

## Islamic Financial Culture: Alternative Economic System for Rapid and Sustainable Economic Growth in West African Countries

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**Abstract:** West African countries are wealthy countries with abundance of both human and natural resources. Some of its member countries are leading member of the OPEC countries. Surprisingly poverty in West African countries is at an alarming rate. Most of its countries are categorized as underdeveloped countries with highest rate of corruption in the world. It is characterized by very weak economies and very low growth rates. There is prevalence of abject poverty as a result of poor economic managements. They have unstable national currencies which are ever losing value and the masses of their rich country live below the poverty line according to UN classification. This study therefore attempts to unravel ways to employing Islamic financial system as an alternative economic system for rapid and sustainable economic growths in West African countries. The study highlights how Islamic money culture, Islamic financial engineering and other Islamic mechanisms such as the gold payment system, *Sukuk*, Waqf and Zakah systems can become tools in solving the poverty-ridden conditions of West African countries and their teeming populations. Empirical evidence from Malaysian *Sukuk* forward rates and inflations revealed that *Sukuk* forward profit rates have positive effects on real economic growth and have the likelihood to keep inflation at its low.

**Key words:** Islamic financial system; Gold Payment system; *Sukuk*; Waqf and Zakah

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### INTRODUCTION

Power theory posits that the structure of political power is employed to legitimize an exploitative economic system that distributes poverty among the masses (Akeredolu-Ale, E.O., 1975). Poverty could be either as a result of corruption in a situation where everybody hankers after power to acquire immense wealth at the expense of majority of the populace or as a result of luck of accident of birth (Tella, S.A., 1997). This happens in a situation where somebody is born into a society that does not value and cherish development, good governance and selfless services. Altruism, justice, equitable distribution of wealth forms the fundamental principles and foundation of Islamic Financial System. Poverty in Islamic terminology therefore encompasses material and physical deprivation, political and social exclusion and cultural, religious and educational deprivations (Uthman, 2009). According to a saying of the Prophet, nothing will prevent the poor from causing misery and hardship in the society when they are hungry except giving them their due from the wealth of the rich (Sayyid Sabiq's, 2006). Consequently, one of the major tasks embarked upon by the Prophet when he got to Madīnah was to provide socio-economic assistance to the needy Muslims. That is why, this paper aims at looking into how the Islamic Financial system and its institutions such as gold payment system, *Sukuk* (Islamic bonds), Waqf and Zakāh institutions in Islam can be employed to ensure economic development of people and alleviate poverty especially in West African countries with high Muslim populations. Using MATLAB statistical tools and data on *Sukuk* from 2004 to 2009, empirical study on the effect of forward profit rates of *Sukuk* on inflation in Malaysia revealed that *Sukuk* forward profit rates have positive effects on real economic activities in Malaysia and have the likelihood of keeping inflation at its lowest.

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## MATERIALS AND METHOD

The study employs secondary data sourced from journals papers and articles most importantly is the *Sukuk* data from Bond Pricing Malaysia- Data Steam. *Sukuk* data from 2001 to 2009 consisting of active government Islamic Investment (GII) also known as sovereign *Sukuk* were used to generate spot and forward rates. The forward profit rates of *Sukuk* is needed in a simple regression with inflation rates for Malaysia for the same period to examine the effects of *Sukuk* forward profit rates on real economic activities in Malaysia. Hence, monthly inflation data from 2005 to 2010 from Department of Statistics, Malaysia were also used. MATLAB statistical tools were employed for the study analysis.

### **Discussions:**

#### ***Zakāh and Waqf for Equitable Wealth Distribution among West African Countries:***

Today, most analysis of poverty is based on the UN absolute concept of poverty using one US dollar per day per person to determine the poor. The poor are those whose standard of living in terms of income or consumption falls below the poverty line. They are therefore unable to meet their basic socio-economic, educational and health needs that can free them from absolute poverty. According to (Obadan, M., 1997), this causes absolute poverty to become chronic and transmitted from one generation to another. Islam makes a distinction between (al-fuqarāū and al-masākīn) or the poor and the needy (Q9:60). Al-fuqarāū refers to the poor who have a source of income that is not stable or regular and does not reach the minimal taxable income. They do not possess gainful employment that can sufficiently provide for their needs for a year. Their poverty is therefore relative and they can afford not to beg and may therefore be mistakenly considered rich (Q2:273). Islam therefore defines poverty simply as the lack or deprivation of resources and means to live a comfortable and happy life. This includes lack of sufficient or stable income, food, fundamental human rights and opportunity to acquire assets and social acceptance.

The term al-masākīn however refers to the poor who have no source of income whether stable or regular and so reaching the minimal taxable income does not arise. They do not possess any form of employment whether gainful employment or not that can sufficiently provide for their needs for even a day. Their poverty is therefore abject and absolute and they can therefore not afford not to beg and may therefore be mistakenly considered to be lazy and unwilling to work (Q93:10). It is for this reason that Muslim scholars have agreed on the obligation of providing sufficiently for the needs of the poor and the needy. Imām Abu Hanīfah believes the amount of Zakāh given to the poor must bring the finance of the poor to the minimal taxable income. The Mālikī and Hanbalī hold that the provision must be sufficient to provide for their needs for a year. For Imām al-shāfi'ī, the amount of Zakāh given to the poor must be sufficient to cover their needs for the whole of their life. All these scholars are unanimous that the amount of Zakāh given to the poor must be sufficient to cover not only their basic needs but also the means to enable them to work (Al-Qaradawī, Y., 1986).

Islam allows the acquisition of wealth through all legitimate business activities and industries; it also seeks to protect the right of the poor in the society especially through the Zakāh system. Zakāh is meant to purify both the givers and the recipients (9: 103). It purifies the rich and the wealthy from greed and selfishness on the one hand and the recipients from envy, animosity and anger on the other hand. It therefore promotes mutual love, cooperation and unity in the society. According to Islamic teachings, everybody is entitled to at least the basic and essential needs of life and under no condition must anyone be allowed to suffer deprivations when there is people well off to assist. It is for this reason that those who pay Zakāh are associated with the righteous who will be compensated by Allah (2:177), while those who evade and discard its payment are associated with unbelievers who will be reprimanded (9: 34-35). Zakāh is a corollary of the message of Islam to fulfill the social responsibility of bearing witness of Allah before humanity as it is unimaginable to bear the faith of Islam and shamelessly acquire wealth while inflicting pain, injustice and indignity on others. It is so important that the first caliph, Abu Bakr, against the objection of leading companions like Umar, had to wage war against those who refused to pay it or withheld even a mere piece of rope used to tie a camel from the Zakāh they used during the time of the Prophet (Sayyid Sabiq's, 2006).

Waqf Institutions could be said to have started right at the time of the Prophet in Madīnah when two orphans dedicated their parcel of land to Allah for the building of the Prophetic Mosque or Masjīd al-Nabawī. Despite the insistence of the Prophet to pay for the parcel of Land, the orphans opted to collect their rewards from Allah in the next world. This was soon followed by the purchase of a well by Uthmān ibn Affān who later became the third Caliph which he dedicated to Allah for the use of all Muslims. There are three kinds of Waqf namely Waqf al-Dhūrī or Ahlī, Waqf Al-Khayrī and Waqf Mushtarak. The first refers to the endowment of property as trust for the security of the welfare of the dedicator's or Wāqif near relatives and

family to ensure that they get their needs from it for all their life and then reverts to the welfare of the people after their death. The second refers to the endowment of property as trust for the security of the welfare of the orphans, destitute, blind, and handicapped and other needy people to ensure that they get their needs from it for all their life and for the construction and maintenance of mosques, schools, hospitals, graveyards and other places of public welfare. The last refers to the combined endowment of property as trust for private and public good, for the security of the welfare of the relations of the Wāqif and of the people (Uthman, 2009). For Waqf institutions to be valid, the following legal conditions must be fulfilled.

- The subject of Waqf must belong to the Wāqif at the time of setting up the endowment.
- The Wāqif must have attained maturity and possess sound mind
- Wāqif of Mushā'a or undivided share in a property is not valid for the endowment of a mosque or burial ground but valid in other trusts.
- The purpose of the endowment must be permissible under the Islamic law.
- The purpose of the endowment must be shown with reasonable certainty.
- Any endowment made by a will or mard al-mawt or death illness must exceed one-third of the net assets of the Wāqif without the consent of the heirs.
- The Wāqif cannot invalidate the endowment made by a will with a clause that it is not operational if a child is born to him but can revoke his will anytime before his death.
- The Wāqif must not be under duress or defrauded to make the endowment (Doi, A.I., 1984).

Therefore, this shows that Waqf and Zakāh are predicted on social justice, morality and the right of the people to economic well-being and human dignity. It also obliterates the mistaken notion and impression that Islam encourages begging or those who are beggars must necessarily exist so that people can fulfill the obligation of Zakāh. The goal of Zakāh is attested to by the prescribed manner of collection and distribution as practiced by the early Muslims. For instance during the time of the second caliph, the governor of Yemen, Mu'ādh Ibn Jabal brought the remnants of the Zakāh he collected in his domain to Caliph 'Umār because according to him all the citizens had been financially empowered and no one was in need of Zakāh afterwards (Sayyid Sabiq's, 2006). Zakāh funds are consequently meant for an income generating and development purpose. It is for this reason that hoarding of wealth is both prohibited and discouraged. Wealth can then be employed through Zakāh to invest in income generating and development projects that can in turn equip the poor. This will assist West African countries in empowering the poor masses such that it create provisions that bring their finance to the minimal taxable income, cover their needs for a year or their whole life respectively. It should be recalled as stated earlier that Muslim scholars are unanimous that the amount of Zakāh given to the poor must be sufficient to cover not only their basic needs but also the means to enable them to work (Al-Qaradawi, Y., 1986). They will therefore cease being in the category that receive Zakāh funds as successfully implemented by Mu'ādh Ibn Jabal (Sayyid Sabiq's, 2006).

#### ***Sustainable Development and Infrastructural Financing through Sukuk (Islamic Bonds):***

In achieving main developmental targets in developed and developing countries, such as urbanization; industrialization; export promotion; equitable income distribution and sustainable economic development *inter alia*; infrastructure is indispensable (Adesina-Uthman, G.A., 2009). Business entities such as small and medium scale businesses, corporate institutions and government requires directly a sustainable infrastructural development to achieve industrialization; to promote the countries' export; to enhance just and fair system of income distribution and good circulation of the countries' wealth for sustainable financial and economic growth. Poor economic development; socio-economic disparity; poverty; and hence, corruptions; *inter alia* that abound in developing nations could be associated to failure of their government to meet growing demands for infrastructural investment planning; financing and development. Quite a number of researchers have found road; modernized agriculture and education infrastructure to be a good predictor for successful poverty reduction, increased income per capita and productivities (Balisacan, A.M., 2001; Nagaraj, 2000; Fan, 1999). External loan in financing infrastructural investment has failed to yield required result due to high interest rates coupled with corruption and project fund diversification. The recent financial and credit crunch as well as debt crisis in many countries since 2008 may be a manifestation of increasing failure of external debt financing, investment planning and development for infrastructural development. Today; increasing demand for ethical financing based on risk sharing has enhanced the use of *Sukuk* (Islamic bond) in the international market for fund raising required for daunting financing of infrastructure. Islamic Bonds (*Sukuk*) which are similar to conventional bonds have been used widely to achieve the same objectives that conventional bonds are always used to achieve. Albeit both instruments provide long term financing to investors and borrowers, they are

however different in qualities and characteristics. *Shari'ah* compliant is a special feature of *Sukuk* that differentiates it mainly from conventional bonds.

Different countries, corporate institutions from different sectors of the economy have been issuing *Sukuk* with various structuring to suit investors and borrowers and to meet specific needs for infrastructural and developmental goals. For example:

- **Qatar** issued its debut *Sukuk* and raised a bigger than expected \$700 million, in 2003 September through SPV using *ijarah* contract. The *Sukuk* was rated A+ by Standard and Poor (S&P) with a proposed application to list the *Sukuk* in Labuan International Financial Exchange as well as Luxembourg stock Exchange. The plan issue of \$1 billion *Sukuk* to finance investment in renewable energy by mid 2008 was postponed to next year due to global credit crunch and lack of appetite by investors in dollar based investments
- **Emirate** debut Islamic *Sukuk* issue 2005 was the first-ever Islamic '*Sukuk*' issue by an airline and the first *Sukuk* with a term of seven years received subscriptions of \$824 million surpassing an initial target of \$550 million by nearly 50 percent. This attracted wide investor participation from Europe as well as the Far East. The money raised from the bond was used to finance the new Emirates Engineering Center in Dubai.
- **Germany's** one million Euro first sovereign *Sukuk* was issued by state of Saxony-Anhalt in 2004 which also formed the first *Sukuk* issued by a Western country and in Europe. Citi Group and Kuwait Finance house jointly managed the deal; GCC took up 60% of the deal while 40% was taken by European investors. This added an important and a new geographical trend to global *Sukuk* market. The *Sukuk* was listed in Luxemburge and Bahrain (Wilson 2008).
- The **United State's** Gulf of Mexico issued first Islamic bond using hydrocarbon reserves as an asset class; in collaboration with East Cameron Gas Company in July 2006. The *Sukuk* of US\$165.7 million was the first time the U.S entered the *Sukuk* market (Abdel-Khalid and Richardson 2007).
- Prolintas *Sukuk* of RM330 million *Sukuk* Ijarah for the construction and development of high ways and RM415 million *Sukuk Mudarabah* to repay existing bridge finance facilities. Issued in 2008 and rated A1 and A3 respectively by Rating Agency of Malaysia (RAM) (Adesina-Uthman, G.A., 2009).

**Results:**

Using Malaysian *Sukuk* data from 2001-2009 with maturity date ranging from 2009-2057, spot and forward rates were generated for GII *Sukuk* and were plotted by MATLAB (refer to a sample in figure 1.1 and 1.2 in the appendix). These GII Spot and forward curves were based on Settlement date from 30<sup>th</sup> August 2004-31<sup>st</sup> December 2008. They were MATLAB generated curves for each settlement dates in the sample. It shows that *Sukuk*holders preferred their investment habitat and hold on to their maturity spectrum where they are safe while holding different bonds with differing maturity spectrums. This behaviour governed by their asset and liability match. The output figures for forward rates and obtained inflations rates were employed in a simple regression analysis carried out to see probable statistical evidence on the effect of forward profit rates on real economic activities using equation (1).

$$inf = \alpha + \beta_i fr + \epsilon_i \tag{1}$$

**Table 1.1:** Inflation and forward Rates Regression Output Result

Dependent Variable	Inflation rates	Coefficients	Standard Error	t-statistic	P-value	Decision
Intercept		0.093	0.078	0.301	0.000	Reject Null
Independent Variable = forward rates		-0.03	0.055	0.195	0.002	Reject Null
R-square= 48%						
Adjusted R-square 43%						

$$inf = 0.093 - 0.03fr + 0.005 \tag{2}$$

*se* =(0.078) (0.055)  
*t* = (0.301) (0.195)

From the above equation, it could be inferred that there is a negative relationship between the forward profit rates on *Sukuk* and inflation. The forward profit rate has a weak predictability smile on the inflation rates. However, it may be used to predict the future value(s) of inflation given the expected future value(s) of forward rates. For every 1 percent increase in the forwards profit rates of *Sukuk*, there is the likelihood of a 3 percent decrease in the inflation rates. This implies that a stable forward profit rate may likely have good

effect on real economic activities and keep inflation low in West African countries if they issue *Sukuk* (instead of external debt with higher interest rates and stringent conditions) to boost economic growth and development like it is for Malaysia. Therefore, macro and monetary economists, financial analysis, monetary policy makers and the Central Bank may be interested in using the findings on forward rates to predict future inflation rates. This may assist in inflation monitoring and performance of real economic sector.

The intercept should be zero or close to zero while the co-efficient should be 1 or close to 1. If these conditions hold according to the result, then the forward rates can strongly predictive and forecast the inflation rates. With the intercept of 0.093 and co-efficient of -0.03, the null may not be supported. By inference, the forward profit rate of *Sukuk* can weakly predict the future inflation rates. However, it has a very weak predictive power to forecast it. This finding is statistically significant since the absolute values of the *t*-statistic exceeded 2.

Furthermore, other developmental projects such as road networking with toll gates can be explore. This will generate employment opportunities for West African Muslims in their various countries where the project is carried out. For instance, in Malaysia, the toll gate fees imposed on the road users after completion of construction and the collection provides jobs for Malaysian until the realization of the capital invested on the project. Such capital may become revolving capital to be employed basically on developing other roads wherever the need may be in such country. Also, investors may be invited to invest through sales of *Sukuk* (Islamic bonds) through Special Purpose Vehicle (SPV). Capital raised from sales of *Sukuk* may be invested on road construction such that toll fees generated are shared between the state and investors according to the agreed profit and loss sharing ratio stated in the *Sukuk* prospectus. It may be invested on provision of public toilet. Public toilet is another project that is invested on by developing states. Investments on public toilet are realized through collection of payment for usage. A worker is situated in each public toilet located around the towns and cities to collect the fees and to intermittently keep the toilet clean for the users. This will enhance the life of poor masses in such country because it will provide not only jobs for some but will improve as well the quality of life through reduction in epidemics that usually break out as a result of improper disposal of human defecations. In addition, such money raises from sales of *Sukuk* may be useful in provision of low-cost housing that can be sold at avoidable prices to with application of Bai thaman Ajil- defer payment structure which allows buyers to pay avoidable amount over a long term in the future. Malaysian example in housing provision through the use of developers is an example that may assist other developing African countries whose citizen are usually struggling to build a house on personal basis despite all odds. Again, trust and honesty and fear of Allah is most important in realization of invested capitals in these projects.

#### ***Gold Payment System and West African Islamic Investment Funds:***

There was automatic equilibrium established with the use of Gold standard among currencies of the world. Nations find themselves in condition of chaos and anarchy after the abolishment of Gold payment system. The Muslim world as well as people in the other faiths has failed in this age of globalization to abide by the teaching of the Creator in their respective books.

The Qur'an and the bible have these to say:

Those who devour usury will not stand except as stands one whom the Evil one by his touch hath driven to madness. That is because they say: "Trade is like usury", but Allah hath permitted trade and forbidden usury. Those who after receiving direction from the Lord, desist, shall be pardoned for the past; their case is for Allah (to judge): but those who repeat (the offence) are companions of the Fire: They will abide therein (for ever). Allah will deprive usury of all blessing, but will give increase for deeds of charity: For He loveth not creatures ungrateful and wicked. .... O ye who believe! Fear Allah, and give up what remains of your demand for usury, if ye are indeed believers. If ye do it not, take notice of war from Allah and His messenger. But if ye repent, ye shall have your capital sums: Deal not unjustly, and ye shall not be dealt with unjustly (2:275-279).

[God said]

If one of your countrymen becomes poor and is unable to support himself among you, help him as you would an alien or a temporary resident, so he can continue to live among you. Do not take interest of any kind from him, but fear your God, so that your countryman may continue to live among you. You must not lend him money at interest or sell food at a profit (Leviticus 25:35-37).

[God says] "If you lend money to one of my people among you who is needy; do not be like a moneylender; charge him no interest (Exodus 22:25).

Despite these notes of warning from the Lord, interest is still the basis of major economy globally. In most Muslim countries there are interest-based financial institutions and a capitalist economy which owes their origin to the colonial period and has continued to be an important feature of the Muslim societies. Albeit, the fact that these financial systems, are premised on Western ideology; is seen by a section of contemporary Muslims scholars (like Mawdudi and Khurdshid Ahmad) as non-Shari'ah compliant. Their argument is based on some Qur'anic verses as regards *Riba*- usury. It was reported by (Eid, F., 1994) that scholar like Tantawi had developed the meaning of *Riba* beyond the connotation meaning. Tantawi submitted that *Riba* mean interest and that *Riba* generated through the use of public certificates meant for socio-economic purposes (for instance, certificates used for hospital and school buildings etc) are legal. This development had being described by Piccinelli as "post-modern" *ijtihad* because Muslims scholars are redefining and reinterpreting *Riba* to accommodate modern societies' socio-economic requirements.

The birth of globalization has ensured that the world now has no border, increasing the economic contacts among nations, fusing differing national markets into one and therefore infusing into the modern society new economic values and ideals that have created a world, based on hegemonic capitalist and modern values that are relative and ever changing (Uthman, I.O., 2003). Hence, the effect of global financial turmoil on the Middle East economies, Asian and African continents evidenced that the world is one market. Negative happenings on foreign shores became contagious (AmIslamic 2009). Sir John Gieve who is in charge of financial stability and monetary policy committee at the Bank of England as a deputy Governor from 2006-2009 said this in his speech at London School of Economics:

In the UK, over the twenty years following the breakdown of the Bretton Woods arrangements, we tried everything from prices and incomes policies to several varieties of monetary targets and finally fixed exchange rates and they all came to a sticky end.

**Returning Back to Islamic Financial Culture:**

There have been calls on developing countries to co-operate on the use of Gold payment system in their Bilateral and Multilateral trades as was the practice in the past. That accounted for the reason why the Royal Mint of Malaysia had taken a right step in the right direction by minting and launching the first Malaysian Gold coin on 28th July, 2003 as well as introduction of Zakat payment in Gold (Adesina-Uthaman G.A, 2004). (Ahmeed Kameel Mydin Meera, 2004) had earlier recommended a convenient structure of Gold in bilateral and multilateral trade as presented in tables 1 and 2 respectively:

**Table 1.2:** Gold Payment System in Bilateral Trade

Export to Malaysia Saudi Arabia Total Export			
Malaysia	X	2million Gold Dinar (GD)	GD 2million
Saudi Arabia	GD 1.8 million	X	GD 1.8 million
Total Export	GD 1.8 million	GD 2million	GD3.8 million
Gold Dinar (million) Countries Export Import Net payment			
Malaysia	GD 2 .0 million	GD 1.8 million	+0.2
Saudi Arabia	GD 1.8 million	GD 2 .0 million	-0.2

Source: An excerpt from Meera (2004), "Theft of Nations" with slight modifications

**Table 1.3:** Gold Payment System in Multilateral Trade

Export to Malaysia Saudi Arabia Egypt Total Export				
Malaysia	X	2million Gold Dinar (GD)	GD 1.5 million	GD 3.5 million
Saudi Arabia	GD 1.8 million	X	GD 2.0 million	GD 3.8 million
Egypt	GD 1.7 million	GD 1.7 million	X	GD 3.4 million
Total Import	GD 3.5 million	GD 3.7 million	GD 3.5million	GD 10.7 million
Gold Dinar (million) Countries Export Import Net payment				
Malaysia	GD 3 .5 million	GD 3.5 million	Nil	
Saudi Arabia	GD 3.8 million	GD 3 .7 million	+0.1	
Egypt	GD 3.4 million	GD 3.5 million	-0.1	

Source: An excerpt from Meera (2004), "Theft of Nations" with slight modifications

The above transaction is expected to eliminate foreign exchange risk; encourages developing countries with little foreign exchange reserves to participate in international trade, thus enhancing financial stability. Therefore, this paper proposes a model of Gold Payment System in Bilateral and Multilateral trades among Muslim countries wherein, IDB shall be a Central Gold Depository (CGD), lender of last resort to Central Islamic Banks of these countries, settling Net Gold payment in international trades among them (refer to Figure 1.0 and 2.0). IDB as CGD is to serve as a platform for facilitating transfer of Gold for payment among Central Islamic Banks of member countries. This is to reduce the likelihood of default and to keep account of net balances for each country for future transaction and settlement.

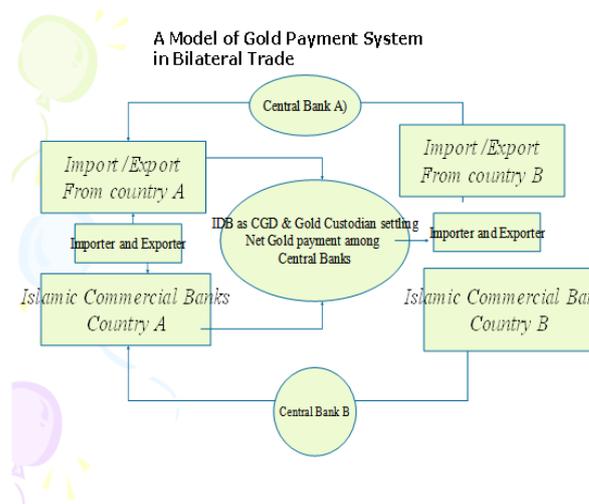


Fig. 1.3:

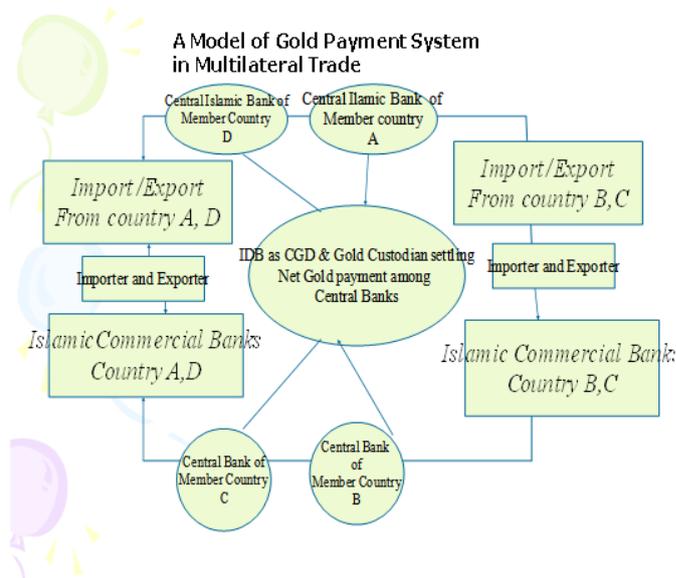


Fig. 1.4:

**Conclusion:**

This study identified the problem of financing economic growth and development in West African countries that were characterized with low growth rates, corruption and poverty. It recommended returning back to the Islamic financial culture as a possible way that may assist in building strong, stable and just nations as it was right from the Islamic Arabia to the Othman empire until the gold standard system was completely abolished from the international monetary system in 1973. *Sukuk* success story so far is a living example; it is worth improving on by IDB and member countries in West Africa. *Shari'ah* compliance in Islamic institutions in these countries is expected to assist in real economy growths. Gold Payment System is a plausible way to enhance the West African Financial Capital markets; institutions and instruments so as to achieve the purpose and objective of infrastructural development and economic growth. George Bernard Shaw advise that: as long as the capitalist system last, vote for gold.

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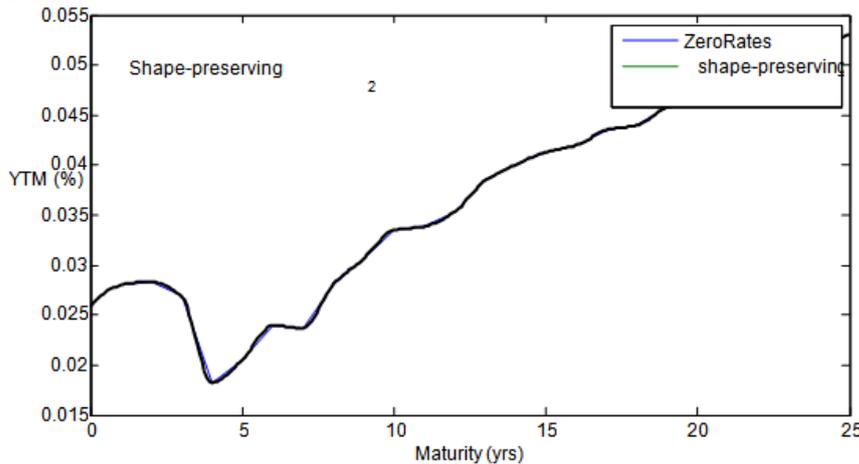
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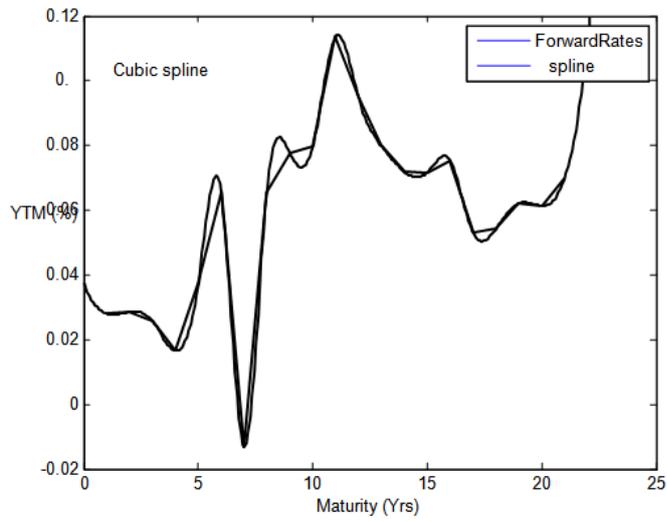
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**Appendix:**



**Fig. 1.1:** GII Spot Rates Curve based on Settle date of 30th August 2004.



**Fig. 1.2:** GII Forward Curves based on Settle date of August 30th 2004.