

THE ESTABLISHMENT AND OPERATION OF ISLAMIC BANKS IN NIGERIA: PERCEPTION STUDY ON THE ROLE OF THE CENTRAL BANK OF NIGERIA

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ABSTRACT

Central bank (CB) in any economy is regarded as the Apex bank and the Principal stakeholder in the financial system. This is in view of the role it plays in the control, regulation and supervision of the financial institutions in the economy. Hence, the Central Bank of Nigeria (CBN) is no exception to this unique characteristics and functions. Meanwhile, the emergence of Islamic banking in various Muslim countries has continued to raise the fundamental issue of what role the CB should play in the affairs of Islamic Banks (IBs). Therefore, this study is an attempt to empirically examine the perceptions of Nigerian Muslim Youths in Malaysia on the perceived role expected of the CBN in the establishment and operation of IBs in Nigeria. This study focused on the perceptions of students in three Malaysian universities i.e. Kolej Universiti Insaniah (KUIN), Universiti Utara Malaysia (UUM) and International Islamic University Malaysia (IIUM). The sample of the study was made up of 100 questionnaires of which 85 percent were returned and usable. The data collected were subjected to statistical analysis using the SPSS version 18.0 and One-Sample and Independent-Samples t-Tests were utilized for analyses. The finding revealed that the role of the CBN in the establishment and operation of IBs in Nigeria is of no significance. This finding is however classified as Type II error because it contradicts the known theoretical and empirical evidences in the area of central banking in the world. Other findings hold that the CBN should seriously promote adequate research in IBs, the legal framework of IBs should be further strengthened and that the CBN should collaborate with the Judiciary for the establishment of Shari'ah courts to adjudicate cases on IBs.

Keywords: CBN, Perceptions, Role, Muslim Youths, Islamic Banks

JEL Code: E52, E58, G21, P43

1. INTRODUCTION

The role and functions of the banking system in a contemporary economy is of great significance to the development process and thus, it is often considered as the heart of every prosperous economy (Fakhrul-Ahsan, 1998; & Usman, 2003). In view of this, the emergence of Islamic banking in the Muslim world has remained the most inspiring and outstanding financial and economic phenomenon of the 20th century. Hence, countries like Pakistan, Iran and Sudan adopted the Islamic financial system as the mainstream for their banking and economic activities. Other countries embraced the dual banking system like the case in Malaysia, Bahrain, Saudi Arabia, Egypt and Algeria among others. Unfortunately, none of these two types is available in Nigeria in view of her huge Muslim population of over 80 million, which is almost equals the total Muslim population of Algeria, Tunisia and Morocco. This situation has continued to generate a lot of concerns in the last two decades and this situation explained the enormous efforts being made over the years to ensure the establishment and operation of

IBs in Nigeria. Meanwhile, the agitations for IBs in Nigeria dates back to the 1990s when the idea was first mooted. The efforts gained a better momentum with the promulgation of the Banks and Other Financial Institutions Decrees (BOFID) 24 and 25 of 1991, which replaced the Banking Act of 1969. This is in view of the landmark provisions made for the establishment of non-Interest banking in the country. Subsequently, two licenses were granted in 1992 but unfortunately, none could commence operation until the former Habib Nigeria Bank Limited (now Bank PHB) pioneered a non-interest banking window in 1999 (Umar, 2011; & Usman, 2003). Despite this giant move by the bank, the momentum for continuity could not be sustained due to lack of the required political will and determination. In view of this ugly development, a new dawn for banking operation in Nigeria came to limelight when the Central Bank of Nigeria (CBN) recently enacted new provisions for the proper establishment and operation of Islamic banking through what it conceptualized as "Non-Interest Financial Institutions" (NIFI). The circular containing the provisions is classified as Circular Reference No. FPR/DIR/CIR/GEN/01/010, which partly reads:

The Framework for the Regulation and Supervision of Institutions Offering Non-Interest Financial Services in Nigeria as well as the following supporting guidelines: i. Guidelines on Shariah Governance for Non-Interest Financial Institutions in Nigeria; and ii. Guidelines on Non-Interest Window and Branch Operations of Conventional Banks and Other Financial Institutions (CBN, 2011a).

As a matter of fact, this newly released framework for Non-Interest Financial Institutions has added a lot of prospect and dynamism to the Islamic banking project in the country. Hence, this bold attempt and step by the CBN signalled a new and bright future for Islamic banking industry in the country. Nevertheless, the likely problems and challenges that could hinder the immediate start-up of the industry would include general perceptions particularly on the role of the CBN, capital inadequacy, lack of Shari'ah governance institutions, shortage of adequate and qualified manpower and phobia on the part of non-Muslims among others. Against this background, this study seeks to empirically examine the perceptions of the Nigerian Muslim youths in Malaysia on the perceived role of the CBN with regards to the establishment and operation of IBs in Nigeria. This is in view of their level of education, exposure and Islamic commitment, which are necessary factors in shaping the perceptions of this category of people. Also, positive perceptions by this group shall contribute in no small measure to the patronage, publicity and growth of the industry. To this end, this paper is divided into five sections and this introductory part serves as section one. Section two presents the literature review while the third section discusses the methodology for the study. The fourth section presents the results and findings while the last section concludes the paper.

2. LITERATURE REVIEW

2.1 CB and IBs Nexus: The Issues of Control, Regulation and Supervision

Central banking as an economic and finance concept originated from Europe in the 17th century. It involves the foremost financial institution in the economy which is often called the Central bank (CB) and it is regarded as the apex bank. It raises funds for government and serves as the government's banker. The foremost CB to be established is the Bank of England in 1694, which started as corporate entity i.e. as a joint stock company. Subsequently, it acted as the government's banker and in the 1830s and it became the sole issuer of currency notes. Since then, the concept of central banking has gradually evolved and developed to become what we now generally know today (INCEIF, 2006a; Toutouchian, 2009; & Usman, 2003). Therefore, CB is basically considered as the bank responsible for the monetary and banking structure and operations in any economy. Generally, the objectives of a CB includes: i. Currency issue and managing the nation's international reserves; ii. Banker and advisor to the Government; iii. Ensuring monetary stability; and iv. Providing a sound financial system. It is also important to state that the CB controls, regulates and supervises all financial institutions for the purpose of monetary and financial stability. Being the main financial institutions regulator, it is empowered to grant and revoke banking licenses. Hence, the CB is directly responsible for the control, regulation and supervision of all financial institutions, especially the banking sector. In view of this, the CB has three main policy tools and two subsidiary tools. These policy tools are: i. Open Market Operations (OMO); ii. Discount

window; and iii. Reserve requirements. The subsidiary tools are Margin requirements and Foreign exchange operations (INCEIF, 2006a). These important role and functions thus establish the direct and positive relationship between the CB and all the financial institutions and by extension IBs in especially Muslim economies where Islamic banking is much rooted.

According to Yasin (2006, p. 216), “The Islamic banking system without the law is futile and meaningless. The legal system is supposed to regulate and license the Islamic banking business, besides imposing control and supervision of the affairs of the Islamic banks”. He argued that legal reforms are seriously necessary and needed for the purpose of facilitating the smooth running and operation of Islamic banking system. Hence, Obiyo (2008) noted that Nigeria needs to reframe her banking laws before IBs can be successfully implemented in the country. And unfortunately, this particular issue of inadequate/absence of adequate legal framework has remained one of the greatest challenges confronting IBs in most Muslim countries. Therefore, in the absence of comprehensive legal framework for the Islamic banking system, there is going to be serious problem of lagging behind as it is the case with Nigeria. On this issue, Chapra (2009, p. 50) made it clear when he submits: “All financial institutions and not just the commercial banks need to be properly regulated and supervised so that they remain healthy and do not become a source of systemic risk”. Hence, there is the urgent need by regulatory bodies, especially the CBs to ensure the adequate regulation and supervision of not only IBs but also other financial institutions in the economy. In view of this, one of the most important role and functions expected of every CB is the regulation, supervision and control of banks and other financial institutions in the economy. However, it needs to be stressed that under an Islamic system, the role and operations of the CBs will be multi-dimensional and complex than the traditional banking system (INCEIF, 2006b). Nonetheless, contemporary IBs operate in two kinds of environment i.e. i. operations in a largely interest dominated economies; and ii. operations in countries where efforts are being made to totally convert the entire banking system in line with the Shari’ah as the case with Pakistan, Iran and Sudan. Against this backdrop, it becomes imperative to examine the significance role of CB in the control, regulation and supervision of IBs, considering the position of Usman (2003, p. 41), which states that “at the heart of every robust economy is a sound banking system”.

2.2 The Central Bank of Nigeria: An Overview of its Establishment and Operations

The CBN came to existence consequent upon the G.D. Paton report for the period of 1892-1952 on banking practice in Nigeria, which eventually led to the first Banking Ordinance of 1952. However, the CBN Act 1958 was actually the legal framework upon which the CBN was established. This Act was later amended in 1969 through the Banking Decree of 1969 (CBN, 2011b). Importantly, the Bank and other Financial Institutions Decrees (BOFID) 24 and 25 of 1991 repealed the Banking Decree of 1969 and all its amendments. As a result, the CBN became strengthened to cover new institutions like Non-Interest banking. The power of the CBN was enhanced in order to make effective monetary policy, regulation and supervision of banks and other financial institutions. In 1997, BOFID 3 and 4 were promulgated which abolished the limited autonomy of the CBN since 1991 and thus brought the CBN under the supervision of the Ministry of Finance. Again, Decree No.3 of 1997 was amended through the promulgation of Decree No. 38 of 1998 which provides a measure of operational autonomy for the CBN. This Decree was enacted to strengthen the regulatory powers of the CBN (CBN, 2011a). It needs to be stated that the current legal framework of the CBN is based on the CBN Act of 2007, which repealed the CBN Act of 1991 and all its amendments. This new Act provides for the full autonomy of the CBN with the objective of promoting stability and continuity in economic management. In view of this enabling legal provisions for the CBN, it now controls, regulates and supervises all banks and non-banking institutions in the economy (CBN, 2011b). No wonder therefore that the mission statement of the CBN aptly captured this unique role in the following words: “To be proactive in providing a stable framework for the economic development of Nigeria through the effective, efficient and transparent implementation of monetary and exchange rate policy and management of the financial sector” (CBN, 2011b). The CBN core values are based on Meritocracy, Leadership, Learning and Customer-Focus among others, which are meant to serve as guide to both the management and employees. Based on these autonomy and its enduring core values, the CBN has been able to carve a niche for itself in the area of central banking in the world, especially when it made some landmark strides in recent times. For instance, as a way of driving the development process and improving the banking operational efficiency in 2004, the bank consolidation policy was introduced. This policy required all existing

and about to be formed banks to have initial capital of N25 billion against the earlier policy of N2 billion. This policy decision is in line with its core values and principles. To this end, the figure below covers the entire core values of the bank, which have continued to be its source of strength and focus over the years.

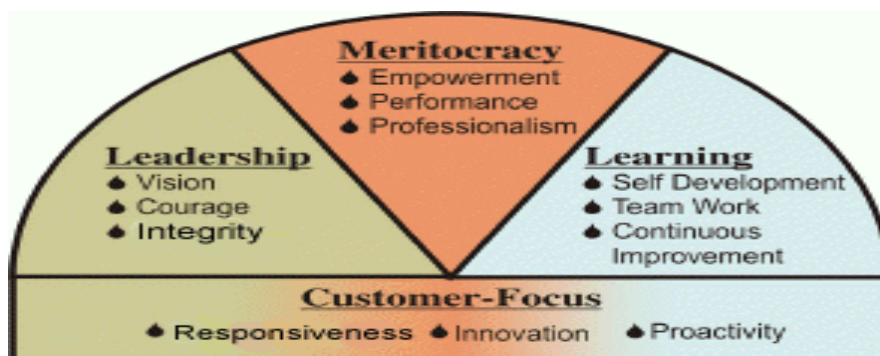


Figure 1: The Core Values of CBN Source: CBN (2011b).

These core values of the CBN have assisted in the landmark policies and achievements witnessed in recent times. Prominent among them are the Bank consolidation and Rescue mission policies of the CBN. The Governor of the CBN noted these important achievements when he submits thus: “As a result, banks were consolidated through mergers and acquisitions, raising the capital base from N2 billion to a minimum of N25 billion, which reduced the number of banks to 25 from 89 in 2005 and later to 24” (Sanusi, 2011b, p. 5). Similarly, as a form of direct rescue package of the Apex bank, the sum of N620 billion was injected into eight banks who are at the point of collapse in recent times. Related to this rescue mission was the appointment of new management teams for these banks as a way of enhancing the corporate governance of the failing banks. Sequel to these pragmatic policy actions by the CBN, the larger size of banks engendered improved customer confidence, which led to the increase in the number of banks in the country i.e. from 3,247 in 2003 to over 5,837 in 2010. Also, employment witnessed a boost in the sector because it rose from 50,586 in 2005 to 71,876 in 2010 (Sanusi, 2011b). Therefore, forward policy looking of the CBN has brought about a healthy financial sector, which reviewed the basic one-size-fits-all model of banking. This policy reform has made it possible for the emergence of international, national, regional, mono-line and specialized banks such as non-interest banks among others, with different capital requirements commensurate to the depth of their operations. Hence, the CBN by virtue of its position as the major stakeholder in the financial system regulation must necessarily be involved in the establishment, operation and regulation of IBs in the country. On this position, Usman (2003, p. 39) submits: “The Central Bank stands at the apex of the banking system of every country”.

2.3 Islamic Banking in Nigeria: The State of the Art

The emergence of IBs in several Muslim and non-Muslim countries with none in Nigeria ignited the desires and agitations, which eventually generated a lot of concerns for its absence in Nigeria despite its overwhelming Muslim population. This therefore informed the enormous efforts being made over the years to ensure the establishment and operation of IBs in Nigeria. The efforts date back to the 1990s when the idea was first mooted and subsequently, two licenses were granted in 1992. Unfortunately, none could commence operation until 1999 when the former Habib Nigeria Bank Limited (now Bank PHB) started a non-interest banking window. However, it is important to state that the promulgation of the Banks and Other Financial Institutions Decrees (BOFID) 24 and 25 of 1991, which replaced the Banking Act of 1969 signalled a new dawn for banking operation in Nigeria (CBN, 2011b; & Usman, 2003). This is in view of the new provisions made for the establishment of non-Interest banking in the country. It is also interesting to state that the recent attempt by the Central Bank of Nigeria at enacting additional provisions for the proper establishment and operation of Islamic banking in the country is indeed a welcome development. Furthermore, the CBN in August 2010 released the new banking model, which categorized non-interest banks as specialized banks. The two models are: i. National non-interest bank of capital base of N10 billion with operation in every state of the federation including the Federal Capital Territory (FCT); and ii. Regional non-interest bank with capital base of N5 billion and shall operate in a minimum of six states and maximum of twelve contiguous states of the federation (Umar, 2011). This development is certainly a heartwarming one and it is hoped that this legal and regulatory framework shall

herald a great dawn for the establishment and operation of Islamic banking in Nigeria. This is in view of the growing awareness of the Muslim populace and the desire to have an Islamic financial institution like other Muslim countries. Hence, with this recent circular, the major problems of regulatory and supervisory issues are close to solution. Therefore, according to the circular, a Non-Interest Financial Institution (NIFI) is defined as: “a bank or Other Financial Institution (OFI) under the purview of the CBN, which transacts banking business, engages in trading, investment and commercial activities as well as the provision of financial products and services are in accordance with Shari’ah principles and rules of Islamic commercial jurisprudence” (CBN, 2011a, p. 1).

Essentially, it needs to be stated that Nigeria is the most populous country in the African continent and the 8th most populated country in the world with location on the West Coast of Africa bordering the Gulf of Guinea between Benin and Cameroon (Central Intelligence Agency, 2011). The country has a Muslim population of over 80 million, which denotes a population almost equals the entire Muslim population of Algeria, Morocco and Tunisia (three North African countries). Indeed, this presents a substantial and huge market for Islamic banking operation in the country, particularly with the enthusiasm and readiness so far demonstrated by majority of the Muslims. Albeit, recent efforts on the parts of the CBN and Muslim professionals, especially economists, bankers and administrators revealed that very soon Islamic banking operation shall take-off. This development as noted by CBN (2011a), is in view of the increasing number of requests from persons, banks and other financial institutions like Jaiz Bank International, which was incorporated in April 2003 with the main objective of being an Islamic investment holding company to set-up non-interest institutions like Islamic bank, Takaful (Islamic Insurance) and Pension Fund Administration among others. Nevertheless, the current circular released by the CBN on the framework for Non-Interest Financial Institutions has added a lot of glamour to the prospect of Islamic banking project in the country. For instance, the introductory aspect states clearly the various non-permissible transactions, contracts and instruments. In the same vein, Section 5.0 also spell-out unambiguously the recognised and permissible modes of financing (see Appendix A). Although, likely problems and challenges to confront the Islamic banking project include capital inadequacy, lack of Shari’ah governance institutions, manpower shortage, Islamaphobia on the part of non-Muslims and a host of others. All in all, Islamic Finance News (2011) noted that Jaiz Bank International is expected to commence full operations by August, 2011.

3. THEORETICAL FRAMEWORK

Theoretical framework for a study of this nature is necessary for the proper grasp and understanding of the relationship between the CB and IBs, especially that the IBs are regarded as the new financial bride in the global economic arena. The IBs parade outstanding characteristics and ideals like fairness, transparency, accountability and above all, their combination of “uncompromising religious truths with modern-day financial savvy” (Jama, 2009, p. 46). Therefore, in order to better appreciate the direct and positive link between both institutions i.e. the CB and IBs, the Stakeholder theory and the Principal-Agent theory have been adopted for this study. In view of this, the stakeholder theory is often considered as a type of approach that deals with the way stakeholders perceive the establishment and the ongoing operations of a business. Hence, a stakeholder is described as anyone who has a stake or interest in the existence of a thing. As a matter of fact, all stakeholders are identified by their interests, which are intrinsically regarded as valuable, even though not self-evident. In this vein, Freeman (1984, p. 25) defined stakeholders as: “any group or individual who can affect or is affected by the achievement of the firm’s objectives”. Also, Freeman (2004) regarded those groups who are vital to the survival of an organization as the stakeholders. Similarly, Donaldson and Preston (1995) noted that the stakeholder theory implies that every legitimate person/group participating in the activities of a firm is majorly concern about the benefits to be derived.

In the same token, the principal-agent theory also deals with the issue of interest and the desire to protect it. Hence, the theory means a situation when one person acts in the interest of another e.g. the relationship between the shareholders and managers or between the managers and employees in a corporation are good examples of principal-agent relationship. However, this relationship ranges from the simple to the complex/advanced type as the case between the CB and IBs in some countries today. According to Al-Jarhi (2006, p. 19), “banking theory

studies finance as process that runs among three parties: a principal, an agent and an intermediary, where both the principal and agent jointly financed a project which is managed by the agent and partly financed by the principal". Therefore, the CB is the principal who must ensure that other banks like the commercial banks and IBs conduct their affairs in line with the rule of the game and particularly to protect the interests of the customers and the economy as a whole. According to Ali (2006), there are four important economic agents that take part in shaping the banking environment, namely: i. the CB; ii. the regulators; iii. the banks; and iv. the bank customers. All these four agents are also regarded as the most important stakeholders. However, the CB by virtue of its role of control, regulation and supervision is considered as the principal stakeholder who ensures that the financial system remains healthy and vibrant at all times, so as to avoid systemic collapse of the economy. The figure below captures these important stakeholders identified by Ali (2006).

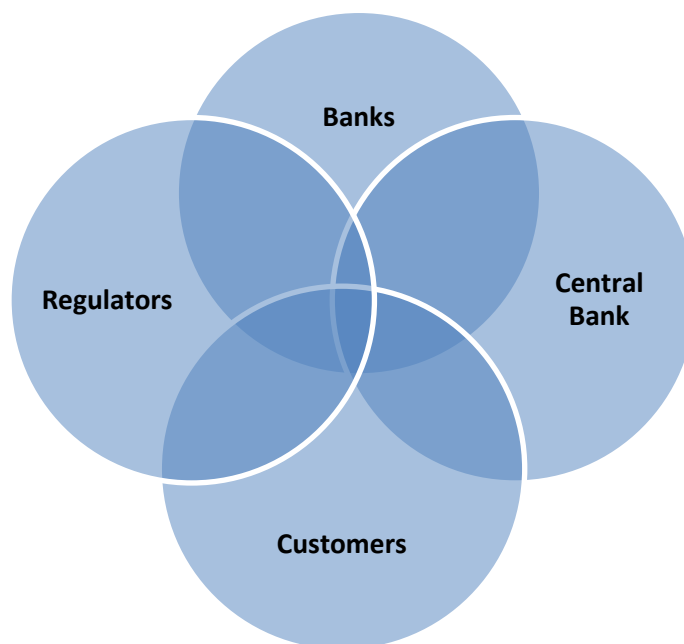


Figure 2: Economic Agents-Shapers of the Banking Environment

Source: Adapted from Ali (2006).

From the foregoing discussions, it is clear that the relationship between the CB and IBs is very important to the financial system and the economy as a whole. This is because both are stakeholders, especially the CB who is assumed as the Principal stakeholder and must ensure that the IBs perform to expectation in view of the bank customers deposits at their disposal and which the CB must necessarily ensure they are adequately protected. A recent attempt by the CBN providing a direct rescue package of N620 billion to 8 banks in Nigeria and even changing the management teams of the affected banks is a good case of the CB as a Principal stakeholder in the financial system. Therefore, it could safely be argued that the role of the CB is very crucial and of enormous importance to the survival of the financial system, especially the banking industry, which Usman (2003, p. 41) described as: "at the heart of every robust economy is a sound banking system".

4. HYPOTHESES

For the purpose of this study, which is on the perception study of the role of the CBN in the establishment and operation of IBs in Nigeria, the following hypotheses were tested:

H1: that the perceived role of CBN is of significance to the establishment and survival of IBs in the country.

H2: that the perceived problems and challenges on IBs are of significance to its establishment and operation in Nigeria.

5. RESEARCH METHODOLOGY

For the purpose of depth and familiarity with the subject matter, this study utilized secondary data for the literature review. Thereafter, primary data were collected through questionnaire survey among the degree and postgraduate students in three Malaysian universities i.e. Kolej Universiti Insaniah (KUIN), Universiti Utara Malaysia (UUM) and International Islamic University Malaysia (IIUM). Basically, the questionnaire comprised four sections. The first section elicited information about the demographic characteristics of the respondents while section two elicited responses about the knowledge and awareness of IBs. The third section covered issues on the likely perceived problems and challenges to confront IBs in Nigeria. The fourth section elicited information on the perceived role expected of the CBN in the establishment and operation of IBs. The questionnaire utilized Likert-scale with a seven-point options and the rating scale adopted i.e. 1-7 allowed respondents to choose within the range of Strongly Disagree to Strongly Agree. Hence, Strongly Disagree is represented by 1, Disagree (2), Slightly Disagree (3), Indifferent (4), Slightly Agree (5), Agree (6) and Strongly Agree (7). The questionnaire contents were adapted from many similar perceptions studies on IBs and other related studies like Ahmad (2006), Ahmad et al. (2010) and Bley and Kuehn (2004). Thereafter, the data collected were analyzed using the SPSS software version 18.0. This study was also subjected to descriptive and inferential statistics using the frequency analysis for the presentation of the profiles of the respondents. As a matter of fact, the frequency of the respondents (i.e. the Nigerian Muslim youths resident in Malaysia) was based on their demographic details like name of university, gender, age, program type, course of study and state of origin. Also, statistic tests like normality test using the skewness and kurtosis statistic were used while reliability test was done using Cronbach's Alpha statistic. In addition, parametric tests were used to present the perceptions of the respondents on IBs in line with analytical characteristics of SPSS. Thus, the hypothesis tests were done using One Sample and Independent sample t-tests to measure the perceptions of the respondents.

6. RESULTS

The 100 questionnaires distributed to Nigerian Muslim youths in the three Malaysian universities recorded a response rate of 85 percent and the breakdown of the questionnaires returned and usable is as follows: KUIN with 22.35 percent represents 19 respondents, UUM scored 28.24 percent response rate which represents 24 respondents and IIUM with 42 respondents represent 49.41 percent. Therefore, from Table 1 below, the degree students constitute 23.53 percent of the total observations gathered while master students have 25.88 and PhD students have 50.59 percent. Most of the respondents are between the ages of 36-45 years old (i.e. 47.06 percent). In addition, 88.24 percent of the respondents are male and mostly PhD students between the ages of 36-45 years old. In the same vein, most of the respondents have being staying in Malaysia for more than two years i.e. 68.24 percent. This implies the possibility of their more familiarity with the Islamic demographic characteristics of Malaysia. However, it needs to be stated that the 19 items in the questionnaires have been categorised into three dimensions. As such, the three dimensional constructs are: i. Awareness and knowledge with the label "Awareness"; ii. Challenges and problems are represented by "Challenges"; and iii. Perceived role of the CBN is represented by "Role". Essentially, the two research hypotheses, which are to be confirmed in this study using the three dimensional constructs are: i. that the perceived role of CBN is of significance to the establishment and survival of IBs in the country; and ii. that the perceived problems and challenges on IBs are of significance to its establishment and operation in Nigeria. To this end, the table below gives summary information on the demographic characteristics of the respondents.

Table 1: Profile of Respondents

S/N	Items	N	%
1.	Name of university:		
	Kolej Universiti Insaniah (KUIN)	19	22.35
	Universiti Utara Malaysia (UUM)	24	28.24
	International Islamic University Malaysia (IIUM)	<u>42</u>	<u>49.41</u>

		85	100
2.	Program: Degree Master PhD	20 22 43 85	23.5 25.9 50.6 100
3.	Age: 18-25 26-35 36-45 46-55 55 above	10 27 40 08 --- 85	11.8 31.7 47.1 09.4 ---- 100
4.	Gender: Male Female	75 10 85	88.2 11.8 100
5.	Years in Malaysia: 0-1 2-4 5 above	27 40 18 85	31.7 47.1 21.2 100

Source: Authors' Computation

6.1 The Normality and Reliability Tests

Among the statistical tests necessary to be conducted before significant and relational tests is to confirm the normality and reliability of the data to be utilized in the study. Therefore, the normality test result revealed that the data have normal distribution as evidenced in the table below. The test was conducted using skewness and kurtosis measurements. It is thus concluded that the data is symmetric because the skewness and kurtosis values are less than -1.0 for all the three dimensional constructs of the study. It has been noted that a skewness or kurtosis value between ± 1.0 is considered as an excellent value (George & Mallery, 2006, p. 99). Therefore, the data for this study is considered as normally distributed and thus parametric tests were used. Table 2 below provides the details of the result for the normality test.

Table 2: Result of Normality Test

Label for Dimensions	N	Min.	Max.	Std. Dev.	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error
Aware	85	4.00	6.60	.63132	-.407	.261	-.449	.517
Challenges	85	4.00	6.60	.63132	-.407	.261	-.449	.517
Role	85	4.20	7.00	.63709	-.567	.261	-.059	.517
Valid Number	85							

Source: Authors' Computation

In the same vein, the result for reliability test showed that Cronbach's Alpha value of .774 was attained using 19 items in the questionnaires. However, Pallant (2007, p. 98) noted that alpha values of .7 above are considered acceptable while values of .8 above are preferable to demonstrate a high level of internal consistency in the data. Therefore, in order to enhance the reliability test, items 3 and 8 (see Appendix B) were deleted. Thus, the new Cronbach's alpha value of .801 was attained. This is considered a good alpha value according to George and Mallery (2006, p. 231) because it gives the study more validity in its findings. However, all the 19 items in the

questionnaires passed the reliability test because none of them was less than .7 (see Appendix B). The table below presents the details of the reliability result.

Table 3: Result of Reliability Test

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.801	.807	17

Source: Authors' Computation

6.2 One-Sample and Independent-Samples t-Tests

Essentially, these parametric techniques have been adopted in order to test for the two major research hypotheses, which are: i. that the perceived role of CBN is of significance to the establishment and survival of IBs in the country; and ii. that the perceived problems and challenges on IBs are of significance to its establishment and operation in Nigeria. Therefore, the two dimensional constructs used are Challenges and Role. Against this background, the challenges dimension consists of 5 items with a mean value of 5.6376. The test statistic value is -.911 with a calculated P-value of .365 but because it is a 1-tailed test, the new P-value becomes .183. This value is not statistically significant because it is greater than the observed P-value of .05. Thus, the null hypothesis should be accepted i.e. the perceived problems and challenges on IBs are of no significance to its establishment and operation in Nigeria. The table below presents the details of the result.

Table 4: Statistic on Challenges Dimension

	Test Value = 5.7					
	T	Df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
Challenges	-.911	84	.365	-.06235	-.1985	.0738

source: Authors' Computation

Similarly, the Role dimension is made-up of 5 items. The calculated P-value is .277 and if divided by 2, since this is a 1-tailed test, the new P-value is .139. This also suggests that the calculated P-value is higher than the observed P-value of .05 and thus the null hypothesis should not be rejected i.e. the role of the CBN is of no significance to the establishment and operation of IBs in Nigeria. The table below provides more information on the result.

Table 5: Statistic on Role Dimension

	Test Value = 5.7					
	T	Df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
Role	1.095	84	.277	.07569	-.0617	.2131

Source: Authors' Computation

Furthermore, the Independent-Samples t-Test was adopted to compare the mean scores of two groups on a given dimensional construct for the purpose of identifying the difference and variability. Therefore, the gender group has been identified as the most prominent group classification in this study. In view of this, the test compared between the mean scores of the male and female respondents to identify the significance in their perceptions. From Table 6 below, it presents the statistic for these two groups, which reveals that the female mean is higher than the male mean.

Table 6: Gender Group Statistics

Dimensional Constructs	Gender	N	Mean	Std. Deviation	Std. Error Mean
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Challenges	Male	75	5.6080	.65052	.07512
	Female	10	5.8600	.42216	.13350
Role	Male	75	5.7351	.65336	.07544
	Female	10	6.0800	.40222	.12719

Source: Authors' Computation

Importantly, the male and female means for role dimension are higher compared to the challenges dimensions. Whereas the female means for both challenges and role dimensions are higher than their male counterparts. This means that on the average the perceptions of the female group are higher than the male group. However, if we consider the Levene's Test for equality of variances from Table 7 below, the values under Sig. for Challenges dimension is .042. This means that the two variances are significantly different and it thus implies that equal variances are not assumed. Whereas for the Role dimension, the Sig. score is .222 and it means that the two variances are not significantly different. This connotes that the two variances are approximately equal. As a rule of thumb, when the variances are approximately equal we read the values on the top line in the Independent Samples test table (under the t-test of Equality of means) and vice-versa when the variances are not the same. In view of the fact that this test is a 1-tailed test and the result provided in the table below is a 2-tailed test, according to Carver and Nash (2009), it must be divided by 2 to give the real Sig.-value. Therefore, from the table below, it is clear that the equal variances are not assumed for challenges dimension because it has a Sig. value of .06. This implies that there is no significant difference between the two groups because the significance-value is greater than .05. In the same vein, the role dimension significance-value is .05, which implies that there is significant difference between the two groups. Therefore, we can safely state that there is significant difference in the perceptions of the role of CBN between the male and female groups. By extension, the perceptions of the female group are higher than the male group because the female sample mean is higher than that of the male group. The table below provides more information on the test.

Table 7: Result for Independent-Samples Test

Label for Dimensions		Levene's Test for Equality of Variances		t-test for Equality of Means					
		F	Sig.	T	df	Sig. (2-tailed)	Mean Diff.	Std. Error Diff.	95% Conf.
									Lower
Challenges	Equal variances assumed	4.254	.042	-1.189	83	.238	-.25200	.21201	-.67369
	Equal variances not assumed			-1.645	15.413	.120	-.25200	.15318	-.57774
Role	Equal variances assumed	1.513	.222	-1.624	83	.108	-.34489	.21242	-.76738
	Equal variances not assumed			-2.332	16.203	.033	-.34489	.14788	-.65807

Source: Authors' Computation

7. FINDINGS AND DISCUSSIONS

Basically, the challenges dimension has a mean of 5.6376 with t-value of -.911 and the calculated P-value of .183. Thus, the calculated P-value was discovered not statistically significant, because it is higher than the

observed P-value of .05 and this implies therefore that the null hypothesis must be accepted. Hence, the perceived problems and challenges on IBs are of no significance to its establishment and operation in Nigeria. This could be contested to some extent because according to Obiyo (2008) and Yasin (2006), legal and supervisory issues are regarded as among the many challenges confronting most IBs in the Muslim world and especially for a beginner country like Nigeria. However, the finding is valid because only 2 items i.e. 11 and 12 of the 5 items tested marginally significant while others tested statistically insignificant. These 2 items imply that they are positively related to IBs establishment but not as strongly related like items 19, 8 and 18 (see Appendix C).

Also, the dimension on Role also tested statistically insignificant with t-value of 1.095 and calculated P-value of .139. This also suggests that the null hypothesis should be accepted. This connotes that the perceived role of CBN is of no significance to the establishment and survival of IBs in the country. This particular conclusion runs contrary to the known reality and convention on the significant role of any central bank as the apex bank in an economy. As a matter of fact, the various works by scholars and writers in the area of central banking negate this finding. Prominent among such scholars are: Chapra (2009), Obiyo (2008), Toutouchian, (2009), Usman (2003), Yasin (2006) and a host of others. They emphasised the important and crucial role of the CB to the development of the financial system and the economy as a whole. Hence, the finding that the role of CBN is of no significance to IBs establishment and operation in Nigeria is thus classified as Type II error. This is because the null hypothesis should have been rejected rather than accepted. Kendrick (2005, p. 352) noted that whenever a scenario of this nature occurs in Social Science research, it is regarded as Type II error and as such this finding on the role of CBN is classified accordingly. Against this background, this finding revealed the possibility of inadequate knowledge on the workings of financial system and institutions like CB on the part of the respondents and also the likelihood of sampling error. Hence, the finding should have been: "the role of CBN is of significance to the establishment and operation of IBs in the country". This is because there is a positive relationship and association between IBs and CBN, especially if IBs are to be established and survive in a country like Nigeria where the CBN is the regarded as the major stakeholder and regulator of the financial system. This position confirms the reality on the ground in the country, considering the new legal framework enacted by the CBN in recent times on Non-Interest Banking in the country. In fact, the just enacted banking regulations are purposely prepared to take care of Non-Interest Free Institutions (NIFI) (see Appendix A).

Furthermore, 10 items among the 19 items tested significant and seven of them qualified to be regarded as statistically significant (SS) at less than P-value of .05 while others are marginally significant (MS) i.e. between P-value of .05 and .10 (see Appendix C). This position is noted by George and Mallery (2006, p. 96) that the smaller the P-value the greater the confidence that the findings of the study are valid. Therefore, the seven items that are statistically significant are: 2, 4, 5, 8, 15, 18 and 19. This implies that they are strongly related to the various dimensions which they fall within. For instance, the most statistically significant of all the items is 19, which reads thus: "The CBN needs to promote adequate research on IBs". This implies that the strongest perceptions among the respondents are for the CBN to promote adequate research on IBs, which is absolutely right because IBs is yet to commence operation and therefore, it needs academic researches of this nature for the purpose of policy inputs and formulation. As long as its development must be taking seriously in terms of appropriate and pragmatic policy formulation, product innovation and development, project evaluation and human resource development among others, adequate research is certainly needed. Nonetheless, the findings have re-emphasised the important and crucial role of the CBN in the establishment and operation of IBs in Nigeria. This is because works from scholars and writers like Chapra (2009), Toutouchian (2009), (Usman (2003), Yasin (2006) and a host of others also noted this important and prominent role and position of CB as the major stakeholder as far as the financial system is concern.

On this important fact, INCEIF (2006a, p. 318) states as follows: "Almost all economists writing on the subject, are in agreement that the central bank in an Islamic economy would continue to perform all of those functions performed by central banks elsewhere". This implies that the role of the CBN in the regulation and supervision of IBs in Nigeria is crucial, inseparable and fundamental to its establishment and survival. It is also important to state that of the three most statistically significant variable items in this study, two of them are in favour of the

CBN i.e. items 18 and 19 (see Appendix C). Furthermore, the study also discovered that there is strong positive perception for the promotion of adequate research on the part of CBN, in order to grow the IBs. Also, there is the need for more education, orientation and awareness on the potential benefits of IBs to the Nigerian economy and the people. This is because customer or stakeholder education and orientation is one of the means of shaping people's perception for more support, patronage and survival of the IBs. Above all, the significant position and role of the CBN in the establishment and survival of IBs in the country have further being brought to limelight with compelling evidences.

8. CONCLUSION AND SUGGESTIONS

It is evidently clear from the foregoing presentations and discussions that this study is purposely on perception study about the role of the CBN in relation to IBs in Nigeria with peculiarities on the problems and challenges. This study has further brought to limelight the significance position and role of the CBN in the Islamic banking project. In view of this, it could safely be argued that the role of the CB is very crucial and of enormous importance to the survival of the financial system, especially the banking industry. Thus, according to Usman (2003, p. 39): "The Central Bank stands at the apex of the banking system of every country". And he further added that "at the heart of every robust economy is a sound banking system" (p. 41). Against this background, this study hereby makes the following recommendations: i. the need for the CBN to collaborate with the Judiciary to have Shari'ah courts for the adjudication of matters on Islamic banking. This is because the finding is strongly positive on the need for the CBN to be more concerned about the strengthening of the legal framework for Islamic banking operation in the country for the purpose of growth and survival of the industry; ii. It is also found that majority of the respondents have a strong positive perception for the CBN to promote adequate research in the area of IBs. It is thus suggested that a research of this nature and other related areas are greatly needed to provide inputs for policy conceptualization, articulation and formulation on IBs in the country; and iii. The issue of manpower development needs to be taking with utmost seriousness by the CBN and be strictly enforced on the IBs. This will ensure that the staffers of IBs receive the relevant and required training, in order to facilitate the rapid growth of the new industry and to play a more meaningful role in the economic development of Nigeria.

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Appendix A
Non-Permissible Transactions/Contracts and the Recognised
Instruments/Financing Modes under the NIFI of the CBN

(a) Non-Permissible Transactions and Contracts

1. Interest;
2. Uncertainty or ambiguity relating to the subject matter, terms or conditions;
3. Gambling;
4. Speculation;
5. Unjust enrichment;
6. Exploitation/unfair trade practices;
7. Dealings in pork, alcohol, arms & ammunition, pornography and;
8. Other transactions, products, goods or services which are not compliant with Shari'ah rules and principles.

(b) Recognised Instruments/Financing Modes

1. Murabahah
2. Mudarabah
3. Musharakah
4. Ijarah
5. Salam
6. Istisna
7. Wadiah
8. Wakalah
9. Sukuk
10. Any other financing mode or structure that is Shari'ah-compliant and approved by the CBN.

Source: The CBN Circular on NIFI Framework (2011a).

Appendix B
Statistic on Reliability Test (19 Items)

Label for Items	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Squared Multiple Correlation	Cronbach's Alpha if Item Deleted
Sincere patronage of Islamic banks	102.1608	83.672	.287	.404	.768
Distributive Justice of Islamic banks	102.0196	78.245	.493	.497	.754
Risk sharing philosophy	102.2784	85.707	.078	.255	.786
Lesser risk in Islamic banking	102.4667	75.001	.619	.525	.743
Awareness of various modes of Islamic financing	102.0078	85.499	.129	.128	.779
Benefits and challenges of Islamic banking and finance	102.4078	81.641	.378	.500	.762

Transparency, accountability, and social welfare	102.1255	78.515	.558	.524	.751
Product similarity between Islamic and conventional banks	102.7255	84.070	.103	.230	.789
Islamic banking offers a better alternative to conventional	102.3725	77.748	.451	.396	.756
Requirements for customer education and orientation	102.1490	78.338	.513	.447	.753
Manpower challenges facing IBs in Nigeria	102.4431	78.658	.452	.422	.756
Adequacy of Legal framework for IBs in Nigeria	102.4314	81.188	.299	.419	.768
Poverty alleviation potentials of IBs in Nigeria	102.2549	82.080	.343	.336	.765
Inadequacy of project evaluation information	102.2196	83.220	.264	.262	.770
CBN to strengthen IB framework in Nigeria	102.4353	81.844	.355	.359	.764
Islamic banking windows operated by conventional banks	102.3843	82.322	.280	.413	.769
Supervision by Shari'ah Advisory Council	102.1961	82.837	.226	.334	.773
Collaboration between the CBN and Shari'ah Advisory Council	101.9843	80.495	.481	.513	.757
CBN should promote more research on IB	101.8078	81.256	.495	.539	.757

Source: Authors' Computation

Appendix C
Items with Significant Values

S/N	Items No.	Label/Content	P-Value	Remarks
1.	2	Islamic banks shall ensure distributive justice and fairness.	.039	SS
2.	4	Buying and selling arrangements under IBs are less risky compared to conventional banking.	.041	SS
3.	5	I am aware of the various Islamic modes of financing and services like <i>Mudarabah</i> , <i>Musharakah</i> , <i>Murabahah</i> etc.	.026	SS
4.	8	Products of present IBs are similar to those of conventional banking system.	.002	SS
5.	15	The CBN should be more concerned about the strengthening of the legal framework for Islamic banking operation in the country.	.037	SS
6.	18	The CBN needs to collaborate with the Judiciary to have Shari'ah courts for the adjudication of matters on Islamic	.007	SS

		banking.		
7.	19	The CBN needs to promote adequate research on IBs.	.000	SS
8.	6	Islamic banking practices will bring numerous benefits and challenges to individuals, organizations and the society at large.	.057	MS
9.	11	Islamic banking operation in Nigeria is likely to face the serious challenge of adequate and qualified manpower.	.053	MS
10.	12	The current legal framework for Islamic banking operation in Nigeria shall facilitate the growth of Islamic finance in the country.	.075	MS

Source: Authors' Computation

Note: SS means Statistically Significant while MS implies Marginally Significant.

Appendix D
Respondents according to States in Nigeria

State	Frequency	Percent	Valid Percent	Cumulative Percent
Bauchi	2	2.4	2.4	2.4
Borno	3	3.5	3.5	5.9
Edo	2	2.4	2.4	8.2
Gombe	3	3.5	3.5	11.8
Jigawa	3	3.5	3.5	15.3
Kaduna	3	3.5	3.5	18.8
Kano	9	10.6	10.6	29.4
Katsina	2	2.4	2.4	31.8
Kogi	1	1.2	1.2	32.9
Kwara	15	17.6	17.6	50.6
Lagos	12	14.1	14.1	64.7
Ogun	3	3.5	3.5	68.2
Ondo	2	2.4	2.4	70.6
Osun	9	10.6	10.6	81.2
Oyo	15	17.6	17.6	98.8
Yobe	1	1.2	1.2	100.0
Total	85	100.0	100.0	

Source: Authors' Computation