

Need for Shariah Screening of Companies in Nigeria: Lessons from Other Jurisdictions

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Abstract : Background: The absence of Shari'ah screening methodology for companies in Nigeria has further engineered the uncertainty surrounding the acceptability of investing in certain companies by people professing the religion of Islam due to the nature of the activities carried out by these companies. There are some existing shariah screening indices in other jurisdictions whose criteria can be used to check if a company or business is shariah-compliant or not. Examples such as FTSE, DJIM, Standard and Poor to mention just a few. What these indices have tried to do is to ensure that there are benchmarks to check with before investing in companies that carry out mixed activities in their business, wherein some are halal and others may be haram. Purpose: There have been numerous studies on the need to adopt certain screening methodologies as well as call for new methods in screening companies for shariah compliance in order to suit the investments needs of Muslims in other jurisdictions. It is, however, unclear how suitable these methodologies will be to Nigeria. This paper, therefore, seeks to address this gap to consider an appropriate screening methodology to be employed in Nigeria, drawing from the experience of other jurisdictions. Methods: This study employs a triangulation of both quantitative and qualitative methods to analyze the need for Shari'ah screening of companies in Nigeria. The qualitative method is used by way of ijthad, and this study tries to apply some Islamic Principles of Maqasid al-shari'ah as well as Qawaid al-Fiqiyyah to analyze activities of companies in order to ensure that they are indeed Shari'ah compliant. In addition, using the quantitative data gathered from the interview survey, the perspective of the investors with regards to the need for Shari'ah screening of companies in Nigeria is further analyzed. Results: The result of the study shows that there is a lack of awareness from the teeming Muslim population in Nigeria on the need for Shari'ah screening of companies in Nigeria. The result further shows that there is the need to take into cognizance the peculiar nature of company activities in Nigeria before any particular Shari'ah screening methodology is adopted and setting the necessary benchmarks. Conclusion and Implications: The study concludes that there is the need to ensure that the conscious Muslims in Nigeria screen companies for Shari'ah compliance so that they can easily identify the companies to invest in. The paper, therefore, recommends that the Nigerian government need to come up with a screening methodology that will suit the peculiar nature of companies in Nigeria. The study thus has a direct implication on the Investment regulatory bodies in Nigeria such as the Securities and Exchange Commission (SEC), Central Bank of Nigeria (CBN) as well as the investor Muslims.

Keywords : Shari'ah screening, Muslims, investors, companies

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