Impact of Islamic Banking on Socio-economic development among Muslim Community: A Study at Jaiz Bank in Sokoto Nigeria.

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ABSTRACT

This paper will examined the Impact of Islamic banking on socio-economic development among the Muslim community. The research has been conducted at a Jaiz bank in Sokoto Nigeria. A case study research design was employed, targeting a population of 121 confirmed staffs of the Islamic banking situated in Sokoto state, with a sample size of 93 confirmed staffs that were randomly selected. Findings of the study reveal a sharp difference in the financial activities of conventional banks and Islamic banks. Such differences include value of money, interest rate, equity contribution, level of agreement on capital finance, and return of asset (ROA). Based on the findings of this paper, it was recommended that Government of Sokoto state should establish an interest free bank based on Islamic ethics and values. Muslim customers should shun Riba (Usury). This can be achieved by investing in Islamic banks for the betterment of the state and also for the betterment of their personal lives in this world and the hereafter.

Introduction

Islamic banking refers to a system of banking or banking activities that is consistent with Islamic law (shariah) principles and guides by Islamic economics. (Mobolaji, A.2011). In particular, Islamic law prohibits 'usury' (collection and payment of interest on deposits) also called 'Riba' in Islamic discourse. The recent global economic and financial crisis hasexposed the deficiencies in the conventional banking systems due the problem created by interest rate behaviors, hence the need to work towards the development of Islamic bankingin Nigeria as a viable alternative to save the citizens from abject poverty (Tunji, 2013).In support of this notion, Muritala (2012) was of the opinion that Islamic banking is averitable tool for eradication of poverty in Nigeria. He further explained that interest freebanking would pave way for small scale business men to get loan, which would enhancestability and progress of their businesses.

Usury (Riba) has a long historical life, most of which has been understood to be the practice of charging financial interest in excess of the principal amount of loan, though recently has been interpreted as interest above the legal or socially acceptable rate (Tunji, 2013). These definitions has been repeatedly condemned, prohibited mainly on moral, ethical, religious and legal grounds as the history of the concept has been traced to about four thousand years from now (Jain, 1929). In their work "A short review of the historical critique of Usury (Riba)", Visser and McIntosh (1998) revealed that the most visible and vocal critics of the concept has been the religious institutions of Hinduism, Buddhisim, Judaism, Islam and Christianity; Western philosophers and politicians as well as socio-economic reformers.

For example, the criticism of usury (Riba) in Islam was established during the life time of Prophet Mohammed (pbuh) and reinforced by his various teachings in the Hadith and the Noble Quran dating back to around 600 AD. The original word used for usury in this text was 'riba' which literally means excess or addition (Tunji, 2013). This was accepted to refer directly to interest on loans, the prohibition of which was a well-established workingprinciple integrated into the Islamic economic system during the time of Caliph Umar(Choudhury & Malik, 1992). However, it is not true that this interpretation of usury has been universally accepted or applied in the Islamic world. Indeed, a school of Islamic thought, which emerged in the 19th century, led by Sir Sayeed, still argues for an interpretative differentiation between usury andinterest (Ahmed, 1958). There seems to be evidence in modern times or what Choudhury and Malik described as "a gradual evolution of the institutions of interest-free financial enterprises across the world".

In a modern reformist thinking, Adam Smith, despite his image as the father of the free market capitalism and his general advocacy of laissez fair economics, came out strongly in support of controlling usury (Tunji, 2013). While he opposed a complete prohibition of interest, he was in favor of the imposition of an interest rate ceiling. This, he felt, would ensure that low-risk borrowers, who were likely to undertake socially beneficial investments,were not deprived of funds as a result of "greater part of the money which was to be lent (Smith, 1937). The greatest twentieth century economist, Keynes held a similar position believing that "the disquisition on usury was directed towards elucidation of a formula which should allow the schedule of the marginal efficiency to be high, whilst using rule and custom and the moral law to keep down the rate of interest" (Keynes, 1936: 351 3).

Given the above oppositions on usury (Riba), it becomes necessary to study the impact of Islamic banking on the socioeconomic development, particularly in Sokoto state. However, before diving into this, it is of significant importance to understand the contextual background of Islamic banking system in predominantly Muslim states and the evolving divergences from conventional banks.

The modern conventional banking system in Islamic countries is a product of colonizers using the support of financial institutions for mining, agriculture, and manufacturing. The initial banks were predominantly used for the funds of foreigners and as a means to increase foreign-owned industries that spread through imperial rule. While these institutions were used to finance the expansion of the public sector huge portions of the population made up of devout Muslims were left out of the banking system altogether due to voluntary self-exclusion caused predominantly by their religious beliefs (Mohielden et. Al 2011). A lack of the fulfillment of their banking needs has led to inefficient use of savings and a less powerful money multiplier, contributing to an overall liquidity problem (Johnson, 2013).

In recent years, Islamic banks such as Jaiz bank attempted to fulfill this economic need by providing products that are compliant with Shariah law. Such products are constructed around the philosophy that no person should profit from another's loss, thereby prohibiting riba (interest). The entitlement of the return from assets must lie in one bearing the risk involved in creating the return. In fact, Riba is considered to be a greater sin for Muslims than eating pork, drinking alcohol, or committing adultery (Johnson, 2013).Furthermore, Islamic banks share in the risk of Mudaraba and Musharakah (equity participation) contracts and credit default swaps are forbidden. Profit-sharing actsas an incomplete risk transfer in Islamic banks since the bank, theoretically, bears theentire burden of financial risk while the entrepreneur is solely responsible for the risk ofwasted time and effort. Therefore, if a borrower's project is unsuccessful, the bank alonetakes the loss on profit; the borrower is no longer obligated to pay back the loan. Thedegree to which these returns are kept genuinely risky varies across individual Islamicbanks; not all operate in a pure profit-sharing model and the allocation of profits to theindividual versus the bank varies depending on the riskiness of the project and the normestablished by competing local banks. However, holistically, this profit- and loss-sharingmodel increases the degree of risk for banks because Islamic banks acquire the directcredit risk normally borne by equity investors rather than holders of debt (Cihak & Hesse, 2008). Consequently, Islamic banks have an increased incentive to be incredibly selectivein their loan processes and strict in the monitoring of projects thereafter (Johnson, 2013).

Another key difference between Islamic banks and conventional banks is that Islamic institutions do not allow investment in toxic assets[1], derivatives, conventional financial institution securities, or other similar instruments that adversely affected the conventional banks during the 2007-08 financial crisis (Hasan & Dridi 2010). These investments are considered to be inappropriate gambling and generating revenue by speculating on the movement of money, also forbidden in Shariah law. As a result of these divergent practices, Islamic banks have higher capital adequacy ratios, are less leveraged, have smaller investment portfolios, and rely less on wholesale deposits (Ibid).

1. Hasan and Dridi (2010) define the term "toxic assets" as certain financial assets whose value has fallen significantly and for which there is no longer a functioning market, rendering the price unsatisfactory to the holder. This definition includes collateralized debt obligations and credit default swaps, considered to be non-Shariah compliant.

In order to prevent these practices by conventional banks, Jaiz Bank Plc came into Nigeria in the year 2003 as Jaiz International Plc. On 11 November, 2011, Jaiz International received a license from the Central bank of Nigeria to operate as a regional bank. On 6 January 2012, the institution commenced business as Jaiz Bank Plc with offices and branches in Abuja, Kaduna and Kano. As of December 2013, Jaiz Bank Plc maintains 10 networked branches across Nigeria, making it one of the fastest growing Islamic banks. Recent transformation was noted from the bank as it has established a branch in central location of Sokoto state the headquarter of north western geopolitical zone of Nigeria. Since its inception, the bank is operating based on Islamic ethics in the areas of musharakah (joint venture), mudharabah (profit sharing), murabahah (agreed profit margin) and other Islamic financial areas. However, despite its contribution in the prevention of raba, little concern was paid on the impact of this financial institution towards the socioeconomic development, particularly in Sokoto state. It is against this background that the present study seeks to investigate the impact of Islamic banking on the socioeconomic development in Sokoto state (Jaiz Bank Plc, 2017).

Problem Statement

Interest charge discourages investment, increases economic volatility, discourages funding of low return but socially relevant projects; worsen unemployment position and crime rates. It is the greatest instrument of exploitation at the international levels, it inhibits development of entrepreneurship, makes most economies naturally vulnerable to external manipulation, worsen both internal and external debt burden, The evil of interest on the national economy was also captured by the immediate past governor of Central Bank of Nigeria, Malam Sanusi Lamido Sanusi, when he stated that “Nigeria is borrowing more money today at a higher interest rate, while leaving the heavy debt burden for our children and grandchildren” (The Punch, 2012). Recently, the president Muhammad Buhari and minister of financeurged the central bank of Nigeria to reduce the interest rate in order to curb the current recession facing Nigeria, henceforth there are also a contemporary Politian, governors, senators as well as house representatives, they go out of the country seeking for loan from the international community such world bank and other country like United states, united kingdom, china, Germany and Korea in the name of moving this forward but its base on their self-selfish interest, which will lead the society to fall under economic mail down, and perhaps the incoming executive will suffer for their mass.

These arguments proclaim the fact that interest rate (riba) inhibits economic growth. Based on this,limited empirical study is still a constraint, the researchersdeems it necessary to examine the impact of Islamic banking on the socioeconomic development in Sokoto state, using Jaiz bank Plc as a leaning ground.

The specific objectives of this study are as follows:

1. To develop a comparative analysis in the financial activities between Jaiz bank and other conventional banks in Sokoto state.

2. To determine the impact of interest free banking on micro, small and medium enterprise in Sokoto state.

3. To examine the impact of interest free banking on foreign investment in Sokoto state.

Literature Review

Banking industry on socioeconomic growth

Beyond a country's legal system, banking and financial institutions have also been connected with economic growth, albeit in a multitude of potentially contradictory ways. Three possible connections between financial development and economic growth exist: 1) financial development is a determinant of economic growth, 2) financial development follows economic growth, and 3) there is bidirectional causality between finance and growth (Furqani, 2009). While it is difficult to isolate banking as an exogenous variable, attempts to do so have yielded results that show banking function as a transmitter of financial legal obligations does, in fact, have an impact on growth.

It has been argued that banks that are better at identifying creditworthy firms, leveraging savings, providing liquidity, facilitating transactions, and pooling risk accelerate economic growth (Bagehot 1873). Furthermore, according to Beck, Levine, and Loayza (2000), banks alter the allocation of savings to various firms through loans and influence growth by raising domestic savings rates and attracting foreign capital. Beck et al. (2013) test the differences in the level of banking sector development as a component of the relatively ambiguous "total factor productivity" and find a significantly positive impact of financial development on real per capita growth and productivity per capita growth. One conclusion they draw from their analysis is that financial development stimulates economic growth.

There is also empirical evidence that the role of banking during the process of economic development evolves over time. Financial systems become more market-based as they deepen, with the growth of securities markets superseding that of the banking system. Demirguc-Kunt, Feyen, and Levine (2012) find that the association between economic activity and bank development decreases with economic development, while the association between economic activity and securities markets increases during growth. Specifically, their statistical analysis reveals that as log real GDP per capita increases, private credit rises as well, but the strength of their causal relationship declines. Therefore, while the level of bank development is still increasing, its effect on economic development decreases in terms of marginal returns, meaning it is a non-linear relationship. The empirical results show that the slope becomes negative after real GDP per capita reaches $1,032 in 2000 (Demirguc-Kunt et. al., 2012).

However, many economists question this causal assertion (Demirguc-Kunt, Feyen,and Levine 2012). While financial development may contribute to economic growth, it is an endogenous variable, increased by economic growth itself. Therefore, it is difficult to determine the flow of causality. Demirguc-Kunt et al (2012) argue that, while their model cannot specify a particular mechanism of causality, their results can refute stories of reverse causality.

Application of Islamic banking to socioeconomic growth

As noted above, the literature indicates that strong, adaptable legal origins and financial development contribute to economic growth. Islamic banking is based on an ancient legal structure and is quickly developing as a viable form for financial institutions. Therefore, using the findings of the literature regarding legal origins and financial institutions and applying it to the limited empirical analyses of Islamic banking, tentative hypotheses may be formed regarding the role of Islamic banking in economic growth.

Many economists, starting with Bagehot (1873), argue that banks that excel at identifying creditworthy firms and pooling risk accelerate economic growth. The risk-sharing model of Islamic banking in which risk cannot be transferred through financial markets may be more effective than the borrower-risk model dominating conventional banking. Since Islamic banks bear more of the burden of risk, theoretically I argue they should exercise more deliberation and prudence in their decisions to lend to firms; this effect could potentially lead to a more economically optimal distribution of liquidity. However, there is a lack of empirical evidence to support this claim. Although Islamic banks may not solve the problem of imperfect information between lenders and borrowers, their lending system incentivizes financing more successful projects. Stiglitz and Weiss (1981) assert that conventional banks must ration credit as a result of the imperfect information in the lender-borrower relationship. Banks may attempt to transmit the potential risk of misinformation to borrowers through a higher interest rate, but doing so results in an adverse selection effect; only borrowers pursuing riskier projects will take on higher interest because they have a low probability of actually paying it back (Stiglitz and Weiss 1981). Islamic banking rids borrowers of most financial risk, transferring risk to the lending institution. While this does not necessarily result in a better mechanism for information accrual, we argue this system theoretically incentivizes banks to exercise more prudence in their lending decisions.

Since Islamic banking links financial intermediaries' returns directly to the actual revenue of the borrower, Siddiqi (1999) argues that funds are allocated towards projects that are more innovative and expected to produce better results. Siddiqi asserts that the risk-sharing aspect of Islamic finance incentivizes banks and private lenders to be more prudent with their funds and, consequently, allocate liquidity more optimally than conventional banks. Since lenders would have a personal stake in the success of the project, any risk they undertook would reflect a true belief in the success of the borrowers' endeavors, unlike conventional lending in which risk can be bought and sold for profit primarily through credit default swaps. Siddiqi's argument is questionable, however, since Islamic banks may also exercise more caution in their investments, stimulating less innovation than conventional banks due to the increased burden of risk. Furthermore, entrepreneurs have less incentive to work hard to achieve success since they are bearing such a limited financial risk. It is unclear which of these hypotheses dominates empirically.

Absent of interest, some authors (see for example Siddiqi 1999, Hasan and Dridi 2010) argue that this characteristic of Islamic banking should increase stability, thereby stimulating growth. Shariah-compliant products align entrepreneurs' payment obligations with revenue accrual, leading to a reduction of instability in financial markets. Islamic law prohibits the exchange of money for money or money for debt, which frequently degenerates into games of chance, creating instability through speculation (Siddiqi 1999). Siddiqi (1999) reasons that exchange rate fluctuations—indicative of volatile financial markets—are harmful to the growth of developing countries and, accordingly, the prohibition of interest can play an integral role in solving contemporary financial problems. Hasan and Dridi (2010) assert that stability became an apparent characteristic of Islamic banking during the recession, as Islamic banks experienced far less of an adverse economic impact than their conventional bank counterparts. However, it is important to note that they have also been less profitable in the recovery.

While very little empirical evidence exists based on examinations of the Islamic financial system, studies that have been conducted diverge in their findings regarding the stability and superiority of Islamic banking over conventional banking (Furqani et. al 2009). Using Islamic country data, Beck, Demirguc-Kunt, and Merrouche (2010) find that Islamic banks are more efficient than conventional banks and have higher capitalization ratios. However, they are not more stable, as previously hypothesized, and they have similar business models and asset quality. They justify their findings with anecdotal evidence that reveals significant differences across countries in Sharia-compliant banks. While some banks actually implement Sharia law, others merely re-label conventional banking products as Islamic products. Although business orientation is fairly similar, Islamic banks have much lower operating costs and cost-income ratios than conventional banks (a 6.4 percentage point difference). It remains unclear as to why this would be true, and the literature diverges on comparative conclusions. For example, based on z-score analysis, Cihak and Hesse (2008), find that large Islamic banks are less stable than large commercial banks, but small Islamic banks are more stable than small commercial banks. The authors assert that their findings are largely driven by the difference in the ratio of loans to assets and the cost-income ratio. The financial crisis that began in 2007 generated much attention regarding the potential superior stability of Islamic banks during the economic downturn. Hasan and Dridi (2010) show that although Islamic banks experienced more profitability than conventional banks from 2005-2007, as the crisis moved from the financial economy to the real economy, Islamic banks' profitability decreased. Islamic banks experienced higher returns on assets and equity before 2008 but became less profitable than conventional banks post-2008.

Islamic banks may also stimulate growth simply through their existence. Countries with large Muslim populations that refuse to deposit their money in conventional banks would suffer from a low savings rate, limiting funds available for investment. Empirical studies show that the ratio of Muslims using financial services is much lower than their non-Muslim counterparts, although it is difficult to test the extent to which this impairs investment. However, the egalitarian objectives of Islam may remain largely unrealized because of lack of access to financial services for the poor in predominantly Muslim countries (Mohieldin et.

al 2011). Consequently, an increase in participation in the banking system would increase the savings rate and access to liquidity, known factors of development. This effect may occur irrelevant of the bank's actual practices. Bahar (1999 pg. 1) states:

"The Islamic finance and investment industry can be a valuable ingredient in the development of more efficient and capable capital markets in the Muslim world and can hence contribute toward creating a more efficient world economy. Islamic banking can provide a financial intermediation system that allows the global community to access the savings of Muslims worldwide and vice versa."

The very presence of Islamic banks may increase liquidity on a worldwide scale. However, this assertion is based on the assumption that there are many Muslims who choose not to keep their money in a bank due to religious practices, of which there is neither conformational nor contradictory empirical evidence. Conversely, some researchers have found evidence that Islamic banking does not stimulate output and growth. Choudhury (1999) conducts an empirical analysis of the effect of Islamic banking on development and social well-being. He finds that for a sample of Islamic banks (mainly based in Turkey, Dubai, Egypt, and Sudan), product and risk diversification remained low, inhibiting resources and dampening output. Consequently, he concludes that the development effect of Islamic capital markets and Islamic economic thought is ineffective. Choudhury attributes the absence of an empirical paradigmatic shift towards Islamic banking to the lack of strict Shariah-compliant institutions. A true implementation of Shariah law requires much more inter-sectoral and inter-institutional linkages than the data imply exist. Consequently, these empirical findings may reflect the impact of Islamic institutions as a theoretical presence, rather than the actual implementation of strict, Sharia law-complaint financial products.

While Islamic banks' current contribution to growth is unclear, the literature argues that there is a large potential for Sharia financial products to play a role in growth in the future. Al

Rajhi (1999) argues that there are many opportunities for Islamic banks to finance development projects in both the private and public sector in cooperation with global economic organizations such as the World Bank, IMF, IFC, and the Islamic Development Bank. Furthermore, Obaidullah (1999) asserts that the success of infrastructure programs depends largely on an optimal sharing of risks and rewards, a characteristic inherent to Islamic banking that could be leveraged.

Justification of existing gaps

While the above reviewed studies (e.g Cihak & Hesse, 2008; Johnson, 2013; Tunji, 2013) captured relevant concept on the impact of Islamic banking on economic growth, these studies were more general, therefore paid more attention on global economic growth. Given the contribution and popularity of Jaiz bank, it becomes imperative to investigate its impact on socioeconomic growth of Muslim community in Sokoto state. It also becomes necessary to dwell into a comparative analysis between the bank as a representative of Islamic bank in Sokoto state and other conventional banks.

Research Design and Methodology

The sampling frame consists of confirmed staff of Jaiz Bank Plc situated in Sokoto, Nigeria. Population (of 121 confirmed staff), and Purposive samplingtechniquewas employed. Thus, 93 of them had been selected. Self-designed questionnaire was used as instrument in this research. Collectedquantitative dataset was analysed usingdescriptive statistics (mean and standard deviation) and qualitative dataset were analyzed using content analysis.

Findings

Table 1.1 below is about the demographic profile of the research respondents.

Table 1.1: Gender distribution of the participants

Gender	Frequency	Percent
Male	57	61.3
Female	36	38.7
Total	93	100

Source: Field data (2017)

Table 1.1 shows the gender distribution of the participants. The result from the table reveals that 57(61.3%) of the participants were male while 36(38.7%) were female. This indicates that data were collected from different participants who could give different response, thereby contributing to the validity and reliability of the study findings.

Table 2.2: Number of years spent in the bank

	Frequency	Percent
1-5 years	43	46.2
6-10 years	50	53.8
Total	93	100

Source: Field data (2017)

Result presented in table 2.2 shows the working experience of the participants. From the table, it can be observed that 43(46.2%) had a working experience between 1 to 5 years while 50(53.8%) had a working experience between 6 to 10 years. This indicates data were collected from respondents who had enough experience to give genuine response.

Based on the report, the researchers came up with the comparative analysis below:

Table 3.3: Comparative analysis between Islamic and Conventional Banks

Conventional banks	Islamic banks (Jaiz bank Plc)
Money is a commodity besides medium of exchange and store of value. Therefore, it can be sold at a price higher than its face value and it can also be rented out.	Money is not a commodity though it is used as a medium of exchange and store of value. Therefore, it cannot be sold at a price higher than its face value or rented out.
Time value is the basis for charging interest on capital.	Profit on trade of goods or charging on providing service is the basis for earning profit.
Interest is charged even when the organization suffers losses by using bank's fund.	Islamic bank operates on the basis of profit and loss sharing. In case the businessman suffered losses, the bank will share these losses based on the mode of finance used (e.g. Mudarabah or Musharakah).
While disbursing cash finance, running finance or working capital finance, no agreement for exchange of goods and services is made.	The execution of agreements for the exchange of goods and services is a must, while disbursing funds under Murabaha, Salam and Istisna contracts.
Money is used a commodity which might lead to inflation.	Islamic banking tends to create link with real sectors of the economic system by using trade related activities. Since the money is linked with real assets therefore it contributes directly in the economic development.
Conventional banks perform relatively better with regards to ROA.[1]	Islamic banks perform relatively low with regard to ROA.[1]

Source: Field data (2017)

1. The Return of Asset (ROA) of conventional banks in 2016 was 1.96 while that of Islamic bank (JAIZ Bank) was 1.36. See appendix II

Result presented in table 3.3 shows the impacts of interest free banking on SMEs. From the table, it can be observed that all the participants submitted their agreement to all the items above, indicating that interest free banking impacts micro, small and medium enterprise.

Table 4.4: Impact of Interest free banking on SMEs

Item		f	%
1	Interest free banking motivate micro, small and medium traders to take loan and boost their business	93	100
2	Interest free banking increases saving mobilization on micro, small and medium enterprise	56	60.2
3	Interest free banking creates less volatile business cycles on SMEs	78	83.9
4	Interest free banking promotes and enhances effective business cycles on SMEs	84	90.3
5	Interest free banking creates employment opportunities for SMEs	79	84.9

Source: Field data (2017)

Result presented in table 4.4 shows the impacts of interest free banking on SMEs. From the table, it can be observed that all the participants submitted their agreement to all the items above, indicating that interest free banking impacts micro, small and medium enterprise.

Table 5.5: Impact of Interest free banking on foreign Investment

Item		f	%
1	Interest free banking promotes foreign direct investment	67	72.0
2	Interest free banking promotes ease of doing business between countries/and or states	82	88.2
3	Interest free banking reduces business failures thereby encouraging foreign investors	78	83.9
4	Interest free banking encourages greater reliance on equity, profit and loss-sharing thereby promoting the aggregate level of investment.	85	91.4
5	Interest free banking provides a safer and more stable way to finance development and therefore impacts ownership and control of investment.	89	95.7

Source: Field data (2017)

Table 4.5 shows the impact of interest free banking on foreign investment. The result from the table indicates that the participants were of the agreement to all the items with regards to the impact of Islamic banking system on foreign investment in Sokoto state.

Discussion of findings and Conclusion

Several findings were recorded ranging from financial differences between conventional banks and Islamic banks to impacts of Islamic banks in the areas of SMEs and foreign investment. Findings of the study reveal a sharp difference in the financial activities of conventional banks and Islamic banks. Such differences include value of money, interest rate, equity contribution, level of agreement on capital finance, and return of asset (ROA). On these items, the findings revealed that Islamic banks are more favorable than the conventional banks in terms of value of money, interest rate, equity distribution, and level of agreement on capital finance. However, close interpretation of the results depicts that conventional banks perform better than Islamic banks in terms of Return of Asset (ROA). This could be due to the fact that conventional banks have more customers than Islamic banks. However, high interest rate of conventional banks (an average of 27%) and the usage of money as a commodity could lead to inflation and recession. This finding was consistent with the findings of Tlemsani and Al Suwaidi (2016) who predict that although conventional banks perform better than Islamic banks in terms of Return of Asset, high interest rate of these banks could lead to global recession.

Further findings reveal that interest free banking, which a major characteristic of Islamic banking, impacts micro, small and medium enterprise as well as direct foreign investment. These could positively impact the socioeconomic development of Muslim community in Sokoto state as well as the general economic growth of the state. This finding concurred with the findings of Tunji (2013) who found that Islamic banking positively impacts SMEs and direct foreign investment.

Based on the findings of this paper, the following conclusions were made:

1. Islamic bankinghasa better ease of doing business than the conventional banks.
2. Conventional banks perform better in terms of Return of Asset, although this could be due to the fact that conventional banks have more customers.
3. Islamic banking positively impacts SMEs as well as direct foreign investment

4. Although this study is limited to Sokoto state and Jaiz bank as a case study, findings of this study could be generalized given the similar operation of other Islamic and conventional banks.
5. On a final note, Islamic banking positively impacts socioeconomic development of Muslim society in Sokoto state, given the fact that the study was conducted in Muslim dominated area and the fact that Jaiz bank is dominated by Muslim customers.

Based on the findings of this paper, the following recommendations were made:

1. Government of Sokoto state should establish an interest free bank based on Islamic ethics and values.
2. Muslim customers should shun Usury(Riba). This can be achieved by investing in Islamic banks for the betterment of the state and also for the betterment of their personal lives in this world andin the hereafter.

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