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Research paper

Significance of Murabahah Finance towards the Imrovement of Agricultural Productivity in Kano State, Nigeria

Ahmad Bashir Aziz[1]* and Ahmed Ibrahim Mohammed[2]

[1,2] Islamic Business School, University Utara Malaysia, 06010 UUM Sintok. Kedah Darul Aman, Malaysia
**Corresponding author E-mail: ahmad.ibrahimmuhammad@yahoo.com*

Abstract

Murabahah finance (mark-up) is an Islamic financial product which engages in sales of a commodity in cash or in credit with a full knowledge and agreement on the cost of a commodity and profit margin by both the buyer and the seller. It explores the Shariah legal justification and it is viable in advancing agricultural output of the most populous state of Nigeria. Equally, the study momentarily revealed the background of Kano state. The state is occupied by agricultural output and agro-allied industrial products that serve as a channel of earning income to the farmers and government prior to the discovery and exploration of oil. The study is intents to poster the significance Murabahah finance towards the improvement of this type of Islamic financial product in order to contribute to the agricultural output of Kano state. This paper aims to put into the development of the 44 Kano state micro finance banks, which are the infant financial institution owned by the state government. It is hoped that the outcome of this research will improve the socioeconomic standard of rural farmers, enhance food supply, agribusiness, and agro allied industries of the state. It is also hoped that the application of Murabahah will attract both local and foreign investors which will lead to the economic growth of Kano state and Nigeria in general. This study employed qualitative research methodology, whereby the data will be extracted from the books, magazines, scholarly articles, and other relevant websites material.

Keywords*: Murabahah finance; Micro finance banks; agricultural output; Kano state; Nigeria.*

1. Introduction

The Islamic banking products is operating according to Shariah principles of economic profit and lost sharing (PLS) and mark up which prohibits interest rate, exploitations, gambling, and speculations in order to promote economic growth and development (1). Consequently, *Musharakah and Mudarabah (*profit loss-sharing (PLS)) and bai' al *Murabahah lil amir bil shira* (mark-up) are the two major principles of Islamic ecomomics, banking and finance. *Mushaarakah* is a kind of partnership contract between two or more parties to finance a kind of business joint venture in which both parties provides its share as a capital in the form of cash or in kind. With the aim of sharing the incurred profit of the business at an agreed ratio, as well as losses will also be shared according to the ratio of capital shared. Currently, the *musharakah* principle is applied in financing investment (2). While, *Mudarabah* is also a Shariah financial contract between two parties over a particular joint venture (business). Among the partners includes: *rabbul mal* (investor) capital provider, and the *mudarib* as the manager of the joint venture (entrepreneur). Any profits incurred from the business will be shared as initially agreed by the partners while in case of losses, investors will solely bear it at all (3, 4).

In their earlier stages of operation, PLS arrangements were enthusiastic by some Islamic banks. However, *Murabahah* (mark-up) principle emerged as a basis of an overwhelming the proportion over a very short period of operating Islamic banking system (1). As the name implies, Aburaida (2) described *Murabahah* finance as one of the Shariah financial transaction which Islamic bank to purchase goods and sells it to their customers at a price that includes a profit margin agreed by both parties. In this contract, the market price (true cost) of the item must be clearly stated at the time of the sale agreement and both parties should agree on the profit margin.

Additionally, mark-up (*Murabahah* finance) financing principle is more consistent with the traditions of current conventional commercial banking in terms of professionalism, bank staff orientation, language, terminology, services and technology as well as, laws and regulations, such put the *Murabahah* finance at a comparatively advantageous than PLS (1). More so, *Murabahah* finance is the most significant Islamic financial product on substituting interest rate. Similarly, as far as the use of PLS and mark-up are concerned (4).

Murabahah finance is a Shariah based transaction on financing trade and agricultural activities through spot or credit payment (3, 5). It is also an Islamic mode of transaction set to help traders and farmers with a support in relation to their socioeconomic growth in terms of purchasing and sales of input and output of production (6). In *Murababah* financing, the customer knows and agreed with the real cost of the items (farm equipment) and the profit margin during the transactions (7).

More so, *Murabahah* finance is a product which is used by the current Islamic financial institutions in financing agricultural input and output (3, 5). Furthermore, Islamic banking utilised *Murabahah* product in financing agricultural activities and enhancing trading of agricultural input and output. In addition, the mode of financing benefites to the parties involved. This indicated that, *Murabahah* finance serves as an aid to the farmers (poor farmers) in facilitating their socioeconomic standard through agricultural production.

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Agricultural production, however, is the main occpation in Nigeria, which is the most populous nation in Africa with 181,748,044 estimated populations in 2015. The country remain agrarian and commercial center among in West Africa, in terms of exportation of agricultural output (5). Furthermore, Kano state is an important agrarian state in Nigeria with over 70 percent of 15 million people are practicing agriculture and agribusiness (http://www.Kanostate.govt). The agricultural output of the state is divided into food and cash crops. The varieties of food crops include: guinea corn, maize, rice and beans, etc while, Cotton, Groundnut, hit and skin, etc. The state is located in the northern part of Nigeria and it is the second largest industrial place in Nigeria (8). It remains a commercial centre in trading with Africa and Europe in terms of: crafts, raw material and manufactured goods etc.

Consequently, the Kano State government has collaborated with the federal ministry of agriculture, Central Bank of Nigeria and private organizations to improve the State's agricultural output. Additionally, the collaborating programmes and schemes between Kano State, the federal government and other partners were set to improve the output through the provision of capital in terms of farm input to increase the productivity of the output. However, despite the socioeconomic advantage of agricultural activities in the state, yet, the agricultural output is decreasing due to the inadequate agricultural financing that resulted in problems of farm infrastructure that characterised with the issues of poor transportation network, inadequate storage facilities, inadequate farm technology, communication and equipments etc, (Kano State Budget (KSB), 2016).

After the introduction also, the paper covers problem statement, research question, research objectives and research methodology. Additionally, in order to aid the understanding of the study, definition of *Murabahah* finance, its permissibility and condition of the financing are communicated and the application of *Murabahah* finance in Kano agricultural production.

1.2. Problem Statement

Kano state of Nigeria is blessed with a total land mass that reached 2, 040, 00 hectares where 1,754,200 hectares remained an arable land while forestland covered 75,072 hectares. Also, the inland waters constitute 982, 600 hectares (8). The state government is collaborating with both public and private organizations to boost agricultural output through provision farm infrastructure such as: fertilizer, seed, tractors, planters and animals etc.

The studies of Nijbroek and Andelman (9) reported that the acquisition of the productive farmland with over USD 4 15 to 20 million hectares in Africa which directly affected Kano State, Nigeria. As such capital invention increased the hardening of the agricultural productivity to the extent that small scale farmers neglected their productive farmland which necessitates them to become unemployed and living below poverty line in the state (10). Despite the proportional increase in the population level of Kano State from 9,383,682 in 2006 to 11,058,300 in 2011 and over 15 million in 2016. KSB (2016) revealed that inadequate gagricultural productivity lead to insufficient farmland and poor modern farm infrastructure to meet the population demand and economic growth (http://www.kanostate.net; Adetiloye, (11)).

Consequently, Kano state government has initiated 44 micro finance banks in order to provide solves the state agricultural financing. Thus, this paper hopes to share its contributions to the Kano state micro finance banks mostly one in the rural area. Furthermore, *Murabahah* finance is an Islamic financial product used by the modern Islamic Financial Institutions to support both agriculture and trading (12). In line to this, the study is suggesting *Murabahah* finance to serve as a substitute to the current agricultural financing of the state. Since, it has the potentials of controlling the existing state problems of agricultural finance. The current inadequate agricultural financing of the state is attributed to the problem of insufficient farm input which including: insufficient modern farm machineries and equipment among others. However, the current study is hoped to see that agriculture has benefited from the newly established micro finance banks through *Murabahah* mode of Islamic finance.

1.3. Research Question(s)

Based on the foregoing problem statement, the broad research question to which the study attempts to provide an answer in order to understand the significant of *Murabahah* finance toward the improvement of Kano state agricultural productivity.

1- What is *Murabahah* finance?
2- To what extent of Shariah legitimacy on *Murabahah* finance in agricultural sector of Kano state?
3- How can *Murabahah* finance be applicable in agricultural sector of Kano state?

1.4. Research Objectives

The paper is primarily aimed at examining the significant of *Murabahah* finance on agricultural productivity in Kano State, Nigeria with a view to reduce the observed gaps between agricultural input and output. To attain the aim of the research, the following precise objectives are developed. The objectives are designed to handle the research questions mentioned. Hence, the first objective takes care of the first question, the second objective leads to answering the second question, so on and so forth. Below are the objectives of this research:

1- To analyse the concept to of *Murabahah* finance.
2- To examine the extent of Shariah legitimacy of *Murabahah* finance in agricultural sector of Kano state.
3- To examine the applicability of Murabahah finance in agricultural sector of Kano state.

2. Literature Review on *Murabahah* Finance

Murabahah finance is an Islamic financial product used in the purchase of goods and sells it to the client on agreed price and profit margin (5). Also, Hassan et al. (13) refer *Murabahah* finance as a mutually stipulated margin of profit in a sale transaction, where the cost of the commodity is known or made known to the buyer. The parties negotiate the profit margin on cost and not the cost per se. If payment of the sale price is deferred, it also becomes Mu'ajjal. The due date of payment of the price must be fixed in an unambiguous manner. Other terms used for similar transactions are instalments sale, cost-plus/mark-up based sale, etc. Additionally, It is also, a kind of transaction in which an Islamic financial institution purchased a good and sell to it customer while both the financial institution and the customer knows the price and agreed with the margin profit. This means, market price (true cost) of the goods must be clearly stated during the sales and both the parties most agree with the profit margin, whether by spot or deferred payment (2). Furthermore, spot or deferred payment with the inclusion of interest rate (Riba) is absolutely against the teaching of the Shariah, but that doesn't indicate capital is costless. This means legal trading is permissible under Shariah and also supported a legal profit and transaction (3). Shariah financial products used by the modern Islamic financial institutions offer their services without interest rate (14). More so, Islamic banking is using *Murabahah* finance on request by the customer, in which the bank purchases a commodity from a third party and resells the item to the customer either at a spot or deferred payment with the absence of interest rate (12). In addition, it is empirically revealed that *Murabahah* financing is the most popular credit sales or deferred sale in relations to empowering both farmers and traders in accordance to the Qur'anic legitimacy (1, 3, 15-18).

More so, (8, 13) stated that, *Murabahah* financing has two different modes of payment: either paying the total amount at the time of the sale in cash or paying on credit. Additionally, clients can

pay on credit, also known as bay' al-muajjil in Arabic, in two ways: payment of the lump sum at some point in the future or payments in instalments. Also, the term *Murabahah* in modern times, is not used to indicate just this price determination method, but rather to indicate a financing instrument that uses this price determination method as well as a purchase on credit through bay' almuajjil. Similarly, *Murabahah* has evolved to mean both a sale whose price is determined on a cost-plus basis and that is financed on credit, or bay' al-muajjil. Moreover, in modern times, the trader's role as financier has been taken over by banks(3, 19).

2.1. Qur'an Prohibition on Riba and Peromoted Trade

Ayub(3) found that, the initial legitimacy of the *Murabahah* finance is based from *Al-Qur'an, Surah al-Bakara (2):275-280* where Allah forbids interest but allows trade:

"Those who eat riba will not stand (on the Day of Resurrection) except like the standing of a person struck by Satan leading him to insanity. That is because they say: "Trading is only like riba." Whereas God has permitted trading and forbidden riba"

276:"Allah will destroy Riba (usury) and will give increase for sadaqat (deeds of charity, alms) and Allah likes not the disbelievers, sinners".

277:"Truly those who believes, and do deeds of righteousness, and perform As-Salat (Iqamat-as Salat), and give Zakat, they will have a reward with their Lord. On them shall be no fear, nor shall they grieve".

278:"O you who conceive! Be afraid of Allah and throw up what remains (due to you) from Riba (Usury) (from now onward), if you are (in truth) believers".

279:"And if you do not it, then need a notice of war from Allah and His messenger, simply if you atone, you shall receive your capital sums. Deal not unjustly (by asking more than your capital sums), and you shall not be dealt with unjustly (by receiving less than your capital sums)".

280:"And if the debtor is in a hard time (has no money), then give him time till it is comfortable for him to give back; but if you postpone it by means of charity that is safer for you, if you did but know....".

Specifically, *Murabahah* finance provides free interest financial transactions in relation to trading of farm input and output (20, 21). Similarly, Hanif (2014) pointed out that, *Murabahah* finance provides free interest trading of farm working capital whereby financial institutions can purchase a given farm input on behalf of the farmer and resell the input to the farmer on agreed price and margin profit, while, the payment will be on the spot or in the future. Likewise, the study of Hendriks and Lyne (22) revealed that *Murabahah* mode of finance was set to help farmers and agribusiness to purchase agricultural input and marketing the output.

2.2. Significance of *Murabahah* Finance on Agricultural Productivity

Murabahah financing was approved by the Prophet as part of Shariah oriented public policy (23). The most underlying cause of initiating *Murabahah* financing was to aid the small scale farmers (poor farmers) and traders who lack money to sustain crops and their trading(13). It is a business of crop growing, animal and poultry base on the Shariah guide (1). More so, Khaldun and Rosenthal, (24) defines agriculture as: "Cultivation and growth of plant through irrigation, proper treatment, improvement of the soil (observance of) the suitable season and care for them by applying these things in a way that will benefit them and help them grow".

Saddiqi (12) and Ayub (3) revealed that the modern Islamic financial institutions used *Murabahah* finance on boosting agricultural production. Since, agriculture remain a productive entity that supported and provided opportunities for the population either directly or indirectly to acquire food security, income and etc employment. *Murabahah* finance *is* a Shariah product used by the modern Islamic banking system to finance trade and agricultural activities (3, 14). It is a kind of Islamic financial product used to enhance agricultural input through an agreed and open transaction (25). A. I. Mohammed et al., (5) studied the influence of *Murabahah* finance on relationship between farm credit and agricultural output in Kano State Nigeria. The study made a recommendation that Kano state ministry of agriculture and finance, financial institutions as well as farmer's cooperatives should use the model of *Murabahah* finance as source of solving problems of agricultural finance and services. Similarly the study of Obaidullah (15) revealed that, *Murabahah* finance is the most acceptable Islamic financial product in the field funding agriculture, commerce and their related activities. This is in line with the study of Saddiqi (12) and Khaleequzzaman and Shirazi (6) that Islamic financial institutions utilised *Murabahah* product in financing trade and agricultural activities in terms purchase and resale of input (farm equipments) and output (crops) of production to their customers.

Al Baraka Turkish Finance House and other special finance houses in Turkey use *Murabahah*-based finance in operating short-term financing programme for the purchase of equipment, machinery, raw materials, semi-finished goods, buildings and land from another party in cash basis or at and credit basis to the applicants. This is in line with the Turkish law which permits the sale contracts and the simultaneous completion of purchase (26). Similarly, IRTI (2012) reported that, Trade Finance Corporation (ITFC) used *Murabahah* structure toward financing agriculture and supply chain transactions that cost the sum of US$40 million for the exports of wheat in Kazakhstan. The *Murabahah* financing enabled the Investor to purchase wheat from the local farmers and traders for exports (IRTI, Vol.1, no.2 Rabi' al Thani 1433h, Febiuary, 2012).

More so, Mastoor (27) established a positive relationship between *Murabahah* in financing paddy land cultivation in Afghanistan. Data were received through primary research in Maiwand Bank and secondary information from different sources. Also, the study recommended that the Sudan government should provide farm credit and storage facilities as well as the reform of financial institutions and services to suit agricultural productivities. Similarly, Mohammed and Hussien (3) investigated the financial stand of wheat growers of commercial finance in the Gezira region of Sudan republic. Data were collected from 60 farmers at randomly selected 2003/2004 in season. The result indicated a positive relationship between *Murabahah* finance and production of wheat. Therefore, Murabahah finance remains a product used by the modern Islamic banking and financial system mostly in serving trade and agriculture (28). Since, it has been used for over 1400 years in Medina (29).

Similarly the study of A. I. Mohammed et al. (5) reported the significance of *Murabahah* finance on agricultural productivity in the area farm credit, farm land, farm infrastructure and agricultural output. This is in line with the study of A. I. Mohammed et al. (5) that *Murabahah* is expected to moderate the relationship between farm credit and agricultural output. Likewise, the study of A. I. Mohammed et al. (5) established relationship between farm infrastructure and agricultural output and made a recommendation that *Murabaha*h finance should be included as a moderator to straighten the relationship the study variables. Based on these, introducing *Murabahah* finance in Kano state micro finance sbanks will boost agricultural output, trading and investment etc. It will equally, serve as an alternative financial product to the state farmers and Nigeria in general.

2.3. Agricultural Productivity

Agricultural productivity is a business management of food supply, animal rearing, fisheries, poultry and forest reservations for sustainable living. It can be seen as an act of soil cultivation for the growing of plant and animal management for the purpose of poverty reduction and economic growth (30, 31). According to Mohammed et al. (5) define agriculture as a science of crop yield,

timber management, caring of animals; fishery management, processing and marketing for income earning, employment, food security as well as economic growth and development. It is equally, be described as a machinery of achieving economic growth through utilizations of soil for the supplying of food to the man, feed to the animals and reservation of forest (32-34).

2.4. Importance of Agriculture to the Kano State and Nigerian Economy

Agricultural output provides revenue for the government through exportation as well as tax charges for importations of agricultural inputs. S. Mohammed et al. (8) postulated that agriculture is the highest ratio of the labour force in Kano state, Nigeria. This shows that agriculture serves as a way and manner of providing employment opportunities to the youth and able bodies from the entire populations which is resorted to the improvement in social welfare of the community and reduction of poverty level. Seibel (35) and Dandago (23) found that agricultural output remains the strong channel of alleviating poverty and accelerating economic growth through suppuly of food, revenue to government, income to the farmers as well as source of providing social amenities in the state. In indicated that agricultural growth is the way and manner of achieving Sustainable Development Gold (SDGs). Statistics have shown that agricultural output needed to be expanded by 70 percent before the year 2050 in order to provide food security to the world population and economic growth (11, 36).

2.5. The Challenges of Agricultural Productivity in the Economic Growth of Kano State, Nigeria.

Agricultural production remains a key supplier of food and income to the individual, organizations and governments. In Kano state rural farmers concentrated on getting their food and socioeconomic sustainability from the agricultural productivity. Despite the importance of agriculture to the economic growth of Kano state and Nigeria in general, there are some serious challenges in the sector as follows:

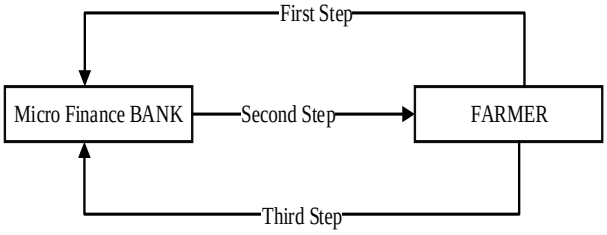
The agricultural sector is suffering from the problems of financial institutions in terms of higher interest rate which resulted to the poor credit processing and disbursement, bribery and corruption. The problems including: poor government policy on agricultural loan, management and poor involvement of the real farmers in the credit programme (37). Despite the importance of research and extension services in enhancing agricultural output in the state, their services are miserable and lacking the required facilities for proper operation (Anthony, 2010). The challenges of financing and attention on research and extension services have resulted to poor harvesting of agricultural output as well as loss of potentialities in agriculture and agribusiness investment (38). Similarly, Inadequate infrastructure is coursing a lot of challenges to the growth of agriculture, the problems mostly comes from the area of insufficient quality roads; hospital, schools, electricity and storage facilities among others. For example, failure of transportation and communications constraints the movement and marketing of the agricultural output from surplus to the deficit areas or market (38). More so, majority of farmers remains in problems of higher rate of illiteracy and lack of education. These lead to a chronic constraints and a problem for the agricultural output. This means the two negative elements work as retarding factors for agricultural output.

3. Methodology

This paper used qualitative method of study as the material relayed on journals, Text books, magazines and other liberary with both soft and hard copy materials. The paper use liberary materials in order to explore the relavant information on the significance of *Murabahah* finance on agricultural production. This is more suitable to the application of *Murabahah* finance on agriculture, agrobusinees and agro- alliend industrie in Kano Kano State, Nigeria.

3.1. Application of *Murabahah* Finance in the Agricultural Sector of Kano Nigeria

Murabahah finance in relation to agriculture is operating between three parties: trader, micro finance bank and farmer. This indicated that the trader, Micro finance and farmer will be benefited from the transaction. That is to say buyer (Micro finance bank) will purchase from a trader and add a mark up profit, which is agreed by both the bank and farmers. Likewise, farmers will benefit from getting farm infrastructure such as; planter, storage facilities, seeds and fertilizer, etc. Additionally, *Murabahah* finance is characterized by: employment opportunities; poverty eradication, market enhancement, support of education and training etc (3). This is in line with Ibn Khaldun that, "the fruit of this craft (agriculture) is the obtainment of foodstuffs and grains" (24). The following steps demonstrates the application of *Murabahah* finance in Kano state agricultural sector through the state own micro finance.



As indicate in the above figure, the first step demonstrated that farmer is seeking for *Murabahah* finance from Micro finance bank. Second step shown that Micro finance bank and farmer enter *Murabahah* contract through the purchase and resale of farm input based on the principle of *Murabahah* financing. Thirdly, farmer repays Micro finance bank with an addition of marginal profit as earlier agreed by the two parties. As such, the availability of the agricultural input will lead to the growth of the output in the state. This will improve the socio-economic of the needy farmer and improve the state revenue. Figure 1 below indicated the operation of *Murabahah* finance in the Kano state agricultural sector.

4. Conclusion and Recommendations

This study is highly significant to the current situation of the Kano state agricultural sector; it is wise to introduce *Murabahah* finance to restore the sources of both the individual and government income. Since, agriculture has been the initial source of generating income, food supply, job opportunities, market, and industries and so on. The decrease of Kano state agricultural output is cursed by inadequate agricultural input which originated from the problems of poor and costly agricultural financing by the conventional financial institutions. This lead to the decline in government revenue, increase in poverty rate, unemployment, increase in rural - urban migration, food shortage, collapsed of the agro allied industries among others.

Based on that, Kano state government established 44 Micro finance banks in the state local government areas with the aims of financing agricultural input and output, trade and industries. It will be mound sound, if, the existing Micro finance banks introduce *Murabahah* finance to serve as an alternative to the ongoing conventional products in the state. It is equally hoped that, needy farmers, traders, investors and Kano state micro finance will be benefited. It is hoped that this will serve as a tool for poverty eradication, food security, employment generation, farmer and government income. Similarly, this study will add more value to the current literature in a discipline of Islamic economics, finance, banking, management, agriculture and trade. Finally, this study is

designed to apply to the Kano state agricultural sector, but it can be applied in any state of Nigeria that is aimed to boost its agricultural production with a Shariah financial product.

This research suggests that *Murabahah* finance acted as a buffer between farm land and agriculture, such as farmers with *Murabahah* finance ware engage in higher agricultural output than farmer without *Murabahah* finance. In other words, this finding suggests that farmers with the *Murabahah* finance are likely to produce higher agricultural output regardless of the cost of production. More importantly, this result showed that those farmers with *Murabahah* finance are in positions of the higher agricultural output.

Equally, farmers with *Murabahah* finance were more able to produce higher agricultural output (2), because such farmers with *Murabahah* finance produce, harvest, store, process and marketing positively than those without *Murabahah* finance. Along similar lines, farmers with *Murabahah* finance may have been more able to utilize their scarce resource (3, 12). Hence, their regards of agricultural production function, make them more active to adopt the new technical knowhow of production, thereby motivating them to engage in agricultural productivity.

Therefore, previous findings reviewed indicated that *Murabahah* finance is an important Shariah financing system that is significant in relation to the agricultural productivity. Similarly, *Murabahah* finance was found significantly related to the agribusiness, agro allied as well as commerce and industry. As such, *Murabahah* finance was significantly relavant to the micro financial institutions so socioeconomic support and improvement as it cant be applicable to the major economic sector of a given country. Therefore, further research is necessary to verify whether other Shariah moderating variables may be significant towards improving agricultural productivity. Specifically, further research is encouraged to examine whether another Shariah mode of financing might influence farm input and output in Kano state agricultural sector.

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