer to Waqf: the Gidauniyar Jihar Katsina and the Katsina Islamic foundation. The two were established based on funds collected from Muslims in and outside Katsina State. They cannot be sold or inherited by an individual or group of people. These two organizations are helping in the educational and economic development of Katsina State. For the effective application of Waqf in Katsina, the following views are to be considered.

- Wealthy Muslim should be encouraged to build schools, hospitals, roads, bridges and dedicate them as waqf for the sake of Allah.
- These buildings or institutions should be handed over to honest and dedicated members of the Ummah.

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- The profit or gains from the ventures should be used to alleviate the sufferings of the Muslim masses.
- There should be orientation and guidance to Muslims on the importance of Waqf in Islam.

Analysis of the Hypothesis

The application of Islamic finance would bring socio-economic development to the people of Katsina.

Table: Contingency table on the opinions of the people on the above hypothesis

Opinion	Learned Muslims	Unlearned Muslims	Percentage
Agree	45	15	86%
Disagree	5	5	14%
Total	50	20	100%

Source: Questionnaire administered, (1432) (2011)

From the opinions of the people, 86% believe that the utilization of Islamic finance can promote socio-economic development to the people of Katsina, while 14% of the people hold that, Islamic finance cannot solve their socio-economic problems. The hypothesis is also tested. In testing a hypothesis, a decision is made. And the decision in this regard is that:

To accept the hypothesis positively (Ho) if the computed value of the chi-square is less than the critical value.

To reject the hypothesis negatively, thereby rejecting Ho if the computed value of chi-square (χ^2) is greater than the critical value. (Sambo 1425H: 353.).

Hypothesis testing in this research is

$$\chi^2 = \sum \frac{(f_o - f_e)^2}{f_e}$$

Where f_o is the observed frequency in each cell of the contingency table. f_e is the expected frequency in each cell of the table if the hypothesis (Ho) is true. The expected frequency of each cell is calculated with the following formula.

$$f_e = \frac{f_r \times f_c}{N}$$

Df = degree of freedom is calculated by (r-1) (c-1)

Expected frequency = $\frac{(\text{column total}) \times (\text{row total})}{\text{Grand total}}$

Calculation of chi-square from a contingency table in hypothesis A

f_o	f_e	$f_o - f_e$	$(f_o - f_e)^2$	$(f_o - f_e)^2 / f_e$
45	43	2	4	0.093
15	17	-2	4	0.235
5	7	-2	4	0.571
5	3	2	4	1.333

$$\chi^2 = 2.232$$

Interpretation

From the above table of hypothesis A on the calculation of chi-square, the computed chi-square X^2 is 2.232 while its critical value at $df = 1$ and $d = 0.05$ is 3.842. The decision stated is to accept the (H_0) null hypothesis positively, if the computed value of chi-square is less than the critical value. The computed value is $X^2 = 2.232$ while the critical value is 3.842. the computed value is less than the critical value. Therefore, the hypothesis that says the application of Islamic finance would bring economic development to the people of Katsina must be accepted.

Conclusion

In conclusion, proper knowledge and application of Zakat and Waqf can greatly help in the socio-economic development of the people in Katsina State. This paper therefore, recommends that the Muslim Ummah should endeavor to seek for more knowledge and put in practicing the knowledge acquired. Government at all levels should be more committed to the collection and distribution of Zakat and Waqf by involving sincere and dedicated Muslims. Proper application of Zakat and Waqf in Katsina could greatly help in development of the people of Katsina in all aspects of life. Al-azhar University founded in Cairo got full financial support from Waqf. Al-Nuri school in Damascus, Syria was built as Waqf by Sultan Nur Al-Din Al-Shahid. Most of the endowments were initiated for the purpose of education and economic development. Katsina State cannot be an exception. Sani, A. (2009). Other Islamic financial aspect should also be operational in the Muslim community for complete actualization of Islamic finance.

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