



ISLAMIC FINANCE IN AFRICA: IMPETUS FOR GROWTH

A number of market development and regulatory efforts have taken place in the African region in recent years as there is a clear set of potentials for Islamic finance to play a role in African countries to diversify their sources of funding. As the world's largest untapped growth market for Islamic economy, Africa is expected to attract more Islamic finance players in the future to support the governments' need for raising capital for infrastructure, improve financial inclusion and stimulate economic activities in the region.

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The Rise of Islamic Finance in Africa

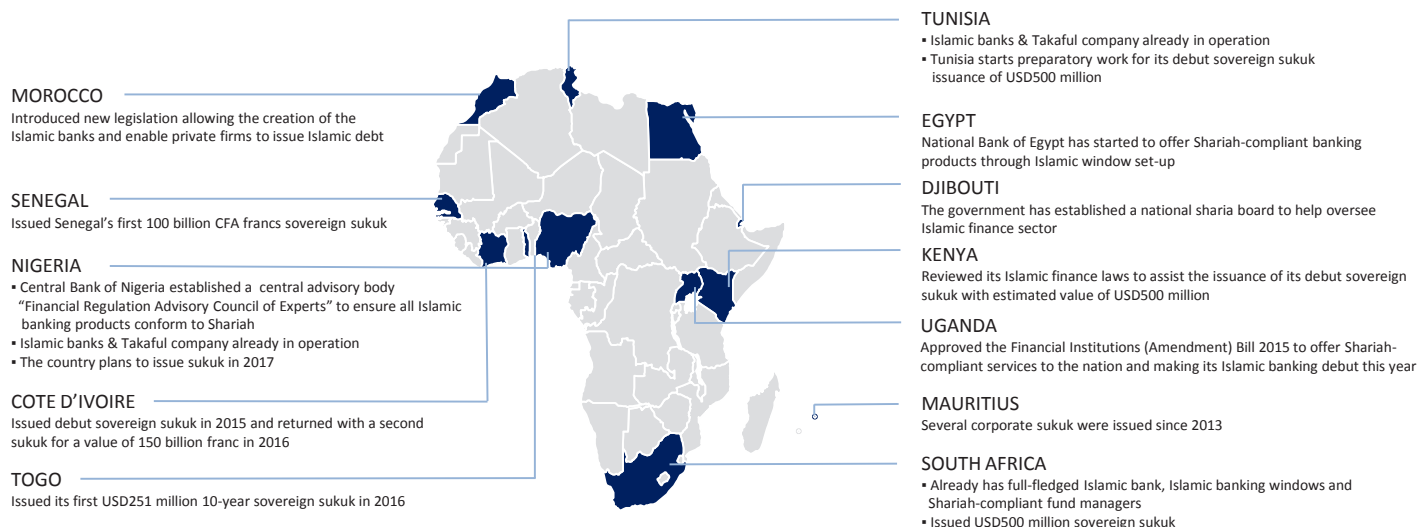
Islamic finance development has become a centrepiece in many countries in the African region. A number of market development and regulatory efforts have taken place in the region in recent years. Nigeria, Sudan, South Africa and Senegal, Kenya, Morocco and Niger among others have put in place necessary legal and regulatory frameworks to enable Islamic banking offerings in their respective jurisdictions. There are more than 50 Islamic financial institutions in Africa out of 600 institutions globally¹. Many conventional banks across the continent including National Bank of Egypt, FinBank of Nigeria, Absa Bank of South Africa or First Community Bank of Kenya have also started to offer Shariah-compliant banking products through Islamic window set-up. In the sukuk segment, countries in the likes of Senegal, Nigeria, Mauritius, Gambia have issued sukuk whilst Morocco is planning their sukuk debut this year. A recent milestone in this space is the maiden sukuk issuance by the Africa Finance Corporation, a leading pan-African multilateral development finance institution. The transaction was upsized to USD150 million from its initial target of USD100 million with final order book of around USD230 million².

Islamic finance global momentum

Islamic finance development in Africa region is in tandem with the emerging interest of Islamic finance globally. Based on the current growth momentum of the global Islamic finance, the global Islamic financial services industry is estimated to reach USD6 trillion in assets by the year 2020 with a growing number of new market entrants³. Islamic finance industry has been progressing rapidly since its inception nearly four decades ago.

The industry, particularly in advanced Islamic finance markets, witnessed rapid growth and sustainable market drives enabling the system to be commercially viable and competitive industry to operate in parallel with the conventional financial system. Malaysia as a case in point, the corporate sukuk has outpaced the corporate bond whereby corporate sukuk issuance was RM64.8 billion, 75.7% of the 2016 total corporate bonds and sukuk issuances in the country⁴.

Recent Islamic Finance Developments in Africa



Source: MIFC





¹ "Islamic Finance in Africa: A Promising Future", Islamic Corporation for the Development of the Private Sector (September 2015)

² "Africa Finance Corporation issues US\$150 million maiden Sukuk", Vanguard (January 2017)

³ MIFC estimates, based on 5 years CAGR of respective Islamic finance sub-segments

⁴ Securities Commission Malaysia

GLOBAL ISLAMIC FINANCE OVERVIEW

	 ISLAMIC BANKING	 SUKUK	 ISLAMIC FUNDS	 TAKAFUL
Latest trends:	Total Islamic banking assets has reached USD1.8 trillion.	Global sukuk outstanding increased to a record of USD349.1 billion an 8.7% increase from end 2015.	Total global Islamic assets under management (AuM) were USD70.8 billion and the number of Islamic funds stood at 1,535.	Total takaful gross contributions stood at USD26.8 billion.
Outlook:	<ul style="list-style-type: none"> Islamic banking assets is projected to surpass USD3 trillion mark by 2020. Asian and the GCC markets will continue to be key drivers of this segment. A number of new entrants especially in the African region have established necessary framework to support growth of Islamic banking development in their countries. 	<ul style="list-style-type: none"> Sukuk market is expected to be driven by corporate issuances in key established sukuk markets similar to the trends in 2016 where corporate issuers dominated the market. Notwithstanding, big size and debut sovereign issuances in few markets as well as issuances by supranational entities will also contribute to the expected surge in 2017. 	<ul style="list-style-type: none"> The global Islamic funds industry is poised for growth and projected to reach USD 77 billion by 2019. The industry witnesses launches of innovative and global funds e.g. using artificial intelligence technology, UCITs funds. Growing appetite in socially responsible investing (SRI) will also contribute to the Islamic funds industry's growth. 	<ul style="list-style-type: none"> Takaful sector is primarily driven by growth in MENA and Asian regions. This trend is likely to continue in the upcoming years. Takaful gross contributions is estimated to surpass USD40 billion by 2020. Takaful operators are broadening their distribution channels, improving their products offerings to accelerate growth of Takaful.

Source: MIFC Estimates (reference data: Thomson Reuters, Annual Reports, Central Banks statistics)

Note: Islamic Banking data (as at end 2016), Sukuk (as at end 2016E), Islamic Funds (as at end 1Q2017), Takaful (As at end 2015)

The global Islamic banking industry is projected to surpass USD3 trillion mark by 2020⁵. Apart from the Asian and the GCC driving the industry, a number of new markets especially in the African region have established necessary framework to support growth of Islamic banking development in their countries. Based on MIFC insights article entitled '2016 Global Sukuk Market: A Record Year for Corporate Issuance', global sukuk outstanding as at end-2016 increased to a record of USD349.1 billion an 8.7% increase from end-2015.

The financial market's growing focus on sustainable and equitable financing further enhances the poise of the Islamic finance offerings as it presents enormous potential as an important catalyst to enhance the economy of a country and subsequently the world. Globally, there are now USD22.9 trillion of assets being professionally managed under responsible investment strategies, an increase of 25% since 2014 and the largest market for sustainable investing in Asia ex Japan is Malaysia (30%)⁶.

Another commendable development of the industry is the diverse spectrum of global partnerships aiming to solidify and advance the Islamic finance industry to the global centre stage such as the International Islamic Liquidity Management Corporation (IILM), the Islamic Financial Services Board (IFSB). The IILM, established by central banks, monetary authorities and multilateral organisations actively issues sukuk to facilitate the development of cross-border Islamic liquidity management by institutions that offer Islamic financial services globally. In the effort to ensure sound and stable Islamic financial services industry, the IFSB has published more than 20 new or adapting existing international standards and guidance documents. IFSB also collaborated with the Islamic Development Bank (IDB) & Islamic Research and Training Institute to produce a ten-year framework and strategies document for the Islamic financial services industry development. The document provides framework to aid sustainable economic development and social progress through an efficient and resilient industry.

⁵ MIFC estimates, based on 5 years CAGR (2010 - 2015)

⁶ Global Sustainable Review Report 2016

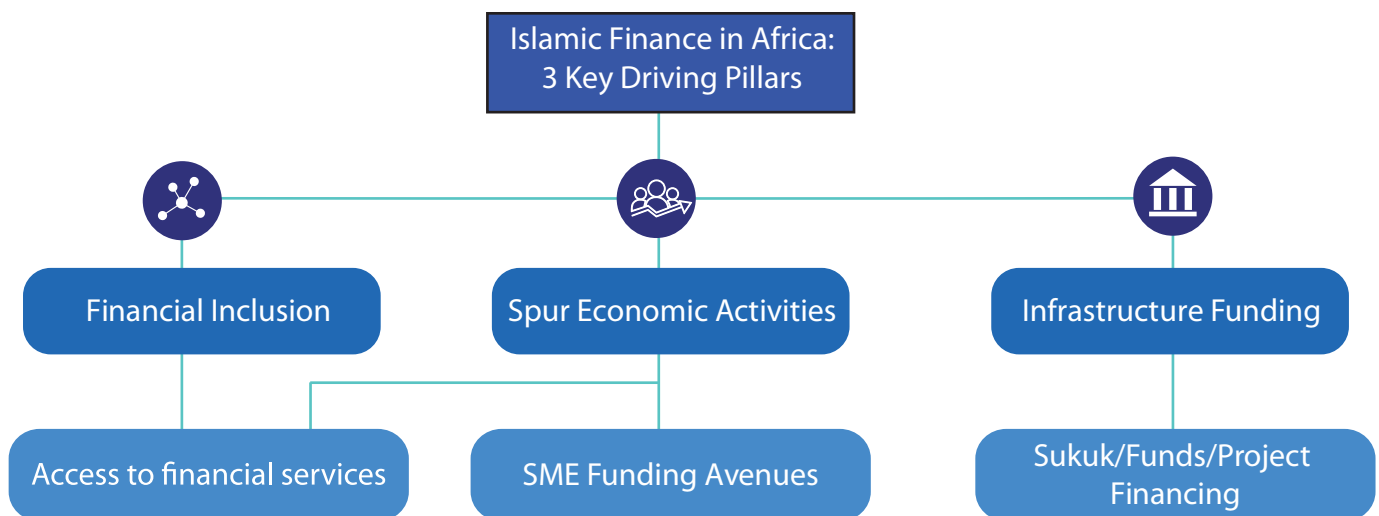
Islamic Finance: Unlocking Africa's Untapped Potential

Finance development in Africa has an important role in unlocking the region's untapped potential in various sectors in order to boost its prosperity. The growth of Islamic finance will provide the region access to enrich offerings of its financial instruments and also provide the opportunity to greater access of liquidity pools across the Middle East and Asia particularly from markets with ready pool of investors looking for Shariah-compliant investment opportunities.

Africa has almost 60% of the world's uncultivated land and vast natural resources⁷. Sub-Saharan Africa for example, the region is endowed with large oil, gas and mineral deposits. Home to over 1.2 billion population, Africa is currently the second most populous continent on earth and the total population is expected to double by the year 2050⁸. The growing population provides an excessive demand on local economies including a ready market for agricultural business and has the potential to expand its food exports⁹. Natural and economic resources mobilisation as well as economic diversification activities are among the drives to improve the economic growth the region.

There is a clear set of potentials for Islamic finance to play a role in especially in African countries which intend to diversify their sources of funding. The demographic of Africa provides potentially strong demand for Islamic financial services and products such as credit, savings and insurance.

Financial inclusion includes provision of appropriate and quality financing which is accessible and affordable to low-income and other vulnerable households to reduce poverty, reduce inequality in prosperity sharing and provide enough opportunity for vulnerable groups to improve their living standards¹⁰. Globally, 2 billion adults do not have a bank account including 5% in developing economies and 25% in countries with almost exclusively Muslim populations do not have a bank account due to religious reasons. Financial inclusion through Islamic finance could increase account ownership and facilitate financing needs in these areas.



Source: MIFC

⁷ "Islamic Finance in Africa: A Promising Future", Islamic Corporation for the Development of the Private Sector (September 2015)

⁸ United Nation estimates

⁹ World Bank

¹⁰ "Financial Inclusion in Africa", Triki, T. and Faye I. (2013)

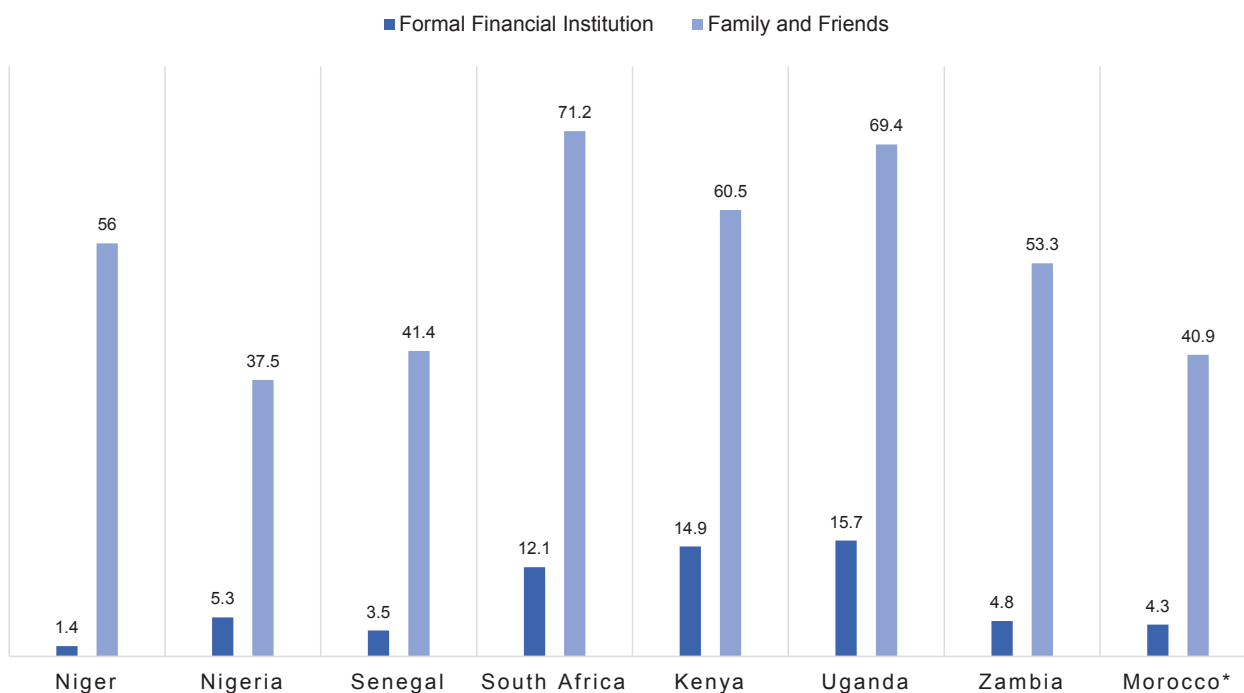
Improve access to financial services

Providing individual access to financial services in developing countries, particularly to the underprivileged segments, helps alleviate poverty through participation in economic activities including small and medium-sized enterprises (SMEs). The demographic realities of Africa makes it a promising region for Islamic finance to tap into Africa including Islamic banking, insurance (takaful) and microfinance since the Muslims account for at least 40% of the total population in almost half of the African countries¹¹.

Based on a report by IMF¹², it is observed that there is a negative correlation between financial inclusion and the population size of Muslims of the total country's population in Sub-Saharan Africa. For instance, Senegal and Niger consist of almost 95% Muslims of the country's population¹³ but Senegal has only one Islamic bank and Islamic banking holds less than 3% of total assets in Niger¹⁴.

Whereas with only 1.5% Muslim of the population in South Africa¹⁵, the country currently has full-fledged Islamic bank, Islamic banking windows and Shariah-compliant fund managers. Only 24% of Muslims compared to 44% of non-Muslims own a formal bank account and especially in Sub-Saharan Africa, Muslims are more likely than non-Muslims to report religion as a barrier to have an account¹⁶. Islamic finance is expected to increase the access to financial services for Muslim populations which are underserved by conventional finance to serve the rising appetite for Shariah-compliant financial products. Moreover, it is observed that large percentage of population in many African countries borrowed from family and friends rather than formal financial institutions.

Source of Borrowing of Population in African Countries (%)



Source: World Bank, 2014

Note: *Data was taken from year 2011

¹¹ The Sukuk In Africa: Financing Africa's Future", AFKInsider (November 2015)

¹² "Financial Development in Sub-Saharan Africa", IMF (2016)

¹³ "Mapping Africa's Islamic Economy", EIU (2015)

^{14,15} "Islamic Finance in Sub-Saharan Africa: Status and Prospects", IMF 2014 working paper

¹⁶ "Islamic Finance and Financial Inclusion Measuring Use of and Demand for Formal Financial Services among Muslim Adults", Demirciguc-Kunt, A., L. Klapper, and D. Randall (2013)

¹⁷ World Bank

Realising the opportunities of Islamic finance, recently Emir of Kano advocates Islamic finance for Nigeria into the nation's economic system as it would improve the rate of its financial inclusion in Africa especially in terms of households and firms accessing of bank credit to finance investment¹⁸. The country aims to establish an international financial centre which includes the provisions of Islamic financial products such as takaful and interbank lending products by introducing regulatory initiatives for such products. Furthermore, two Islamic Takaful insurance firms begin operation in Nigeria, becoming the first set of fully-fledged Takaful companies in the country¹⁹.

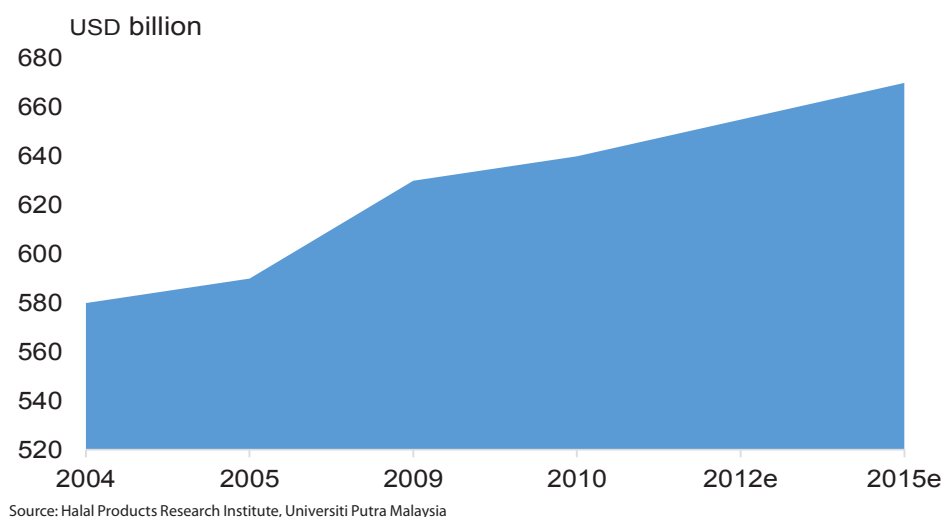
Countries such as South Africa, Senegal and Kenya have taken significant measures to advance its Islamic finance services while countries such as Uganda, Ethiopia and Zambia are currently exploring and developing the system²⁰. As one of the initiatives to advance the Islamic financial services in the country, the government of Uganda has approved the Financial Institutions (Amendment) Bill 2015, looking at both international and domestic financial institutions to offer Shariah-compliant services to the nation. Elsewhere, Morocco also has introduced a law associated with Islamic finance products and allow banks to set up units which comply with Shariah.

All these positive progress and developments of Islamic banking in Africa open wider ways to provide appropriate and quality financing for the population which is accessible and affordable to low-income and other vulnerable households. Primarily to reduce poverty, reduce inequality and provide tools for vulnerable groups to improve their living standards especially those who abstains from formal financial services due to Shariah-compliance reasons.

Microfinance as a catalyst for SME growth

Islamic microfinance is another area of interest and presents a significant potential in the region as many underprivileged Muslims voluntarily exclude conventional micro-loans due to its Shariah non-compliance. Moreover, non-interest banking is one of the attractions of Islamic finance and the value propositions it offers could bring SMEs into the formal economy. In addition, the halal industry, which no longer exclusive to Muslims, is a growing sector where SMEs has an important role to grow this business segment. In 2015 alone, the revenue of Halal certified food and beverage companies worldwide reached USD415 billion²¹. Representing 50% of the halal industry, halal food industry is projected to reach a global Muslim consumer spend of USD1.6 trillion by 2018 and the segment will get larger as the Muslim population increases²².

Growth of the Global Halal Food Market (2004 - 2015)



¹⁸ "Emir of Kano advocates Islamic financing for Nigeria", Vanguard (January 2017)

¹⁹ "Islamic insurance firms begin operation in Nigeria", Reuters (January 2017)

²⁰ Economist Intelligence Unit

²¹ The State of the Global Islamic Economy Report 2016/17,

²² ibid

Islamic banks in Africa have started to provide micro-financing. Numerous microfinance institutions have been set up, a few banks have introduced Islamic microfinance windows and insurance companies starting to develop “micro” products. In addition, the IDB provides USD60.3 million out of USD82 million of the total project cost to an Islamic microfinance project in Senegal which will provide 25,000 jobs by 2022²³. The government of Sudan has also developed Islamic microfinance over the last decade. The Central Bank of Sudan created a Microfinance Unit and required that banks allocate 12% of their portfolio to microfinance²⁴.

SMEs and microfinance play a crucial role in a country's economies by fuelling growth, growing the demand for labour and subsequently raise the living standards. It is estimated that 500 million new jobs will be needed by 2030²⁵. Supporting SMEs to be vectors of growth will also be a clear response to the recently adopted United Nations Global Goals for Sustainable Development. Innovative Islamic microfinance instruments may lead to advances in SMEs which provides job and benefits the underprivileged.

Infrastructure funding

For the next ten years, many African governments embarked upon mega infrastructure projects, the plugging Africa's infrastructure deficit requires a high amount of approximately USD90 billion in investment each year²⁶. Investments through Islamic finance provide significant opportunities to deepen and broaden the source of funds required and sukuk is an alternative for raising capital in financing African public infrastructure projects such as roads construction, seaport terminals, fibre-optic cables and sanitation networks. The sukuk issuances were part of a funding diversification strategy by

African governments which could boost industrial development and job creation in the region. Entering into the Shariah-compliant financial markets is also a strategy for African governments to attract investments from the Middle East.

Sukuk enables issuers to tap onto wider pool of investors, either Shariah or conventional funds. Gambia and Sudan have been issuing short-term sukuk regularly over the years. In 2016 alone, the sukuk issuance and sukuk outstanding of Africa is USD657 million and USD1.9 billion respectively out of the global sukuk total amount²⁷. Senegalese government launched a four-year XOF100 billion sukuk in June 2014²⁸ and USD265.5 million in 2016²⁹. With a stable government and sound economic of Senegal, the factors will provide opportunities for investment. Côte d'Ivoire returned to the market with a second sukuk issuance and there are several sovereign African sukuk in pipeline as Niger and Kenya are among others planned to issue their sovereign sukuk in 2017.

²³ “Islamic Development Bank Islamic microfinance project to create 25,000 jobs in Senegal” Zawya (January 2017)

²⁴ Economist Intelligence Unit

²⁵ “Halal Goes Global”, International Trade Centre 2015

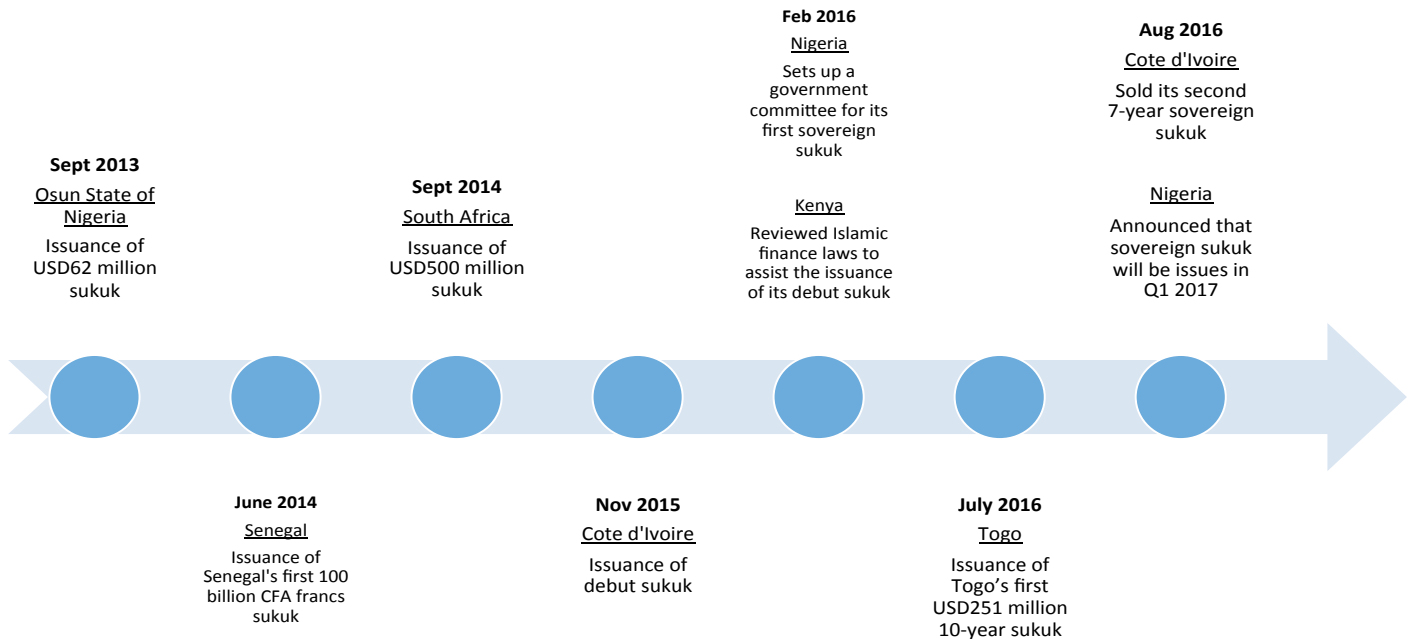
²⁶ “Addressing Africa's infrastructure deficit”, Ernst and Young

²⁷ MIFC estimates

²⁸ “Islamic finance in Africa in its infancy; important initiatives underway”, Al Nattoor (September 2015)

²⁹ Thomson Reuters

Sukuk Key Milestones in Africa (2013 - 2016)



Source: Thomson Reuters, various news

Apart from raising sukuk, the fund management industry has the potential to be one of the promising sources of infrastructure funding. Infrastructure fund provides avenue for investors to participate and facilitate development of projects across the Muslim world. Asian Development Bank (ADB) and IDB have launched Islamic infrastructure funds to support infrastructure projects in their member countries. As anchor investors, ADB and IDB have taken the lead in the structuring and documentation of the Fund, and will contribute to the operations and governance of the Fund in a number of ways³⁰. ADB will assist in deal sourcing on an ongoing basis, where ADB is part of the Fund's investment committee to comment and vote on each transaction contemplated by the Fund³¹.

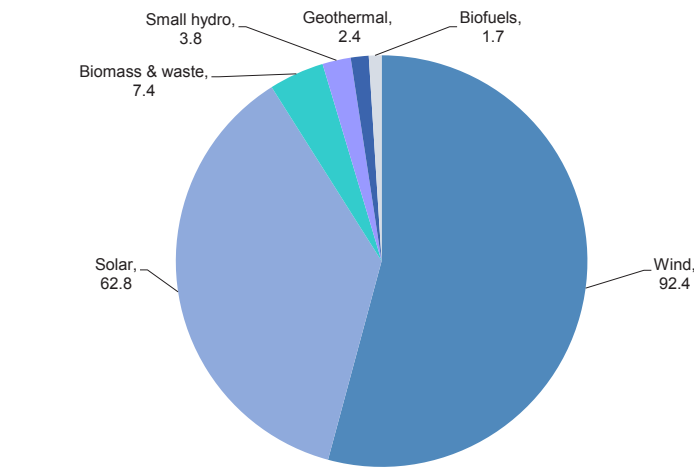
Another window of growth is the funding needs of green and sustainable projects. The potential of the renewable solar energy is among the highest in the world with major concentration in Middle East, North Africa, and some Sub-Saharan Africa countries. The energy investments globally is growing rapidly to reach USD270 billion in 2014 while the rapid expansion of renewables into the new markets in developing countries stood at USD131.3 billion and solar as well as wind accounts for over 90% of the overall investment in renewable power and fuels³².

³⁰ Asian Development Bank

³¹ ibid

³² "Global Trends in Renewable Energy Investment 2015", Frankfurt School-UNEP Collaborating Centre for Climate & Sustainable Energy Finance (2015)

Asset finance of renewable energy assets by sector, 2014, USD bn



Source: UNEP, Bloomberg New Energy Finance
Note: Total values include estimates for undisclosed deals

Africa has the opportunity to pursue sustainable energy development as a basis for long-term prosperity in view of its growing population and economic progress that will result in increased demand in energy. Recognising the potential of green and sustainable projects, North Africa, among others has planned for the large scale development of renewable energy especially on solar energy to supply electricity for remotely located rural communities. The optimisation on renewables could eliminate power shortages, bring electricity and development opportunities especially to those in rural areas apart from developing local equipment manufacturing and create jobs which subsequently accelerate growth of the region.

Shortening the Learning Curve

The policymakers and end-users in new countries entering into the Islamic financial system which face challenges and knowledge limitations on Islamic financial may seek assistance from advanced Islamic finance markets to hasten the learning and development process. In such situation, support from industry players and professional ancillary services entities from countries which already have established regulations and have experiences in Islamic finance could help those new countries to set path for Islamic finance offerings.

Malaysia for instance, has been assisting various jurisdictions in creating necessary foundation or framework to enable offerings of Islamic finance in addition to numerous technical assistance, study visits, learning programmes and training sessions held to facilitate knowledge sharing.

Malaysia: Contribution to the Development of Islamic Finance in Africa

In the effort to support development of the Islamic finance industry in the region, various engagements, partnerships and business ventures established between Malaysian and African entities. These efforts aim to fast track the growth of Islamic finance in the region as well as to leverage on Malaysian experience and expertise to advance the global development of the industry. Since 2008, Bank Negara Malaysia has conducted more than 300 Islamic finance programmes and study visits for over 25 African countries including Nigeria, Sudan, Tanzania, Nigeria and Kenya. In addition, the Malaysia International Islamic Financial Centre (MIFC) Promotions Unit organised a Business Forum on “Islamic Finance and African Infrastructure Development” in conjunction of the 11th Islamic Financial Services Board Summit where the Forum discussed the opportunities, challenges of and potential contributions of Islamic finance to support the funding gaps of the African infrastructure development.

Below are several recent engagements by Malaysian Islamic finance service providers in the African region.



- Amanie provides Shariah consulting services covering review of governance framework, operations and existing products for an Islamic window in Kenya.
- In 2015, Amanie facilitated Shariah structuring and advisory on bilateral Islamic financing facility for a bank in Kenya.

Amanie Advisors, a leading Shariah advisory firm specialising in Islamic finance provides end-to-end Shariah solutions to the client through its global offices. In Africa, Amanie's regional office is in Egypt. Islamic capital markets, retail/wholesale banking, project finance and asset management are the key areas of Amanie's strength.



- INCEIF and the Kenya School of Monetary Studies offer regional certification program to train the next generation of Islamic bankers in Kenya.
- INCEIF signed a 3-year Memorandum of Understanding (MoU) with Coast International College (“CIC”), the education arm of Gulfcap Group of Kenya providing technical and vocational education by offering courses at the Diploma level. The objective of this collaboration is to elevate the Islamic Finance knowledge development and ultimately make a significant impact towards nation building in Kenya.
- INCEIF also has established cooperation on Islamic finance education with other learning institutions in Africa

INCEIF offers postgraduate programmes in Islamic finance to produce world-class talent for the global Islamic finance industry. INCEIF's recognition as the global preferred choice for Islamic finance education is reflected through its industry-relevant programmes and graduates composition from 72 countries globally. As a knowledge leader in Islamic finance, INCEIF also offers industry-focused executive education that includes customised executive programmes.



- IBFIM's Certified Qualification in Islamic Finance (CQIF) is now being adopted by various jurisdictions globally including African countries. Nigeria, Ghana and recently Uganda adopted the CQIF.
- In addition, IBFIM has received various study visits from Africa as well as individual participations in IBFIM's training programmes

IBFIM is an industry-owned institute dedicated to producing well-trained, high competence personnel and executives with the required talent in the Islamic finance industry. IBFIM also provides tailor-made program to meet business objectives and deliver outstanding results on a specific issues. Over the last 6 years, IBFIM has trained more than 17,900 talent, certified more than 99,800 takaful agents, and more than 1,600 are en route to the flagship qualification namely the Certified Qualification in Islamic Finance (CQIF).

Conclusion

Throughout the years, a number of regulatory efforts to spur Islamic finance have been put in place complementing existing private-led Islamic financial developments in the region. There are various areas of growth within the region considering Africa is one of the world's largest untapped growth markets for Islamic economy. Islamic finance offers various instruments that are poised to support the governments' need for raising capital for large infrastructure and enhance individual and SMEs access to financial services. The development of Islamic finance in the region could be expedited to be part of the competitive global Islamic finance markets leveraging on global partnerships, capabilities and experience of the advanced Islamic finance markets. In serving the growing demand of the industry, Islamic finance and its offerings could act as catalysts to facilitate the country's economy as well as being one of the impetus for growth of the region.



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