

Financial Practices Among Muslim Informal Sector Operators at Aliero Onion Market and Their *Shari'ah* Compatibility

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Abstract

This paper explores the financial practices among Muslim informal sector operators at Aliero onions market and evaluates the practices from Shari'ah perspective. The data is generated using informant interview. The financial practices are evaluated with reference to the existing literature on Islamic finance. Descriptive and analytical approaches are used in the data analysis. The research finds most of the financial practices compatible to the Shari'ah and recommends the promoters of Islamic banking in Nigeria to target these kinds of organizations in mobilizing clients and customers.

Keywords: *Financial practices, Muslim informal sector operators, Aliero onions market, shari'ah compatibility.*

1. Introduction

Studies on attitudes and perceptions of people on Islamic banking and finance show a general lack of understanding of Islamic banking products and operations (Wright, 1993, Presly and Sessions, 1994. Siang and Weng, 2011. Abdulhamid and Nordin, 2001. Abdulhamid *et al.*, 2011). Several factors are at work to explain this. One of the possible reasons for this lack of understanding is that the Islamic banking model as it is today is a product of a theoretical abstraction rather than a model based on practical reality¹. The *Fiqh* literature, which provides the framework upon which the model is derived, is little understood by Muslims, let alone the non-Muslims. Moreover, the formulation, review and implementation of the model is top-down approach, with majority of the people having little knowledge of the process. What is more, the contemporary academic discourse has tended to focus on the formal sector, neglecting the informal sector. It is the author's fervent conviction that it is better to study practices, rather than to engage in attitudinal studies. This paper therefore focuses on the practices (rather than the attitudes) of Muslim entrepreneurs in accepting Islamic finance.

This approach is important for the following reasons: First, studies on Islamic financial practices among Muslim informal operators are lacking. Thus, there is substantial ignorance of Islamic financial practices of the Muslims informal sector operators. This study is expected to extend the frontiers of knowledge in the sector and add to the existing literature on Islamic finance.

¹. For details see Siddiqi (1983b); Ahmad (1994); and Ali, (1992).

Second, the promoters of Islamic banking in Nigeria recognize the fact that the informal sector is large and therefore offers tremendous potential for adoption of Islamic financial practices (Bintube, 2009). Despite this potential, the actual practices of Muslim informal sector operators have hardly been examined. By reporting the findings of research on this area, this paper hopes to provide additional information that policymakers in Nigeria might find of value when issues of Islamic finance are being debated.

Third, a clear understanding of financial practices of Muslim informal sector operators will pave the way for evolving an acceptable arrangement for Islamic financing in the informal sector.

This paper comprises six major sections: section one is this introduction while section two is the objectives of the study. Section three reviews the literature, section four explains the methodology of the study. Section five describes and analyses the financial practice of the “Group” onions marketers at Aliero onions market. and the compatibility of their financial practices with the *Shari’ah* and section six concludes the paper.

2. Objectives of the Study

The objectives of this paper, therefore, are to explore and document the financial practices of Muslims informal sector operators in Aliero onions market. It also aims at evaluating the financial practices from *shari’ah* perspectives and make recommendations on how Islamic banks could mobilize their customers.

3. Literature Review

In an effort to sale, Islamic banking services to the public, scholars have studied the attitude, awareness, perception and the understanding of the public about the Islamic banking services. One of the common findings of all these researches is that most of the people lack the understanding of the specifics of the Islamic banking services (Aliero and Achida). Based on the finding recommendations are put forward with the view to mobilize more clients and customers to the Islamic banks. This section attempts a critical review of the literature.

Mohieldin, Iqbal, Rostan and Fu (2012) conducted one of such researches. The study recommends that both Islamic micro financial institutions and government to exert more efforts to educate low-income Islamic individuals and invite them to use the available products and services. However this study fails to elucidate on the nature of education to be provided to the low-income individuals. Another study by Bashir, Sajid and Iqbal (2011) recommends Islamic banks to come up with new marketing ideas to attract more customers. This study also fails to give the details of the new marketing ideas to be pursued by the Islamic banks. Similarly, Rammal and Zurbruegg (2007) see the need to develop an effective communication plan that goes beyond just marketing and advertisement to ensure the populace is aware of how Islamic banking products operate. However, the researchers provide no specific plan. In addition, a study in Bangladash by Khan, Hassan and Shahid (2007) recommends Islamic banks to find out better ways of familiarizing their customers with the borrowing products of the banks. This study also could not give specific ways for the

banks to familiarize their customers with the services of the banks. Furthermore, Ramthony (2013) recommends informative advertizing campaign and the use of Islamic organizations that preach Islamic religion to propagate Islamic banking in Mauritius. However, he recognizes the danger of adapting this strategy as it may send a wrong message that Islamic banking is only for the Muslims.

The common problem of all the above recommendations is that they fail to recognize the need to mobilize the Muslim customers based on Islamic financial values and norms perform by the Muslims even in the absence of modern Islamic banks. My contention is that Muslims wherever they are may have some understanding of the rudiments of Islamic financial values and norms, and that Islamic banks can build the understanding of their Islamic banking products and services based on what the Muslims already know about Islamic finance. What is needed is that Islamic banks should try to understand what people know and do about Islamic finance and mobilize their customers based on that.

4. Methodology

I will start this section with a brief description of Aliero onion market. The onion market is located in Aliero town of Kebbi State of Nigeria along Sokoto – Kontagora road. The road connects the market to most parts of Nigeria. The market operates between the months of November and May every year. The farmers within Kebbi state and some parts of Sokoto State bring the onions to the market directly from their farms. Sometimes when the commodity is scarce, supplies are also received from the Republic of Benin.

The marketers buy from the farmers and transport the onions to other parts of Nigeria for sale. About 30 trailers (750,000 kg) of onions are transported every day at the peak of harvest around the months of February and March. The major market destinations are Ibadan, Lagos, Aba, Benin, Onisha and other important places in the south. Although Aliero onion market operates for about six months only, the Aliero group onions marketers operate their business throughout the year. As different locations tend to enjoy different onion seasons, group members move from one place to another in the pursuit of the business. Thus, outside the Aliero onion season, the group members move to Sokoto and then Gombe before relocating to Maidugri. By the time the Maidugri season ends, they return to Aliero to coincide with the beginning of the next season. As pointed out earlier not much is known about the financial practices these onion marketers.

In a situation where little is known about a certain phenomenon, or a researcher is curious to have a better understanding of a certain research problem or when time and resources are short but limited information is still of value, then exploratory research approach may be useful (Eboh, 2009). This research is motivated by the curiosity and the need to have a better understanding of an undocumented financial practice of the Muslim informal sector operators in Aliero onions market. Therefore, exploratory research methodology is applied. Informant interview was used in data collection. The interview was directed to Group onions marketers. The questions covered a range of issues, such as the sources of capital, conditions for group

membership, reasons explaining the formation of groups, participant's knowledge of *shari'ah* rules on financial dealings, amount of capital contributed by group members and the basis for profit and loss sharing amongst group members. Other questions sought to know whether the groups borrow money for the business and their relationship with commercial banks and other related issues. Descriptive and analytical approaches are used in the data analysis. The existing literature on Islamic finance is also used in the analysis.

5. Financial Practice of the 'Group' Onion Marketers at Aliero Onions Market

This section describes and analyses the data collected through informant interviews. The analysis examines the actual financial practices of the 'Group' onion marketers and then subjects the financial practices to the *shari'ah* yardstick. In other words, the financial practices are evaluated from the *shari'ah* perspectives. Thus, the analysis is divided into two parts. The first part describes and analyses the financial practices of 'group' onions marketers and the second part examines the compatibility of the financial practices to the *shari'ah*.

3.1. Financial Practices of the 'Group' Onions Marketers

During the course of the interviews, four groups of onion marketers were identified. The first group has 2 members, the second 5, the third 6, and the fourth 7. All the respondents engage in farming and rearing of animals in addition to onion business. Their source of capital for the onion business is from farming. Cooperation and mutual benefits are the motivating factors in forming the groups. The group members are a mixture of blood and none blood relation. The only idea of Islamic finance among all the respondents is that interest (*riba*) is unlawful. The length of business experience of the members is fairly long, ranging between 7 to 25 years. With regard to the membership conditions it was observed that long term interaction among the groups is the main determinant of group membership. All the respondents are of the view that long-term interaction that reveals the competence and trustworthiness of a member is what matters in accepting a member to a group.

The group members each contribute capital to the business. Disclosure by one group revealed that each member contributes roughly one and a half million naira (equivalent to US\$9,433 as of 2012). Some group members are active while others may be passive partners. The function of the active members is divided between buyers and sellers of onions. The buyers move from one buying point to another throughout the year. While the sellers are stationed at different selling destinations, the buyers buy the onions and send it down to their members stationed in the consuming areas of Lagos, Aba, etc. In some cases the purchase and sale of the onions could be done by one person, who then accompanies the product from the place of purchase to the consuming towns and cities. Members can buy and sell on credit on behalf of the group. Profits and losses are shared according to the capital contribution of the members. However, the passive partners i.e. those making capital contribution only were found to enjoy less from the profit.

The group onion marketers treat their business as an on-going concern. However, accounts are taken every year in January and profit and/ or loss are shared in that month. A number of

reasons account for the choice of January as the month in which profits are shared. One reason is that demand for onions (and therefore the profit) tends to peak in December and the month of January is associated with a lull in activities. Another reason is that prices tend to collapse in January, making the product cheaper. With smaller capital required during periods of low prices such as January, members are able to withdraw profits in January to finance activities outside the onion business, such as paying for Hajj, buying of landed property etc.

The members are entitled to feeding and transport expenses when on a business mission. However, any expenditure outside the business is recorded against the share of the partner. In partnership kind of business relationship there is the possibility that some members may shirk their responsibility or cheat in the form of under reporting profits or over reporting costs. The interview wanted to know whether group members have had such experiences. All the respondents are of the view that their business relation is based on trust and therefore cheating among the members is rare. The research further revealed that improvement in communication has facilitated free flow of information of prices and costs of onions, helping to reduce the tendency for cheating. It was also revealed that in the past, members had suffered from armed robbery and this has contributed to their growing use of banking services for cash transfers. As a result, every member operates and maintains saving and current accounts. The research revealed further that group bank accounts are a rarity but the potential exists for its expansion – there is a growing realization that in the event of death, members could face difficulties when funds are saved in individual bank accounts. Members are very much aware of bank charges, especially for current account transactions, making them to show a preference for savings account. What is more, all respondents have expressed outright rejection of interest, arguing that it is repugnant to Islamic ideals.

Despite their growing use of banks as a means of funds transfer, the Aliero onion sellers have indicated no previous experience of gaining loans or advances from banks. Although three banks (namely, ECO Bank, First Bank and Mainstreet Bank) have opened branches in Aliero, onions traders have not benefited from the loans and advances such banks offer to the public. Their reason for not benefiting from such loans has always been that the charging of interests has been their main barrier. Yet on some occasions, especially during high onion prices, the groups have experienced great need for outside funding. One of the groups reported having taken a loan of half a million naira (equivalent to US\$3,144) from another group on profit sharing basis. Another group also took a loan from an individual on interest-free basis, but paid back more than the principal. The group marketers also buy onions on credit from farmers, the payment period is usually a minimum of three days.

3.2. *Shari'ah Compatibility of the Financial Practices of 'Group' Onion Marketers*

There are many *shari'ah* conditions for a valid financial contract². However, in this paper only the condition that applies to the findings in the preceding section will be examined.

One of the *shari'ah* conditions for any object of business is that the thing must be a lawful commodity or service. Any commodity or service that it not lawful, Muslims are not allowed

² See Siddiqi, (1985); Usmani, 1999; Ayub, 2007.

to deal in it. Thus activities and commodities such as pornography, arms or ammunitions, cinema, tobacco, gambling, liquor and interest (*riba*) are porbidding to muslims (Bahrain Monetary Agency, 2002; Ayub, 2007). However, dealing in onions is lawful and therefore permissible.

The *shari'ah* conditions for membership of a partnership is that the members should be free and of sound mind. Minors and the insane are incompetent to become partners. However, a minor can join a partnership with permission of his guardian (Ayub, 2007). The group members interviewed was adults and appear to be sane and competent. Their membership of a partnership is valid and acceptable to the *shari'ah*. A non-Muslim can also participate in partnership with Muslims (Ayub, 2007).

The research finds that the group members contribute capital for the business. They participate in running the business and share the profit and loss of the business. This arrangement is in conformity with *shari'ah* and is called *shirkah* or *musharakah*. *Shirkah* is an Islamic mode of finance whereby two or more persons participate in a certain business with defined amounts of capital according to a contract for jointly carrying out business and for sharing profit and loss in specified proportion (Siddiqi, 1985). The profit may be shared according to the agreement of the partners. But the losses are shared strictly according to proportion of the capital contributed. *Shari'ah* also allows a partner to be passive i.e. he does not have to participate in managing the business. However, he may not share the profit equally with the active partners. The partners can also buy and sell on credit on behalf of the partnership (Ayub, 2007).

The on-going nature of the business of group onion marketers is also compatible with *shari'ah*. This is because the partners are free to determine the time-frame for their business (Ayub, 2007). The freedom to determine the time-frame for the partnership is also supported by a famous *hadith* which says “all the conditions agreed upon by the Muslims are upheld, except a condition which allows what is prohibited or prohibits what is lawful” (Usmani, 1999: 45).

This study also finds that partners do spend on feeding and transport when on business trip. This is also allowed by the *shari'ah*. However, if a partner purchases something for himself only, it is exclusively for him not for the joint business (Ayub, 2007). The expenditure will be recorded against the share of the partner.

As reported in the preceding section, it is indicated that one group borrowed money from another group on profit sharing basis. This is also in conformity with *shari'ah*. This kind of financing is called *mudarabah*. It is an Islamic financing mode whereby one party provides capital and the other party utilizes it for business purposes under the agreement that profit from the business will be shared according to a specified proportion (Siddiqi, 1985). However, where losses are incurred, the capital owner bears them. It was also found that a group borrowed money from an individual on interest-free basis and paid back with a share of the profit voluntarily. In Islam loan also called *qard hasana* cannot attract any return.

What you give is what you will receive back. However, when a borrower pays back more than the principal he borrowed voluntarily without any condition to that effect from the lender, it is permissible. This is supported by a hadith, which reports:

Abu Huraira (Allah be please with him) reported: Allah's Messenger (May peace be upon him) took a camel on loan, and then returned him (the lender) the camel of a more mature age and said: Good among you are those who are good in clearing off the debt. (Sahih Muslim Rendered into English by Abdul Hamid Siddiqi, vol. iii pp 843).

However, this should not be made customary, because that will make it an interest (*riba*) transaction (Ayub, 2007). The group's buy and sale onions on credit. This is also permissible. Sale on credit is called *bai mu'ajjal* or deferred sales in Islamic financial language. In *bai mu'ajjal* the deferred price may be different from the spot price. However, in the onions business it is the spot price that is paid by the buyers.

6. Conclusion

This paper explores the financial practices of the Muslim informal sector operators in Aliero onion market. It also evaluates these practices from *shari'ah* perspective. It finds that most of the financial practices are compatible with the *shari'ah*. However, apart from the prohibition of interest (*riba*), the onion marketers are ignorant of Islamic financing principles. They called themselves 'Groups', indicating ignorance of its *shari'ah* equivalent. These groups are called *shirkah* partnership in Islamic financial language. The groups as indicated earlier operate current and savings accounts, although they do not borrow from commercial banks, because of prohibition of interest. The findings in this paper are more revealing than studying the attitudes and perceptions of people on Islamic finance.

All these made the 'group' onion marketers natural clients and customers of Islamic banks. Therefore, there is the need to promote researches of this nature by promoters of Islamic banking in Nigeria and elsewhere in order to identify and target these kinds of operators as their potential clients/customers.

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