INTO AFRICA

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ISLAMIC FINANCE: AFRICA'S NEW MOMENTUM

SOVEREIGN SUKUK IN AFRICA: A DEVELOPING LANDSCAPE

ISLAMIC FINANCE IN AFRICA: CHALLENGES AND OPPORTUNITIES

TAKAFUL INSURANCE IN AFRICA: CHALLENGES & OPPORTUNITIES

UNDERSTANDING AND MANAGING LEGAL RISK IN ISLAMIC FINANCE

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Welcome to the November 2017 edition of INTO AFRICA, a publication with fresh insight into Africa's emerging capital markets. As the global business environment adapts to the new normal and the implications of a post-oil economy, Africa continues to be an increasingly important component of global growth. In particular, the expansion of Islamic finance in Africa is providing new growth opportunities and propelling faster trade and economic growth in the continent. Against this dynamic backdrop, this edition is titled: ***Islamic Finance: Africa's New Momentum.***

Globally, Islamic Economic Principles play a significant role to today's Business Environment, with the size of the Islamic economy size reaching US$2.3 trillion and the world population of Muslims reaching 1.6 billion. Africa is a vital region for the development of Islamic finance and has long been a hotbed of interest with an estimated 45-50% of the African population being Muslim, standing between 400 and 500 million people and exceptional natural resources.

Islamic finance transactions do not include interest but instead, use risk sharing to justify earning of profit. Furthermore, Islamic finance's underpinning principles of promoting participation, equity, property rights and ethics. With its unique asset-oriented structure, Islamic finance is quite relevant to the financing of large infrastructure projects needed in Africa and can be one of the key tools that can help boost sustainable economic development in Africa.

In addition, with the proper regulations, increased transparency, education, and an objective, non-political perspective of the Shari'a compliant sector, Islamic finance in Africa has the potential to thrive and makes the continent an attractive investment preference amongst Shari'a compliant investors globally.

The supranational development agencies support to develop legislative and regulatory frameworks has encouraged the advent of Islamic institutions and innovations, while enabling the issuance of Sukuk to stimulate the public sector spending. Against this backdrop, we feature **STUART URE** (Head of Middle East Capital Markets, Clifford Chance LLP) in *"Sovereign Sukuk in Africa: A Developing Landscape"*.

XUAN JIN (Senior Associate, White & Case LLP) opines that the underlying structural issues remain which pose challenges to the pace of development of Islamic finance in Africa and which will take time to address, but it is encouraging to see positive action being taken in *"Islamic Finance in Africa: Challenges and Opportunities"*.

OMAR GOUDA (Managing Director, Africa Retakaful Company, Egypt) and **HATIM EL-TAHIR** (Director, Deloitte, Middle East) independently look at the development of Takaful insurance in Africa in *"Takaful Insurance in Africa: Challenges and Opportunities"* and *"Africa: Building the Ecosystem for A Takaful Insurance Investment"*, respectively.

Looking at development of Islamic finance in Kenya, **LUKE OMBARA** (Director of Regulatory Policy and Strategy, Capital Market Authority of Kenya) features *"Islamic Finance in Africa: Kenya's Experience and Opportunities"* and **HASSAN USMAN** (Managing Director, Jaiz Bank Plc, Nigeria) explores Nigerian Islamic finance in *"Islamic Banking in Nigeria: Emergence, Challenges, and Opportunities"*. In the same vein, **RACHID BOUMEHRAZ** (Partner, Fidaroc Grant Thornton, Morocco) advocates for Morocco's Islamic finance in *"Morocco as an Islamic Investor's gateway to Africa"*.

Still try to exploring the dynamic of Islamic finance, **MOHD JOHAN LEE** (Managing Partner, J. Lee & Associates, Malaysia) concludes that legal risk is a risk factor that Islamic finance practitioners must consider from the initial stage and must exercise due care and diligent in managing and mitigating it in the write-up *"Understanding and Managing Legal Risk in Islamic Finance"*. In addition, **ZAKIYOULAHI SOW** (Sukuk Project Manager, Islamic Corporation for the Development of the Private Sector, Saudi Arabia) emphasizes the importance of Sukuk in Africa in the article *"The Promise of Sukuk for Africa's Growth Story"*. While **EBRAHIM MOOLLA** (Islamic Banking Specialist of Rand Merchant Bank, South Africa) contributes a piece titled *"Islamic Debt Capital: Emerging Trends and Opportunities in Africa"* and **ROSIE KMEID** (Vice President, Global Corporate Communications & Marketing, Path Solutions) discusses possibility of adopting Artificial Intelligence in Islamic finance in *"Will Artificial Intelligence Rejuvenate Islamic Finance?"*.

And yet there's still MORE … we bring you a special feature *"Are Entrepreneurs Born or Made?"* and *"Islamic Structured Trade Finance: Experience in Senegal and the Gambia"*. And as usual we provide you with timely updates on African Macroeconomic and Capital Markets.

This is the final edition of 2017 and rest assured, so you can expect even more insightful and action-packed editions in 2018. Thank you for your continued support.

Tunde Akodu

Editor

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SOVEREIGN SUKUK IN AFRICA: A DEVELOPING LANDSCAPE

By **Stuart Ure,** Head of Middle East Capital Markets, Clifford Chance LLP

Introduction

On 24 September 2014, the Republic of South Africa (the **RSA**) issued its inaugural U.S.$500 million sukuk which was hoped by many commentators to be the catalyst to allow a U.S. dollar denominated African asset-based sukuk market to develop. The expectation was that the RSA's international sukuk would pave the way for future sovereign Islamic financings in Africa, as well as opening the Islamic financial markets to other governmental entities, financial institutions and corporate entities seeking new sources of funding through the international capital markets.

As the National Treasury of the RSA remarked at the time: "The decision to issue an Islamic bond has been informed by a drive to broaden the investor base and to set a benchmark for state-owned companies seeking diversified sources of funding for infrastructure development." The issuance well highlighted the diversified investor base, consisting of 59 per cent. from the Middle East and Asia, 25 per cent. from Europe, 8 per cent. from the United States and the balance from the rest of the world.

Whilst the RSA's U.S. dollar denominated sukuk represented a significant milestone in the development of sovereign sukuk in Africa, its impact for the evolution of an international sukuk market in the wider African continent has been slower than some commentators had expected. Notwithstanding recent local currency issuances by, amongst others, the Republic of Côte d'Ivoire, the Republic of Senegal, the Togolese Republic and the Federal Republic of Nigeria, to-date, further international sukuk issuances from African sovereigns have not been as frequent as had been expected, with the corollary that the corporate sukuk market has not developed as quickly as anticipated.

While the different legal systems across Africa understandably pose a challenge to achieving market consistency in structures, and whilst in the short-term certain African governments may favour smaller local currency issuances, the RSA's inaugural U.S. dollar denominated sukuk issuance demonstrated how a sukuk structure can be developed to overcome structuring challenges arising under domestic laws and provide an alternative international funding platform for governments at a time of significant development and infrastructure investment need across Africa.

In this article, we take a look at why Shari'a compliant funding through sukuk issuances should still be a priority as an important liquidity and funding source in Africa and we highlight how entities such as the Islamic Corporation for the Development of the Private Sector (**ICD**), an Islamic multilateral financial institution for the development of the private sector, are actively supporting the development of the market. We also briefly overview a number of the structures that have been seen to-date in the market, reflecting a lack of homogeneity, which may reflect the future direction of the development of the market in Africa.

The potential role of sukuk in funding infrastructure development

There is growing potential for Africa's developing sukuk market to help achieve the continent's funding requirements for its extensive infrastructure development. For

many African countries, "non-traditional" sources of infrastructure and development finance, such as sukuk, could prove to be very significant in expanding the infrastructure and development finance space. Islamic finance (and the issuance of sukuk) has become one of the fastest growing segments of the global financial system and its instruments have been used to finance infrastructure development in, amongst others, the Republic of Malaysia, the Republic of Indonesia, the United Arab Emirates and the other countries of the Gulf Cooperation Council (**GCC**).

However, these developments must be set against increasing fiscal pressure on African governments due to the receipt of lower revenues as a result of depressed commodity exports, meaning that additional revenues need to be directed towards servicing existing debt. According to the World Bank, growth in Sub-Saharan Africa slowed markedly in 2016 to 1.5 per cent. and is projected to recover only moderately in 2017 to 2.6 per cent. Expectations are that growth will continue to strengthen through 2018, but dependant on improvements in commodity prices and domestic economic and political conditions.

In turn, Standard and Poor's estimates that the average fiscal deficit of rated Sub-Saharan African sovereigns was 5 per cent. of Gross Domestic Product (**GDP**) in 2016 and just over 4 per cent. of GDP in 2017, compared with an average of 4.6 per cent. between 2014 and 2015.

“There is growing potential for Africa's developing sukuk market to help achieve the continent's funding requirements.”

Accordingly, at a time of ongoing fiscal deficits, sukuk could provide the means for governments across Africa to further diversify their funding sources and focus on domestic funding and domestic projects.

In this regard, the continuing interest and support of African governments will play a crucial role in catalysing market developments. Legislative developments by certain African governments since 2014, such as the Federal Republic of Nigeria, the Republic of Kenya and Uganda, are very much welcomed and this trend has also been prevalent in Northern Africa, particularly in the Kingdom of Morocco and Tunisia. It is recognised that there is currently a lack of a clear legal and tax regime in many African countries to support the development of a sukuk market (which requires a fairly robust legal framework) and that governments need to address the "legal hurdles" to issuing sukuk. For example, in South Africa, the government's proactive amendments to legal and tax laws enabled the country to be in a position to issue its inaugural sukuk.

A welcome development has been the role and involvement of multilateral financial institutions, such as (amongst others) the Islamic Corporation for the Development of the Private Sector (**ICD**), in providing technical help to advance the issuance of African sovereign sukuk, it being recognised that, despite strong growth in the Middle East and South-East Asia, Islamic finance has lagged in Africa, home to a quarter of the world's Muslims. This is reinforced by opportunities in Africa attracting more investments from Middle Eastern countries (and a desire by investors in global sukuk to maximise the diversification of their investment portfolios).

One size may not fit all – structural variations across Africa

The legal and tax infrastructure across Africa is not consistent and that is borne out by an analysis of the different legal structures that have been used to issue sukuk in Africa to-date. Moreover, notwithstanding the use of familiar Islamic finance principles in these transactions (for example, ijara), what is clear is that a "one size fits all" approach may not be achievable and that often structures that have been used in previous international sukuk issuances by sovereigns have to be (in some cases heavily) tailored to the local legal and tax system prevailing in Africa. In this regard, we briefly analyse the RSA sukuk and the Republic of Senegal sukuk, which demonstrate how the domestic legal landscape in each country directed the end structure of each issuance.

“At a time of ongoing fiscal deficits, sukuk could provide the means for governments across Africa to further diversify their funding sources and focus on domestic funding and domestic projects.”

The RSA sukuk

The RSA sukuk No. 1 Trust (the **RSA Trust**) was established in the RSA in August 2014 by GMG Corporate Fiduciary Services Proprietary Limited as its founder. A letter of authority from the Master of the High Court in Pretoria authorised ZAR Sovereign Capital Fund Proprietary Limited (the **Trustee**), a special purpose vehicle established in the RSA, to act as Trustee of the Trust in accordance with the South African Trust Property Control Act 1988. The Trust acts through the Trustee for the purposes of the issuance of the sukuk and the entry into the transaction documents.

The issuance was structured as a participation in a sale and leaseback of government-owned infrastructure assets. The proceeds of the issuance of the sukuk were used by the Trustee to purchase from the RSA (acting through the Minister of Water Affairs) a personal usufruct right in certain infrastructure assets located in the RSA. These assets were leased back to the RSA (as lessee) by the Trustee (as lessor) for the term of the sukuk and are to be repurchased by the RSA upon redemption of the

sukuk. The sukuk represent an undivided beneficial ownership interest in the Trustee's rights under the transaction documents, which includes the right to receive rental payments under the lease and the right to receive the purchase price for the repurchase of the assets upon redemption of the sukuk. Payments of rental under the lease are intended to fund the profit due under the sukuk on a biannual basis and the final rental payments under the lease, together with the principal amount payable by the RSA for the repurchase of the assets, are intended to fund the redemption amount payable under the sukuk.

The Republic of Senegal Sukuk

The Republic of Senegal's issuance was structured using securitisation legal principles, with a transfer of assets including a usufruct over governmental building complexes to a securitisation fund which then leased back the buildings to the Senegalese government and funded the purchase of the assets by issuing to investors "units" in the securitisation fund. As the securitisation fund is a form of co-ownership of the underlying assets as a matter of Senegalese law, the "units" are basically equivalent to a beneficial interest in a trust. However, the use of securitisation techniques results in an instrument which, at least structurally, is an asset-backed (rather than an asset-based) security.

The utilisation of legal models based on domestic legal frameworks for asset-backed products, as for the Republic of Senegal, is significant as it demonstrates potential avenues for structuring fixed income instruments in line with the requirements of Shari'a using existing legal concepts in the local jurisdiction, which will avoid any material (and time consuming) legislative change. For example, many civil law countries exploring how to allow domestic issuers to tap the international sukuk market may strongly prefer using or adapting such existing legal frameworks instead of using structures better suited to the GCC or Malaysian market, which may require legislative reform.

Importantly, in respect of each of the RSA sukuk and the Republic of Senegal sukuk, notwithstanding the legal segregation of the assets (in the RSA sukuk, the establishment of the Trust in full compliance with South African law also resulted in the local segregation of the assets), any return for the investors depends purely on the timely performance of the relevant sovereign rather than on the real performance of the assets (the government, in each case, is the only entity entitled to own the relevant assets or the securitised receivable, respectively). Therefore, in the context of these sovereign issuances, any distinction between asset-backed and asset-based securities is of little practical consequence.

“Legislative developments by certain African governments since 2014, such as the Federal Republic of Nigeria, the Republic of Kenya and Uganda, are very much welcomed and this trend has also been prevalent in Northern Africa, particularly in the Kingdom of Morocco and Tunisia.”

Conclusion

Even though the number of African countries issuing sukuk has increased over the past three years, there is further potential to leverage and nurture Islamic finance through the issuance of sovereign and corporate sukuk. Whilst some countries have managed to issue sukuk within the context of their local legal and tax laws, in other cases, specific legislation has been prepared to facilitate the development of the local (and international) market. What is clear is that sukuk issued by African sovereigns may not be uniform in structure. In light of the need for increased development and infrastructure finance, and diversifying sources of development and infrastructure finance, the efforts of multilateral financial institutions, local governments and key industry stakeholders to support the growth of the market will continue to remain important.

Contributor’s Profile

Stuart Ure is the Head of Capital Markets for Clifford Chance in the Middle East, specialising in structured finance and conventional and Islamic debt capital markets. Stuart is recognised as a 'go-to adviser' for debt capital markets by Chambers Global 2017 and is noted for his extensive experience and comprehensive advice. Client work includes advising the State of Kuwait and the Sultanate of Oman on their inaugural debt securities offerings and the arranging banks on the inaugural issue of sukuk by the Republic of South Africa.

ISLAMIC FINANCE IN AFRICA: CHALLENGES AND OPPORTUNITIES

By **Xuan Jin,** Senior Associate, White & Case LLP

The global Islamic finance industry has grown at a rapid rate, in both financial size and geographic scope over the last decade and a half. Although Islamic finance assets still only represent less than 1% of global financial assets and growth has slowed somewhat in 2017, the global Islamic asset base grew from approximately US$200 billion in 2003 to an estimated US$2 trillion at the end of 2016 and is projected by some industry experts to surpass the US$3 trillion mark by 2020.

In terms of geographic spread, Islamic finance assets have historically been concentrated in the Middle East and Malaysia (currently accounting for more than 80% of industry assets), but in the last five years, more and more stakeholders from traditionally non-Islamic majority jurisdictions including Europe and East Asia have been entering the Islamic finance market or voicing their intention to participate in Islamic finance transactions.

Africa in particular is a region which, with a Muslim population of approximately 630 million (representing over 50% of the total population of the continent) and its overall infrastructure development needs, would seem to be potentially fertile ground on which Islamic finance can thrive.

Some African countries have already started taking steps to support the local uptake of this financing tool. For example, among others, South Africa, Nigeria, Kenya, Senegal, Djibouti, Uganda and Morocco have introduced legal and regulatory frameworks to promote the development of Islamic finance products in their respective jurisdictions. Islamic banks and Takaful (Islamic insurance) companies have been established in countries including Nigeria, Tunisia and South Africa, and a number of conventional banks across the continent have also started to offer Shari'a-compliant banking products through "Islamic windows". The development of such Islamic finance products, both in addition and as an alternative to conventional banking and insurance offerings, increases Africa's currently financially underserved population's access to finance, particularly considering that some African Muslims will not take up financial services provided by conventional banks.

"Africa, with a Muslim population representing over 50% of the total population of the continent and its overall infrastructure development needs, would seem to be potentially fertile ground on which Islamic finance can thrive."

In the public sector, regional governments have either started issuing sukuk (such as South Africa, Senegal, Nigeria, Cote d'Ivoire and Togo) or have at least commenced preparatory work for their debut sovereign sukuk issuances (such as Tunisia and Morocco). Foreign and domestic investments through Islamic finance provide significant opportunities to diversify the sources of funds required to meet Africa's infrastructure investment needs, amounting to around US$90 billion per year for the next decade (according to projections by Ernst and Young). Sukuk issuances, which are intrinsically tied to tangible assets and project developments (such as roads, bridges, water and sanitation works and hospitals), provide relatively cost efficient means for African governments to address such infrastructure development demand and increase their ability to tap the significant pools of liquidity held by Islamic investors based in the Gulf Cooperation Council (GCC) countries and Asia who are looking for viable investment opportunities in Africa.

However, notwithstanding the aforementioned steps taken towards growing Islamic finance on the continent, Islamic finance is still some way from establishing itself as a mainstream form of finance across Africa as a whole. Underlying structural issues remain which pose challenges to the pace of development of Islamic finance in Africa. These challenges, which are not country specific and permeate to some degree the whole continent, include, among other things:

- **Regulatory gap –** The existing laws of most African countries have not necessarily been designed or supplemented to cater for the fundamentals of Islamic finance transactions, i.e., "interest-free" financings based on the sharing of economic risks and rewards and achieving returns by reference to the performance of Shari'a-compliant assets. Because they are intended to create economically viable structures on an interest-free basis, Islamic finance arrangements are typically more complex than their conventional/non-Islamic counterparts and they tend not to fit neatly within existing civil or common law frameworks. For instance, common considerations for unsecured sukuk financings (which do not arise in conventional unsecured bond issuances) include: (i) how the laws of the relevant jurisdiction treat the transfers of assets, particularly where on-shore assets are to be contractually sold to foreign special purpose vehicles; and (ii) whether the tax code (and any exemptions and reliefs laid out therein) of the relevant jurisdiction applies to sukuk issuances in the same way as they do to bonds and, if not, how such regulatory treatment of sukuk (or other Islamic finance products for that matter) can be afforded equivalence to their conventional/non-Islamic counterparts under the applicable laws. With regard to tax in particular, without amendments to existing tax codes, the asset based nature of Islamic finance may, from country to country, trigger various tax payment obligations (including in respect of registration tax/stamp duty land tax, VAT, capital gains tax and withholding tax) not found in conventional financings. Issues like these clearly warrant regulatory consideration and oversight.

Without a minimum degree of regulatory clarity in any given jurisdiction, uncertainty (of, among other things, legal enforceability of Islamic finance products and increased costs of funding due to tax) prevails and it is likely to prove difficult to reach a critical mass for Islamic finance to flourish in such jurisdiction – the public sector will continue borrowing conventional debt, commercial banks may find it economically not worth the legal risk and potential additional costs to establish Islamic windows and there will be insufficient economic justification (to counter-balance the same uncertain costs and risks involved in unregulated Islamic finance) to make the establishment of new Islamic banks viable. In order to overcome these regulatory challenges, governments in Africa need to continue promoting change in the regulatory systems to allow Islamic finance products to become more mainstream and attractive to domestic and international stakeholders alike.

"Underlying structural issues remain which pose challenges to the pace of development of Islamic finance in Africa and which will take time to address, but it is encouraging to see positive action being taken."

- **Knowledge gap –** Across the finance industry as a whole (both globally and in Africa), Islamic finance is significantly less well understood, and is commonly considered (in many cases validly) more difficult to implement, than conventional/non-Islamic finance techniques. Whereas modern commercial banking and capital markets practices have been developed over, and established for, decades, even centuries, Islamic finance in its current form is, in relative terms, very new and niche. It comes as no surprise then that potential end-users of the tool, both in the public and private sectors, when given the choice, will often favour conventional over Islamic financing simply because they know what they are dealing with in the former, whereas the latter remains an unknown quantity.

To a large extent, such knowledge gap will be tied to the applicable regulatory framework (or lack thereof, as described above) in the relevant jurisdiction and, accordingly, it can be bridged by the introduction of the relevant regulations, as certain African governments are now doing (as described above). Additionally, standardisation in the industry in terms of products, documentation, business practices and the question of what is and is not Shari'a-compliant will inevitably improve awareness of Shari'a-compliant products as well as increase the efficiency with which they can be deployed to meet public and private sector funding

needs. We have already seen this increase in standardisation in other regions where Islamic finance is more widely deployed, such as the GCC and Malaysia.

- **Access to banking –** According to the World Bank, as many as 350 million Africans do not have a bank account. On the one hand, this represents a barrier to entry for conventional and Islamic financial institutions offering Shari'a-compliant banking products such as Shari'a-compliant personal loans, mortgages and Takaful, as clearly much of the population is accustomed to informal arrangements (such as loans from friends and family) and may be resistant to or disinterested in transitioning to banking with formal financial institutions. On the other hand, the relatively limited penetration of the formal banking system in Africa might in fact represent a golden opportunity for innovation in the sector. Africa is already well known as a hotbed for pioneering micro-finance products and non-banking financial institutions. M-Pesa, for example, is a mobile phone-based micro-finance provider launched in 2007 in Kenya and Tanzania, which has since then expanded to South Africa, Afghanistan, India, Romania and Albania and is currently used by over 25 Million customers globally.

As Islamic finance products and institutions become increasingly mainstream across the continent, it is conceivable that Shari'a-compliant microfinance products and institutions will also be locally developed, servicing in particular middle-to-low income Muslim customers. It is also possible that such Shari'a-compliant microfinance products and providers will then in turn extend their reach from Africa into other jurisdictions, such as South-East Asian countries, with large Muslim populations that cannot access the formal banking system due to the low level and/or regularity of household income or inadequate credit records. In this context, Africa has a chance to be a true innovator for the Islamic finance industry.

The above challenges are not new. Indeed, only the access to banking challenge may be considered uniquely African (and even then, only in terms of scale). The other challenges are ones that have also needed to be addressed in other parts of the world that have adopted Islamic finance techniques, from the United Kingdom to Hong Kong to the Middle East.

The regulatory and knowledge gaps in Africa will, of course, take time to address, but it is encouraging to see positive action being taken. As mentioned above, regulatory frameworks are being implemented in more and more African countries. African policymakers and end-users have also engaged with more developed Islamic finance markets to help them up the learning curve. For instance: a number of African financial institutions and government related entities (such as the Kenyan Capital Markets Authority) have become members of the Islamic Financial Services Board (IFSB), a multilateral body based in Kuala Lumpur which, among other things, issues, and facilitates the implementation, of global prudential and supervisory standards and other initiatives that foster knowledge sharing and cooperation among its members; since 2008, Bank Negara Malaysia has run over 300 Islamic finance programmes and study visits for more than 25 African countries including Nigeria, Sudan, Tanzania and Kenya; and the Islamic Corporation for the Development of the Private Sector (ICD), the private sector arm of Islamic Development Bank (IDB), the largest Shari'a-compliant multilateral development bank in the world, continues to play a role in developing Islamic finance in Africa by arranging local sovereign sukuk issuances.

Needless to say, the ways in which the various governments, organs of state and people of Africa respond to such challenges and the outcomes of such responses, are all interconnected. Raising stakeholders' awareness and understanding of Islamic finance products and practices, and the additional financing options they present, can spur public and private sector demand for the same and the regulatory reforms required to meet such demand. A diminished regulatory gap can in turn help address Africa's financial inclusion deficit by encouraging the growth of (and innovation in) Shari'a-compliant products, thereby increasing the range of financial institutions, products and services available to the populace. And providing African governments, companies and individuals with greater access to finance can play a major role in bridging Africa's infrastructure gap and promoting economic growth and social prosperity across the continent. Considerable work is still required in order to overcome the challenges standing in the way of Islamic finance flourishing in Africa, but the rewards may well be worth the effort.

Contributor's Profile
Xuan Jin is a senior associate in White & Case LLP's Capital Markets practice, based in Dubai. He specialises in debt capital markets and Islamic finance, with a focus on Middle Eastern financial institutions, corporates and sovereigns. He has experience working across a number of jurisdictions, including the Middle East, Malaysia, China, the UK and continental Europe, advising local and international clients (both on the issuer and dealer sides) on conventional and Islamic finance capital markets, as well as structured finance, transactions.

TAKAFUL INSURANCE IN AFRICA: CHALLENGES AND OPPORTUNITIES

By **Omar Gouda,** Managing Director, African Takaful Reinsurance Company.

The world of Insurance is struggling for decades seeking for continued growth and improved profitability. However, the increased competition among the market players across the globe, the free trade, the increased availability of capital, and the weak economy growth intensified the price cuts. This in turn wiped all efforts for reasonable profitable growth. Presenting new products and innovative marketing strategies were part of the response of the industry to the challenges. In this same trend, Takaful insurance started as a new marketing concept in the Muslim societies to avoid the long lasted criticism that the traditional insurance is not Islamic Shari'a compliant. Takaful or Islamic Insurance is a new concept which appeared a few decades ago and spread in many regions - Asia and Middle East reelecting two digits average growth since the first Islamic Insurance had its license in 1979.

Analysts have different estimates of the size of the World Takaful production depending on the inclusion of Saudi Arabia or Iran in the global statistics, however, all agreed on the higher growth of Takaful than the traditional one and also that it is the fastest growing across the regions.

It is known that Africa is home to the world's first Islamic bank and Takaful operator, but Takaful there has progressed at a slower pace than in other regions.

Islamic finance has flourished during the last century, as a result of the challenges that many Muslims face in responding to the modern financial system. The first Islamic bank, Mit Ghamr Bank, opened in 1963 in Egypt, followed by the establishment of the Islamic Insurance Company in Sudan as the first Shari'a compliant insurance company. Since then, the industry has spread to East Asia and the GCC, to find most of its success outside the continent of its origin.

For the time being, the African Takaful premiums estimated to represent less than 4% of the global Takaful production. This is relatively better than Africa's share of the global premiums which was about 1.44%, as per Swiss Re sigma No 4/2015.

Despite that it was originated in the continent, the Takaful industry grew very fast in South East Asia, followed by the GCC and lately in Africa. Slowly starting with Sudan in 1979, followed by South Africa, and gradually spread to many other countries including Egypt, Nigeria, Senegal, Tunisia, Libya, Tanzania, Mauritania, Kenya and The Gambia.

The continental Takaful market is seen as very promising by the industry leaders, as the market saw growth of 19% which is the highest, followed by GCC with 18%, being relatively new Takaful region, and declined by 7% in South East Asia. According to Milliman Global Takaful Report 2017.

In the same report and others, we find an optimistic look to the possible growth for this industry in Africa as compared to the rest of the world. This optimistic view is not based only on the fact that new markets usually see rapid growth as compared to the more traditional ones, or the fact that Takaful is not growing within the markets and expanding to new markets too, but on some other factors and opportunities which make the Takaful a reasonable candidate for higher growth and expansion in the continent. Those can be summarized as follows:

1. The African Muslims represent about 50% of the continent's population. This makes a large possible market for the industry.
2. The concept of Takaful makes it a genuine product for the majority of the population who enjoy low income and depends on the cooperation and solidarity to face the daily risks they are exposed to. Takaful is explained in its roots as a concept of solidarity.
3. The optimistic view of the continental economic growth is another driver for the growth of Takaful.
4. The fast growing Islamic finance in the continent is an important driver for the Takaful growth. It is note that usually the start up of a Takaful operator is following the presence of the Islamic banks and financial institutions.

Closer look to the development of Takaful in many African countries explains further the opportunities in the continent.

A brief overview of Takaful development in selected African countries

Egypt

Although the first Shari'a compliant bank started in Egypt in 1963, and first Shari'a complaint policy presented the following year, it was only in 2002 that Takaful was introduced to the country. Currently, there are nine Takaful companies in Egypt, of which five writing general Takaful and four write family Takaful.

Also the only registered reinsurer in the country is the African ReTakaful company as a Free Zone company. Africa ReTakaful is also the only full-fledged ReTakaful operator in Africa.

Many banks are fully Shari'a compliant, and many more have Islamic windows.

Still there is no separate regulations for Takaful industry, but rather some standards within the same legal frames and general standards for traditional insurance.

Kenya

There are two full-fledged Islamic banks in Kenya and at least six conventional banks offering Shari'a compliant products through a window

The Islamic insurance industry remains small in Kenya with one full-fledged Takaful operator (Takaful Insurance of Africa) and a ReTakaful window.

The release of the Takaful Operational Guidelines, effective June 2015, paved the way for conventional insurers to spin off Takaful windows. This is expected to drive more establishment of Takaful operators specially wih the ambition of the country to be a hub for Islamic finance.

Nigeria

The country boasts one full-fledged Islamic bank, two conventional banks operating Islamic banking on a window basis and a single full-fledged Islamic microfinance bank. It had three insurance companies offering Takaful products on a window basis.

To strengthen Takaful in the country, the National Insurance Commission (NAICOM – the country's insurance watchdog) has an Advisory Council of Experts to guide the Commission on Shari'a compliance. That resulted in granting licenses for two full-fledged Takaful operators as he legislator is not in favor of the windows.

Other areas that have seen improvement include the capital market, where the Securities and Exchange Commission (SEC) works to ensure that the Islamic capital market develops to its optimal level.

Senegal

In July 2014, Senegal beat South Africa and Kenya in tapping the Islamic capital markets, issuing its debut Sukuk of US$200 million targeted at banks and institutional investors.

There are at least three Islamic banks and one Takaful provider in Senegal.

Sudan

Sudan, whose entire financial industry is Shari'a compliant, established the world's first Islamic insurance company in 1979. Currently, there are 12 Islamic insurance companies, one specialized Medical Takaful operator and one reinsurance company. In addition, Africa Re is opening a representative office in Khartoum.

The Gambia

In January 2008, Takaful Gambia began operations and still is the only Islamic insurance company in the country where 95% of the two million population are Muslims.

Tunisia

Out of the 23 banks in the country, two are full-fledged Islamic banks: the first was established in 1983, the second was set up in 2009.

Tunisia has been floating the idea of issuing a sovereign sukuk since 2012. The issuance has been delayed, but the government has said it plans to issue a Sukuk, or Islamic bond, of $500 million to cover its budget deficit.

Despite the absence of a specific framework for Islamic insurance in Tunisia, takaful products have been available

in the country since 1985. Currently, there are at least four Islamic insurance providers in Tunisia.

South Africa

South Africa had a successful sovereign issuance of Sukuk of US$500 million in 2014. In 2015, one of South Africa's largest financial services providers suspended the sale of its short-term Takaful product through its window. The said provider is the only Takaful provider in South Africa. It is understood that they are exiting the short-term insurance business and as such, the Takaful window will also fold. However, it is understood that another insurance company has stepped up to service the South African Takaful market. Still some projects in pipelines to present Takaful products.

Uganda

The Ugandan parliament has agreed to introduce Islamic banking, but a central Shari'a advisory board needs to be in place first.

Challenges and Opportunities

The African Takaful industry is still in its early stage of development. There are wide deviations across the continent in terms of economic conditions, legal and regulatory frameworks and growth prospects. In most countries, there is an absence of appropriate legal framework for carrying out Islamic banking and insurance operations, shortage of trained manpower to conduct business complying with Shari'a rules, shortage of human capital and expertise support by way of education, a low level of training and market research in the Takaful field, a low level of awareness among Muslims, and limited Retakaful capacity.

However, the opportunities for Takaful growth in Africa are many and can be used for better progress of the industry. These include substantial Muslim populations, oil and gas potential in many African countries and increasing Takaful awareness among Muslim communities.

"It is known that Africa is home to the world's first Islamic bank and Takaful operator, but Takaful there has progressed at a slower pace than in other regions."

How to accelerate Takaful growth in Africa

- Investment in infrastructure/ support institutions;
- Promote/ develop products to meet the expectations of a wide client base, thereby increasing insurance penetration rates;
- Build relationships between market players and the government;
- Provide Shari'a compliant education, training and R&D;
- Raise public awareness of Takaful through seminars, forums etc;
- Have a supportive reTakaful market providing the necessary capacity;
- Formulate effective channels of communication with regulators and deliver any required assistance and support;
- Assist in establishing educational institutes/ training centres either dedicated solely to Takaful/ reTakaful or having these as a part of its programmes;
- Encourage and develop enterprise risk management concepts for the Takaful industry; and
- Enhance social responsibility as a material part of Takaful concepts.

"The continental Takaful market is seen very promising by the industry leaders, as the market saw growth of 19% which is the highest"

Contributor's profile

Mr Omar Gouda is the Managing Director, Africa ReTakaful Company a subsidiary of African Re. He is a seasoned and respected reinsurance expert who is well known at home (Egypt) and in the Middle East. He worked in collaboration with Africa Re management in the establishment of Africa ReTakaful, which has successfully been launched and commenced business in 2010 after a comprehensive efforts being made. Prior he was the Regional Director of North East Africa and Middle East of Africa Re before his appointment.

He started his insurance career in 1982 and worked with different firms, started with Egyptian Insurance Services Authority (EISA), NICE, Al Ahlia, ESIH, and lastly with Africa Re since October 2003. He had over 23 years in top Managerial levels, having in-depth experience in direct insurance and Reinsurance. Also, he is a member of many technical committees and Boards in many companies and institutions and member of Board of Directors of IFTI, the International Federation of Takaful and Islamic Insurance Companies.

ISLAMIC FINANCE IN AFRICA: KENYA'S EXPERIENCE AND OPPORTUNITIES

By **Luke Ombara,** Director of Regulatory Policy and Strategy, Capital Markets Authority of Kenya

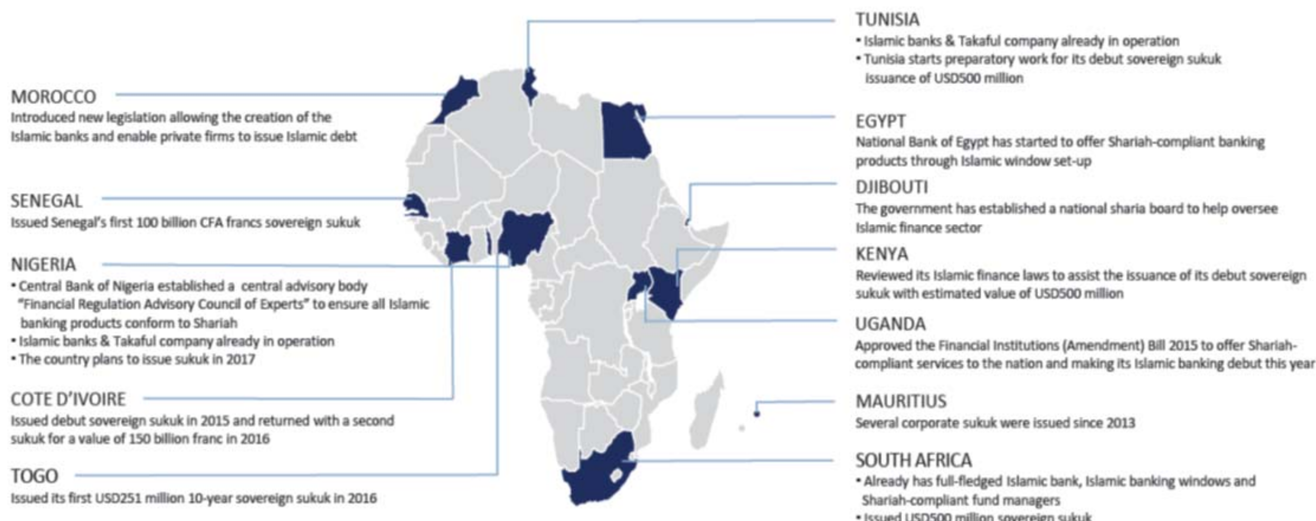
Islamic Finance is fast gaining currency on the global stage, with this field of finance continuing to grow rapidly, by size and complexity. Islamic Banking which has been accounting for over 75 per cent of the total asset size in the industry has already established a strong presence in more than 60 countries and become systemically important in 14 jurisdictions[1]. The growth which is to a degree attributable to perception of resilience to financial crises as well as the nature of Sharia-compliant finance models that focus on the principles of investment in real assets and risk-sharing is projected to register further growth in the coming decades, with this global industry expected to reach an overall value of USD 3.54 trillion by 2021, a remarkable 77% growth when compared to the value of USD 2.0 trillion recorded in 2015[2].

In Africa, compared to conventional finance, the size of Islamic finance remains small, although it has potential to grow, given the region's demographic structure and potential for financial deepening. In a number of African countries, there have been concerted Islamic finance market development and regulatory efforts, with Nigeria, Sudan, South Africa, Senegal, Morocco, Niger and, Kenya among others putting in place necessary legal and regulatory frameworks to facilitate Islamic finance[3]. There already are more than 50 Islamic financial institutions in Africa out of 600 institutions globally[4].

As a jurisdiction, Kenya has recently committed to in nurturing Islamic Finance as an avenue for not only improving product diversity in the country's financial markets, but also improving the level of financial inclusion. To this end, the country's 10-year Capital Markets Masterplan (CMMP) which is also a flagship project in the country's long term Vision 2030[5], fronts Islamic Finance as one of the key cogs in the wheel that would unlock the country's growth potential. This is especially so, given the country's geographical position, sizeable Muslim population and infrastructure funding needs. All the efforts on Islamic Finance are anticipated to culminate in positioning the country as a Centre of excellence in Islamic financial products.

In terms of its experience, Kenya started its journey of domesticating Islamic finance in 2015 when it procured the services of international consultants to walk it through the path to vibrant Islamic finance market. This saw the formation of an Islamic Finance Project Management Office (PMO) – a Kenyan National Treasury - spearheaded initiative bringing together the country's financial sector regulators to among other things, effect changes to relevant tax, Public Finance and financial sector regulatory provisions to facilitate the operation of Islamic finance. Further, to help standardize its capacity and regulatory framework in line with global standards, , in

1 An IMF Paper on 'Ensuring Financial Stability in countries with Islamic banking' – January 2017
2 ICD-Thomson Reuters Islamic Development Report 2016, p29
3 Islamic Finance In Africa: Impetus for Growth - Malaysia World's Islamic Finance Marketplace; June 2017
4 "Islamic Finance in Africa: A Promising Future", Islamic Corporation for the Development of the Private Sector (September 2015)
5 The Vision 2030 is the Nation's economic blue print for transforming into a newly industrializing, middle-income country providing a high quality of life to all its citizens by 2030 in a clean and secure environment



Source: Malaysia World's Islamic Finance Marketplace, June 2017

December 2016, Kenya joined the Islamic Financial Services Board as an Associate Member through the country's capital markets regulator – The Capital Markets Authority. The country is also working on an appropriate Islamic Governance as well as public education and awareness creation framework to better equip it to become competitive regionally. Extensive capacity building has been undertaken, not only for technical staff of financial sector regulators, but also for key policy makers such as the Kenya Revenue Authority, the State Law Office and the National Treasury to build their understanding on key concepts in Islamic Finance to inform necessary policy decisions that will influence the development of this industry.

Notable milestones so far include: enactment of Kenya's Finance Act 2017 thereby affecting Finance amendments to the relevant Act 2017 to the relevant Financial Sector Regulators' Acts, which has paved way for actual drafting of regulations and guidelines for each Financial Sector Regulator to operationalize the amendments to primary legislations; increased policy pronouncements by the Kenyan Government around Sukuk issuances, which has generated strong interest by international exchanges in listing of the same as well as positioning by local and international arrangers and transaction seeking to package Islamic finance products.

For Kenya, given its level of development, Islamic finance presents unique opportunities for capital raising to support ambitious infrastructural projects to prepare the country for middle-income status by 2030. Further, Islamic finance is anticipated to boost financial inclusion and diversify the available product and service portfolio in the financial sector, providing an opportunity for a deepened market for more rapid growth.

Kenya is therefore already taking key steps not only towards realizing its full potential as a preferred center for Islamic finance but also playing a role as an international financial hub.

Contributor's Profile

Luke Ombara is currently Director, Regulatory Policy and Strategy, at the Capital Markets Authority, where he provides overall strategic leadership in Research, Policy, Strategy, Product Development, Regulatory Affairs and Investor Education functions. He has risen through the ranks, having joined the Authority in 1995 as a Graduate Trainee.

He has held various posts at the Authority including heading its research, market infrastructure and product development departments. Luke is a senior economist and policy analyst with over 22 years' experience in capital markets research and policy formulation, during which period he has developed more than thirty research and policy advisories focusing on gaps in the securities, investments and derivatives. He is also a Balance Score Card Professional.

Luke served as the NSE Demutualization Champion between 2010 and 2011 and as Project Manager for establishment of a Derivatives Market in Kenya between November 2012 and December 2015. He currently chairs the Capital Markets Master Plan Implementation Committee (CMMP-IC, Capital Markets Master Plan Steering committee (SMMP-SC) Secretariats and Joint CMA/NSE/CDSC Market Development Committee. Additionally, he serves as a Member of the Technical Committee of the Financial Sector Regulators Forum; as an Associate Member of the Toronto Leadership Center; and as alternate to the Chief Executive on the Board of the International Organization of Securities Commissions (IOSCO).

Luke is an ardent soccer fan, relishes a broad genre of contemporary and classical music, as well as an avid reader of innovative publications.

ISLAMIC BANKING IN NIGERIA: EMERGENCE, CHALLENGES AND OPPORTUNITIES

By **Hassan Usman,** Managing Director, Jaiz Bank Plc, Nigeria

Nigeria is one of the countries that recognizes Islamic Finance as one of the key services in the bank industry and the economy. Nigeria witnessed the emergence of its full-fledged non-interest bank in the year 2012, which has been recognized as one of the Islamic Financial Institutions (IFIs) in the world. Like any other financial institution in the country, the IFIs are regulated and controlled by the Central Bank of Nigeria (CBN). In addition, the CBN is obligated to issue guidelines for any banking product that is lawfully introduced within the banking system (conventional or otherwise) and also educate and inform the Nigerian public on it, contrary to what is assumed by many that the CBN is promoting Islamic Banking. Despite the successful acceptance of Islamic Banking in Nigeria, there are some issues and challenges faced by the nascent sector. On this note, this article wishes to discuss the emergence, challenges and opportunities of Islamic Banking in Nigeria.

Overview of Islamic Banking:

Islamic Finance is a financial system whose operations and policies are based on the norms and rules of Islamic law (Shari'ah), and reflect the injunctions of Islam (Chapra, 1992; Zaher and Hassan, 2001; Warde, 2000). This particular definition suggests that Islamic Financial Institutions are not just banks, but also other types of financial intermediaries that employ Shari'ah principles to operate. According to Iqbal (1997), Islamic Finance aims to make an actual moral and equitable distribution in resources and social fairness in the society.

Islamic Banking, as a branch of Islamic Finance, is referred to as a system of banking or banking activity that is consistent with the principles of Shari'ah (Islamic law) and its practical application is guided by Islamic economics. In particular, under Islamic Finance, money has no intrinsic value. The prohibition of the receipt and payment of interest (known as Riba or Usury) is of particular importance in the Islamic Financial System. Speculative behaviour is discouraged and investments can only be performed in Shari'ah-approved activities, while alcohol, pork, pornography and gambling businesses are considered unlawful. Ethical and social considerations are also of particular importance in Islamic Finance (Alexakis and Tsikouras, 2009). Therefore, Islamic banking can be generally defined as any banking system that avoids dealing with interest-based transactions an as well as un-ethical and un-social practices prohibited by Shari'ah law.

There are many Islamic banking products, but most commonly used are Mudaraba (trust partnership), Musharaka (joint venture partnership), Murabaha (sale contract with mark-up), Ijarah (leasing contract), Istisna (manufacturing based on deferred sale contract) and Qard al-Hassan (benevolent loan). Other products and services being offered by Islamic banks are Salam (forward sale contract), Ijara wa Iqtina (lease to own), Wakala (agency contract) and Kafalah (bank guarantee).

Emergence of Islamic Banking in Nigeria:

The concept of Islamic banking is not new in Nigeria as its absence in the country generated a lot of concerns despite its overwhelming Muslim population. Enormous efforts have been made over the years to ensure the establishment and operation of Islamic banks in Nigeria. The effort was dated back to the 1990s when Habib Nigeria Bank (now Keystone Bank) applied and got CBN's approval to set up an Islamic banking window. In 2004, Jaiz International Bank applied for a full-fledged Islamic banking licence and was granted Approval-In-Principle (AIP), to that effect. However, it could not meet the new capital requirement of 25billion Naira introduced then by the CBN.

The provisions of Sections 9, 23 and 52 in the BOFIA Act 1991 as amended for the establishment of non-interest banking in Nigeria authorized the emergence of Jaiz Bank in 2012 to operate a full-fledged Islamic bank. The provisions also provided the basis for conventional financial institutions such as Sterling Bank and Stanbic IBTC to operate Islamic banking on a window platform.

In taking cognisance of the fact that operational licence cannot be granted without a supervisory/regulatory framework, the CBN released the "Guidelines for the Regulation and Supervision of Institutions offering non-interest (Islamic) Banking" in the year 2011.

The introduction of Islamic banking in 2011 was part of the CBN's initiative to boost the economy and promote financial inclusion through alternative products (Vanguard Nigeria, 2012). This development, as noted by the CBN, non-interest regime offers veritable incentives and as well provides attractive options for investors.

Challenges:

There are many issues affecting the smooth operations of Islamic banking industry in Nigeria but the major challenges identified are as follows:

- Lack of Shari'ah compliant liquidity management instruments for the banks to manage their liquidity.
- Lack of adequate supportive instruments from regulatory authorities.
- Non availability of qualified professionals with requisite knowledge and experience in Islamic banking and finance.

- Poor patronage by Muslims especially the high net worth individuals as well as State Governments some of whom have even introduced Shari'ah law in their States.
- Shortage of expertise especially at Shari'ah advisory level to advise such banks on Shari'ah compliance.
- Inadequate investment in staff training by the banks.
- Lack of confidence on the part of general public on the new system.

Opportunities:

- Population of Muslims exceeded 50% of the country's population making the country a ready market for Islamic banks.
- Availability of scholars that can easily be trained on Islamic Banking concepts.
- Huge and untapped business opportunities in the country for Islamic banks to invest especially when one considers the size of the unbanked population and informal sector.
- Efforts from other regulatory authorities by issuing frameworks for Islamic Banking and Finance such as Nigeria Deposit Insurance Corporation (NDIC), Federal Inland Revenue Service (FIRS), Securities and Exchange Commission (SEC), National Insurance Commission (NAICOM) and National Pension Commission (PENCOM) to complement the effort of the CBN.
- The need for to address infrastructure gap in Nigeria and the interest expressed by the Federal Government to use Sukuk to finance infrastructures in the country. Sovereign Sukuk of 100 Billion Naira had just been announced by the Federal Government of Nigeria (FGN), this will also encourage some States to use Sukuk to source fund to finance projects in their States.
- The plan by several other conventional banks in the country to open window for Islamic Banking. Sterling Bank, Stanbic IBTC have been operating and other banks are also making efforts toward joining.
- Establishment of various educational in institutions in the country for the purpose of Islamic Banking and Finance training and development. This includes International Institute of Islamic Banking and Finance (IIIBF) of Bayero University, Kano (BUK), Ahmadu Bello University, Zaria (ABU) Center for Islamic Finance etc.

"Nigeria is a country that recognizes Islamic Finance as one of the key services in the banking industry and the economy. Nigeria witnessed the emergence of its full-fledged non-interest bank in the year 2012, which has been recognized as one of the Islamic Financial Institutions (IFIs) in the world."

The Way Forward:

Many countries have seriously supported the business operations of Islamic banking industry by enhancing their policies to suit domestic and global best practices. With the belief that Islamic banking can serve as a driver to boost the economy and promote financial inclusion through its alternative products, the issues and challenges identified in the article could be addressed by the following recommendations:

- Introduction of liquidity instruments by the CBN to help Islamic banks manage their liquidity. This may include Mudaraba Instruments, Qard or Wakala based instruments as well as the Sukuk market.
- All the regulators should help develop the sector in their own way. For example the FIRS have issued a draft framework for taxation of non-interest banking products but yet to make it operational. This will help provide a tax neutrality to prevent double taxation especially in Murabaha and Ijarah transactions.
- Staff of Islamic banks should be rigorously trained to help bridge the gap in skills and experience. Trainings should focus more on Islamic banking and Shari'ah related issues such as Treasury, Risk Management, Legal Documentation etc.
- Muslims should be encouraged to patronize these banks since in essence it is a religious obligation for them to bank free of interest. In addition, mass campaign should be carried out to enlighten other members of the society including non-Muslims to try the services of such banks.
- Scholars of Shari'ah should be encouraged to learn finance and economics while Academicians who have knowledge of conventional finance and economics should be encouraged to study Shari'ah. This will bridge the gap created by lack of qualified Shari'ah scholars. As it is today, most of the banks are employing the services of foreign professionals to perform this task which can be quite expensive for a new organization.
- There should be cooperation between all the Islamic banks towards the development of the sector since all of them are rendering service to the society.

Contributor's Profile

Mr. Hassan Usman joined Jaiz International in 2005 as a pioneer staff and was a key member of the team that led the process leading to the licensing of Jaiz Bank Plc in 2011. He served as General Manager-Business Development from January 2012 till April 2013 and was Executive Director in charge of Operations and Information Technology prior to his appointment as the Managing Director/CEO in June 2016. Mr. Hassan Usman is a First Class Graduate of Accounting from Ahmadu Bello University, Zaria, Nigeria and a Fellow of the Institute of Chartered Accountants of Nigeria. He obtained a Post Graduate Diploma in Management in 1995 from Maastricht School of Management and also attended the Oxford University Advanced Management Programme in 2002. He worked as the Financial Controller of Nigerian Development Company Limited until he joined NAL Merchant Bank Plc, Nigeria where he served as the Financial Controller and Treasurer respectively between 1996-2001.

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ISLAMIC STRUCTURED TRADE FINANCE: EXPERIENCE IN SENEGAL AND THE GAMBIA

By **International Islamic Trade Finance Corporation (ITFC),** Saudi Arabia

Supporting the Groundnut Sub-Sector in Senegal & The Gambia

Groundnut and its by-products are of significant importance to Senegal and The Gambia at many levels. As a basic food crop, groundnut plays a central role with respect to poverty reduction and food security as it provides a source of income for over 3.1 million small-scale farmers in both countries. It also contributes to livestock feeding and export earnings.

Groundnut crop cultivation, processing and trade, further affect the socio-economic development of these two countries. According to the findings of a joint study conducted by ITFC and the International Trade Centre (ITC) in 2011, groundnut products averaged about 27% of total Gambian exports and around 5% of Senegalese exports. This helped contribute to foreign exchange earnings as well as the reduction of trade deficits. In both countries, local value addition through small and medium scale processing is considered essential for both the development of the national industrial fabric and an increase in the value of exports.

Impact of ITFC's intervention on the Farmers

In view of the importance of this crop, ITFC focused resources on providing financing through established state-owned enterprises involved in the marketing of groundnut in both countries. In addition, ITFC in cooperation with the respective countries and state-owned enterprises established specific trade structures to mitigate the risks inherent in the transaction, as well as to secure the source of repayment. Since ITFC's intervention in the sub-sector, an aggregate financing amount of about USD222 million has been extended to the two countries for the purchase of groundnuts from local farmers at prices established at the beginning of the trade season (See table below). The purchased nuts are semi-processed for export to various destinations in Europe and Asia.

A major impact of ITFC financing of the groundnut sub-sector in the Senegambia region is that it eliminated the need for the Groundnut Company to purchase nuts from the farmers on credit. For example, in The Gambia, in the past, farmers used to sell their nuts against Promissory Notes issued by the Groundnut Company. Thus, there had been times when farmers delivered their groundnuts only to be paid many months after the sale of their nuts. This used to cause considerable hardship to the farming communities given that groundnut farming is the sole source of income for most of these farmers. This, forced many farmers to find alternative but inconvenient means of selling their nuts for cash. With ITFC's financing intervention, there has been a considerable change to the former process. Farmers are now paid on a timely basis upon the delivery of their products at the designated locations. In a testimony given by the National Food Security Processing & Marketing Corporation (NFSPMC) of The Gambia (formally called The Gambia Groundnut Corporation), credit buying of groundnuts from farmers is now a thing of the past as farmers are paid cash at the various Seccos (buying points).

Country	Commodity	Total Financing	Ultimate Beneficiaries
Senegal	Groundnut	USD105 million	Up to 3 million small farmers whose livelihoods depends on groundnuts farming.
The Gambia	Groundnut	USD117 million	More than one hundred thousand small-scale farmers whose livelihoods depends on groundnuts farming.

Supporting the Strategic Sector

In Senegal, in line with its objective of supporting strategic sectors in its member countries, ITFC, on February 21, 2016 signed a Syndicated Murabaha Financing Agreement for USD 75 Million (CFA Franc 45 billion) in favor of the Republic of Senegal, with Société Nationale de Commercialisation des Oléagineux du Sénégal (SONACOS) as the executing agency. The financing was a major step for the 2016-2017 groundnut campaign, SONACOS being the leading player in the Senegalese groundnut sector. Previously, ITFC also provided USD 30 million financing to cover the 2013-2014 Groundnut season.

Given the vital importance of groundnut to the socio-economic development of the country, the Government of Senegal requested ITFC to provide financing to cover part of the required funding for the entire 2016/2017 groundnut season.

The recognition of ITFC's intervention in this key sector is acknowledged at different levels, especially with testimonials from direct beneficiaries as illustrated below.

"On this occasion, I thank ITFC for its cooperation. SONACOS has planned to collect 200,000 tons of groundnuts out of the one million tons to be produced in the country for 2016/2017 season. The challenging objective was however jeopardized by the shortfall of financing faced by most actors in the sector. The intervention of a multilateral organization like ITFC eventually impacted local banks which finally set aside their reluctance and brought their support to the sector. Finally, the initiatives and actions carried out by ITFC contributed greatly to the on-going restructuring and the reduction of financial constraints not only at the level of SONACOS but also at the level of the whole Senegalese groundnut sector." - *Mr. Abdou Karim Diop, CFO of SONACOS*

UNDERSTANDING AND MANAGING LEGAL RISK IN ISLAMIC FINANCE

By **Mohd Johan Lee,** Managing Partner, J. Lee & Associates, Malaysia

Islamic finance stresses on the need of *Shariah* compliance in its substance. However one must not forget the legal regulatory compliance aspect of the instruments involved as well as the entire exercise itself. Notwithstanding the full adherence to the shariah, should any of the instruments or the transaction involved go against the legal regulatory framework of the jurisdiction(s) it is governed, the documents or the exercise would not be enforceable by the court[1]. Thus legal risk is one aspect that Islamic finance practitioners should not ignore from the inception till the completion of the entire exercise.

Legal risk imperils upon the possibility that the documents the exercise structured upon or the exercise itself could go against certain provision of the law(s). The former would happen when a particular provision of the document or the structuring of the entire document is against the law or is invalid under the law. In such instance, the severability clause would usually be handy whereby the court would decide that only the infringing clause or document is unenforceable. The remaining provision or the other documents will still be valid and enforceable[2]. A contract might stipulate that the transaction is backed by a mortgage of a piece of customary land to the financier as collateral. However, that mortgage of the customary land might be prohibited by the relevant customary land law. In such situation, the provision requiring the mortgage of the customer land will not be enforceable. Yet, all the other provisions of the contract will still be valid and binding on the parties.

The later, on the other hand, is of more serious consequence. Should the entire exercise be cited as against the legal requirement of the jurisdiction it is governed with, the transaction would be illegal in the eyes of the law. Hence, all the agreements and provisions will not be binding on the parties. The parties to it will be deprived of their promised return stated under the contract[3]. At most, the parties could only seek the redress under the equitable concept of restitution namely to restore the parties back to their original position. Under this, any person aggrieved by the illegality of the transaction or by the non-existence of the contract may seek the court's assistance in reimbursing what he has incurred up till the point of the illegality. The claim will be subject to the strict rule of proof under the law of evidence. He will not receive any damages in such circumstance. For instance, the builder to a house can seek the court's assistance in recovering the cost he has incurred up till the day the construction project is declared illegal. Should the court decided to assist him under the principle of restitution, he will be repaid of all expenditure he has spent on the project. However, he will not be able to recover the payment of $5milion he has been promised under the construction contract the employer had entered into with him.

Hence, legal risk is a risk factor that Islamic finance practitioners must consider from the initial stage and must exercise due care and diligent in managing and mitigating it. To do so, one needs to know that there are two potential scenarios when legal risk will trigger an issue. The first will cover situation when the illegal provision/ exercise has gone against the law from day one. To mitigate such risk, the parties must seek the advice of qualified legal persons who are well-versed in the law of the jurisdiction governing the transaction.

1. Mohd Johan Lee, Islamic Finance: Shariah Theories, Principles, Practice, and Legal Documentation in Malaysia, LexisNexis, Kuala Lumpur, 2017,
2. Mohd Johan Lee, Legal Documentation for Islamic Banking, IBFIM, Kuala Lumpur, 2014,
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"Legal risk is a risk factor that Islamic finance practitioners must consider from the initial stage and must exercise due care and diligent in managing and mitigating it."

Should the exercise actually be governed by more than one jurisdiction, the legal opinion of the experts in each of the jurisdictions must be sought. This is to ensure the compliance with all related laws of these jurisdictions.

While it is safe to say that the law of utmost consideration is the law of the country of origin, it is apt to know that the courts will instead focus on the law of jurisdictions. 'Law of jurisdictions' means the law onto which the transaction is governed. It could be the law of origin (the country it is issued). It could be the law on which the transaction is performed. It could also be the jurisdictions the parties have by their own will and consent agreed to be adhered to. For example, a sukuk issued out of London might have the underlying transaction (the leasing of the land) be performed in Saudi Arabia yet the parties might agree that the governing law will be the law of Malaysia. In most cases, all these laws will be the laws governing that particular exercise. Should there be any dispute, the court will first decide to which law it has to adjudicate the case on. Hence, all of these jurisdictions are the potential law of jurisdiction. The best practice of mitigating the legal risk of such exercise is to therefore seek the opinion of the qualified legal practitioners on the legality of the exercise itself and on the validity of the agreements under each of the jurisdictions. Upon the opinion and feedback of the solicitors on these, the parties must then take remedial action to ensure the compliance with these laws to mitigate such legal risk.

The second, on the other hand, is more challenging and at times will go beyond the manageable means of the parties at the time of they entered into the contract or at the time of issuance. This is the situation when the provision of the legal documents or the exercise itself is legal and in full compliance with the law of the land or jurisdiction at the time the parties enter into the contract or at the time of the issuance. However, for some unforeseen circumstances or unbeknown factors, the provision or the exercise itself later becomes an illegal provision or transaction. This usually happens when there is a change of law or even regime in the relevant jurisdictions. Managing such legal risk at the inception stage is almost impossible because the happening of such instances is akin to *force majeure*.

To conclude, Islamic finance exercise and all instruments involved in it must not only be in compliance with the *Shariah* but also in compliance with the law of the jurisdiction it is subjected to.

Contributor's Profile

Mohd Johan Lee is the managing partner of J. Lee & Associates, a medium-size award-winning legal firm in Malaysia. The firm is now a member of Primerus law, an international legal chambers group consisting of finest law firms worldwide. Primerus law is one of the top three biggest legal firm groups in the world.

He graduated with LLB (Hons) degree from International Islamic University Malaysia. He also holds a Master of Comparative Laws degree, a post-graduate Diploma in Shariah and Legal Practice both of which from International Islamic University Malaysia and, an MA in Economics for Competition Law from King's Collage London. He is currently a qualified member of the Chartered Institute of Arbitrators, UK as well as a mediator of the Malaysian Bar. He is an advocate and solicitor of the High Court of Malaya, the Shairah Court and the Supreme Court of Brunei.

He lectures part-time in a few local law schools (namely IIUM for the LLM, Unisza and UM for the LLB programmes) and in the IiBF of IIUM for the MSc.in Islamic Banking programme. He also occasionally conducts in-house trainings to various Islamic banking institutions worldwide, governmental and semi-govern -mental institutions.

He is now a member of the Shariah Advisory Council (SAC) of the Association of Islamic Banks Malaysia (AIBIM). Also, he is a consultant to few law firms and practices in Malaysia, Brunei, Singapore, Indonesia and the UK. He has drafted and developed numerous Islamic banking legal documents and products in Malaysia and overseas. He is a director of the IIUM Shariah Advisory Services Sdn. Bhd. Johan can be reached at: **mohdjohanlee@yahoo.co.uk** and his LinkedIn profile is **linkedin.com/in/mohd-johan-lee-b3190413**.

THE PROMISE OF SUKUK FOR AFRICA'S GROWTH STORY

By **Zakiyoulahi Sow,** Sukuk Project Manager, ICD, Saudi Arabia

Africa is on the brink of a major transformation. The continent possesses immense potential in becoming the new powerhouse of the world, underpinned by strong macroeconomic growth, a growing consumer base, strong retail markets and a young population. However, despite experiencing a period of sustained economic growth and the myriad of successes that stemmed from it, African countries still trail behind other developing countries in terms of sustainable development and poverty eradication. Recent strides have been promising, however the continent remains fragmented and pegged at the bottom of the global development tree. Such state of affairs threaten to derail the continent's progress, leaving it vulnerable to risks on many fronts.

To this end, the ethical and economically-viable product offerings of Islamic finance and the belief that money should be used to create social value rather than just wealth makes it in sync with Africa's future growth story, especially seeing that the continent is home to a quarter of the world's Muslim population. As an alternative type of funding, Islamic finance and its inherent characteristics lend themselves well to facilitating and promoting sustainable development, such as the risk-sharing modes of financing that promote assets and enterprise and the close link with the real economy.

In particular, sukuk as an alternative means to mobilise medium to long-term savings and investments from a huge investor base, continues to be an important source of much-needed capital to meet the ever-increasing demand for sustainable infrastructure development across the globe. Sukuk has proven its viability and dynamism as a global product for fund-raising and investment activities in the international financial markets and this has been a key driver behind the interest in Islamic finance.

In the African context, the most glaring opportunity to tap the sukuk market would be in the name of infrastructure development. There is a consensus that a chronic infrastructure bottleneck exists in Africa which is hampering the region's long-term economic growth and human development. According to the World Bank, the continent requires an estimated USD93 billion a year to finance its infrastructure needs, with two-thirds required for new physical infrastructure and the remainder for maintenance and operations.

Bridging Africa's infrastructure gap as a means of addressing the continent's numerous developmental challenges therefore, cannot be understated. Evidence have shown that when developing countries focus on upgrading their infrastructure, economies and people's lives will inherently transform for the better.

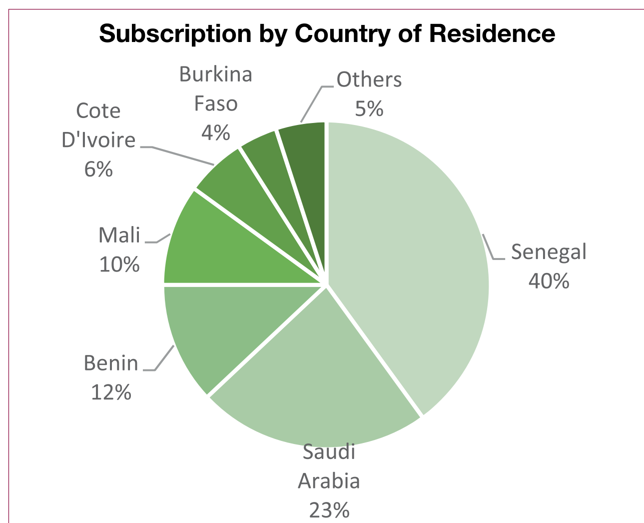
Ultimately, the burden of financing Africa's infrastructure projects can shift away from banks towards the sukuk market. In this regard, the Islamic Corporation for the Development of the Private Sector (ICD), the private sector arm of Islamic Development Bank (IDB), the largest Sharia'a compliant multilateral development bank in the world, continues to play an instrumental role in establishing important milestones for the development of Islamic capital markets in Africa.

To date, Africa has witnessed a growing share of mostly sovereign sukuk issuances. While states such as Sudan (mushararaka sukuk USD1.5 billion between 16% and 19% in 2012) and Gambia have issued sukuk in the past (USD12.6 million in 2008), it was in 2014 that Senegal debuted the region's largest sukuk issuance (USD208 million), with ICD acting as one of the lead arrangers. Following Senegal, South Africa became the third non-Muslim country after Hong Kong and the U.K to sell government debt that adheres to Sharia'a law by issuing a USD500 million 5.75-year sukuk in September 2014. Looking to emulate Senegal and South Africa's successful move into the sukuk market, Cote d'Ivoire and Togo have since made inaugural debuts in 2015 and 2016 each respectively north of CFA 150 billion and CFA 156 billion.

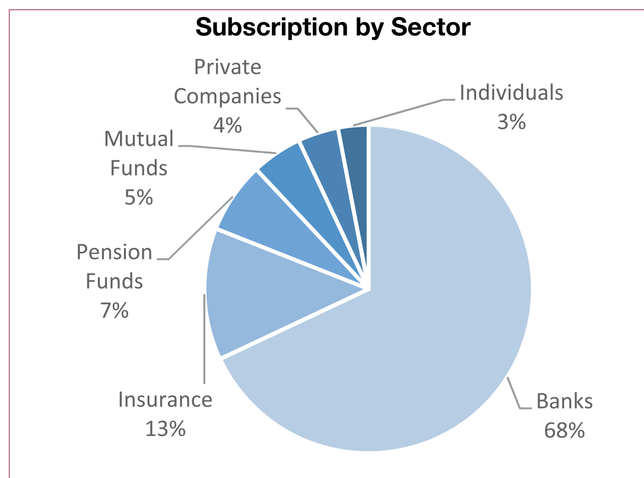
ICD was involved as lead arranger in all of the sovereign issuances in Western Africa (except for South Africa's sukuk).

In June 2016, Senegal launched its second sukuk

FCTC Senegal Sovereign Sukuk	
Item	FCTC Senegal Sovereign Sukuk
Type	Sovereign
Sector	Infrastructure/Education
Structure	Ijarah
Currency	CFA
Issue Amount	CFA100,000,000,000 (USD208 million)
Tenure	48 months
Issue Date	23 June 2014
Purpose of Issuance	The proceeds will be used to finance projects of economic and social development to the State



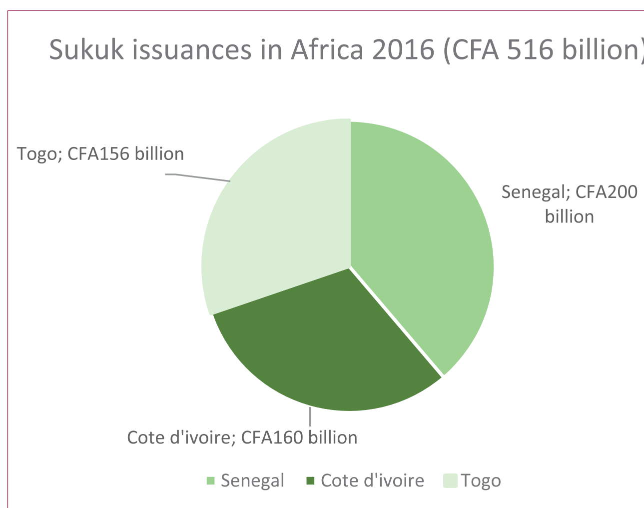
Overview of the FCTC Senegal Sovereign Sukuk



issuance, valued at CFA 200 billion. Accordingly, the funds raised will be used to finance Senegal's economic and social development projects, including the urban center of Diamniadio, a drinking water supply program, and a road and street lighting program. Meanwhile, Togo issued its maiden sukuk worth CFA156 billion with a 10-year maturity with ICD's support. This makes Togo the third state in the West African Economic and Monetary Union (WAEMU) to issue a sukuk after Senegal and Cote d'Ivoire. Meanwhile, following its five-year sukuk program with ICD, Cote d'Ivoire issued its second sovereign sukuk valued at CFA160 billion in August 2016.

Indeed, the recent sovereign issues in Africa will not only serve as an impetus for other African governments to follow suit and diversify its financing instruments via sukuk, but it will help the Islamic finance industry to mature and expand outside of the industry's core centers in the Middle East and Southeast Asia. In encouraging news, it has been reported that several African countries are in the midst of preparing legislation to facilitate sukuk issuances. This includes the continent's northern counterparts such as Tunisia, Egypt and Morocco.

Apart from exploring alternative financing mechanisms to support Africa's large infrastructure deficit, the continent is also at a stage where it needs to broaden the source of funds required to plug its revenue shortfalls caused by the



global commodity slump, especially for major oil-exporting countries such as Nigeria where oil plays a large role in their economies, external trade and fiscal position. The impact on budgets means that countries will look to diversify their funding platforms and Sharia'a compliant debt capital markets is one option alongside, or even instead of, the conventional capital markets.

Moving forward, it is crucial for entrants of the newly minted sector in Africa to recognize the multi-dimensional challenges that will need to be confronted. Increasing awareness and the acute understanding of Sharia'a compliant products as well as employing a comprehensive marketing strategy is important to educate and engage new customers in order to increase penetration levels. In addition, creating an enabling environment for Islamic finance to thrive as well as implementing a nation-wide strategy to develop the sector and ensure its success should also be tailored to the specific characteristics of the country, including, in particular, the size of the economy and its conventional financial system.

If appropriate measures are undertaken, Islamic finance will be able to provide the solid foundation of sustainable and inclusive growth in Africa..

Contributor's Profile
Zakiyoulahi Sow joined the IDB group through the Young Professional Program in 2000. After serving four years as an investment officer at the IDB's Islamic Corporation for Development of the Private Sector (ICD), he joined the Savola Group where he was in charge of business development and the group's M&A activities. Upon his return to the ICD as the executive manager for business development in 2009, he was appointed as the managing director for Tamweel Africa Holding, the subsidiary that owns and operates Islamic banks in Guinea, Mauritania, Niger and Senegal. During this period, he defined and implemented a turnaround strategy that enabled all the banks to gain leadership position in their respective market. After his term, Zaky was entrusted by the ICD with other initiatives like developing Ijarah and Islamic capital markets through Sukuk issuance that aims at developing Islamic finance in sub-Saharan Africa. After having successfully led the ICD advisory team for arranging the Senegal inaugural Sukuk, Zaky is handling similar initiatives throughout Africa.

MOROCCO AS AN ISLAMIC INVESTOR'S GATEWAY TO AFRICA

By **Rachid Boumehraz,** Partner, Fidaroc Grant Thornton, Morocco

Africa has gained ground for the last 10 years as a highly popular investment destination but most African economies today still depend on raw material exports and foreign financial flows, and are characterized by a weak industrial base and the predominance of subsistence agriculture. As a matter of fact, African economies remain essentially agricultural with a share of in GDP that can reach 70%, just like it's the case for Sierra Leone, the Central African Republic and Liberia and a share of population relying on agriculture reaching the 80% in 2015. For some other countries such as Guinea Bissau, Niger, Mali and Togo, the contribution of agriculture in the GDP is around 40%.

Nonetheless, several African countries have embarked in recent years in a journey of diversifying their economies but the results are yet to be seen. The African share in the global manufacturing output has gone down significantly to go below 1% despite the preferential access granted to European and American markets. Sub-Saharan African countries have failed to reap the benefits of globalization and have become the losers of this scheme mainly due to a structural problem in competitiveness.

The African continent has also long been the victim of a commodity curse with 89% of world platinum reserves, 81% chromium, 7.5% of natural gas, 10% oil. Economic dynamics and the derived growth of natural resources have not been inclusive and have had a negative impact on the diversification of some economies that have gone dependant on world commodity prices, an interesting case study on that would be the decay in economic fundamentals of the Nigerian economy following the drop in oil prices. Beyond the negative impacts on diversification, natural resources often drive externalities such as negative environmental effects, corruption, violence induced by the need to control the said resources with detrimental impacts on stability and investment.

One of the main reasons for the increasing interest in Africa is without a doubt the infrastructure needs of the continent that represent for global players across different industries (construction, engineering, real estate, telecom, finance) a tremendous opportunity for growth and profits. Africa suffers from deficiencies in housing, transportation, water, electricity, telecommunications, waste management and even in banking with only 18% of the population living on the continent having access to accounts and financial services.

Diplomatic, commercial and economic relations between Morocco and Africa have grown significantly in importance since 2000. Most Moroccan conglomerates made moves to expand in several countries of sub-Saharan Africa and have came up with diversified penetration and growth strategies ranging from the creation of subsidiaries to acquiring existing companies. The establishment of a more flexible institutional framework conducive to economic and trade exchanges with African countries has contributed greatly to this expansion strategy across the continent: bilateral agreements (14 conventions based on the Most Favored Nation Clause, 6 Preferential Trade Agreements, Global Trade Preferential System Agreement), regional arrangements, easing exchange control regulations to facilitate investment in Africa, 17 bilateral agreements for the promotion and protection of investments, 11 double taxation agreements.

According to Ernst & Young's 2013 Africa Attractiveness Survey, Morocco ranks second on the continent in terms of attractiveness for investors, just after South Africa. This position reflects investor confidence in Morocco, which has made significant efforts to provide the necessary infrastructure for investors. Take the example of transport and logistics infrastructure: Morocco moved from 113th position to 62nd position from 2007 to 2014 in the World Bank's Logistics Performance Index. Out of 155 countries ranked, Morocco is the third African country in the ranking, the first African country being South Africa (23rd place) and the second Tunisia (41st place). In addition, Morocco ranks 7th according to the Emerging Markets Logistics Index 2013, with a jump of 4 positions in a single year.

The kingdom of Morocco has several strengths and advantages to position itself as a facilitator and gateway for investors to Africa: i) the free trade agreement and the "advanced status" with Europe as well as preferential agreements with the African countries make Morocco an ideal transmission belt for access to a wider market ii) quality port and airport infrastructure iii) recognized expertise in sectors with high added value (banks, agri-food, etc.) iv) geographical, cultural and linguistic proximity with Francophone African countries v) political stability and a permanent legal and institutional framework. Moreover, Morocco has been since 2015 a member of the Gulf Cooperation council with whom it shares a long and rich historical common background. As a result, Morocco has made plans and moves to take advantage of its privileged geographical location and its advanced relations with European, American and Middle Eastern partners to position itself henceforth as an

economic and financial hub to the African continent. The most vivid example is the setting-up of a financial platform, Casablanca Finance City (CFC) with the aim of attracting international investors and providing them with the necessary infrastructure and adapted conditions enabling them to optimize their revenue streams and profitability from investments in North, West and Central Africa.

For the shariah-compliant investor looking to tap into the African continent for opportunities within the scope of the global Islamic economy, going through a gateway country that shares somehow a similar cultural background to the countries where those investors come from and that can serve as a platform thanks to all the conventions and agreements signed with African countries is not a bad idea. For the purpose of this article, we will be taking the example of the newly introduced sector in Morocco and that represents the largest share of sharia compliant investments across the globe: Islamic banking. Morocco passed a law in 2014 to introduce sharia compliant modes of financing and has called it Participatory finance. Since then, the central bank with other stakeholders of the ecosystem have been working on preparatory steps and on the underlying infrastructure necessary to the well-functioning of the sector. The aforementioned process took quite some time only to yield a unique model, a model that was described by experts as a prudent and transparent model that reinforces the role the regulator plays in financial stability and offers a relatively high level of guarantee from a sharia' compliance point in view. Furthermore, the Moroccan model ensures through the established legal framework a level playing-field between conventional and participatory financial institutions so that the latter as new entrants are able to meet client expectations in terms of pricing and quality of service. Let's not forget that the Moroccan regulator was very successful in making the entire ecosystem function together in complete harmony: redrafting the law 33-06 on securitization of assets to incorporate sukuk issuances, introducing real estate investment vehicles that can issue sukuk and a law on Takaful and re-Takaful.

Despite certain initiatives undertaken here and there, the Islamic Finance industry is still at a somehow nascent stage in Africa while the potential to seize is enormous. Countries such as Kenya or Uganda in East Africa or Nigeria, Senegal and Ivory Coast in West Africa have all issued sukuk and have started introducing Islamic finance in their institutional and regulatory frameworks. Moroccan regulators can play an active an important role in collaborating with African central governments and capital markets to help them improve their models and attract foreign investment. For the shariah compliant investor, Moroccan banks are in an extremely good position to be a privileged partner for Islamic banks (mostly from the Gulf region) trying to grab their fair share of the population boom inducing a significant growth in consumption, infrastructure needs and the entrepreneurial tissue requiring access to finance. The three leading banks in Morocco have accessed African markets quite early and have mastered them today with branches all over the continent and a comfortably growing market share.

The kingdom can definitely be an ideal investment gateway to Africa for the shariah-compliant investor but it must pursue its efforts to make its financial center of more attractive, notably on the deepening and multiplication of the signatures of non-double taxation agreements with African countries (only a dozen signed so far) and the stimulation of the financial market to make it more liquid and dynamic.

ISLAMIC DEBT CAPITAL MARKET: EMERGING TRENDS AND OPPORTUNITIES IN AFRICA

By **Ebrahim Moolla,** Islamic Banking Specialist of Rand Merchant Bank

Introduction

The use of Islamic Debt has benefits for both the borrower and the lender. For the borrower, it allows for a diversification of funding, by tapping into funds that could not participate in conventional debt. For the lender, it allows for inclusion in investing in projects structured in a manner that is allowed by their faith.

Development financing continues to be a big challenge, but some hope is emerging for African countries. The size of the resources needed to lift countries out of poverty by 2020 or 2030 continues to increase. Some estimates put the resources needed at over $200 billion a year for energy, irrigation, roads and rail; while there are also similar figures required for improvements in health, education and social protection.[1]

Countries will need to make progress on all these fronts to reduce poverty and improve the standard of living of their populations. African countries are looking for ways to accelerate development and meet the expectations of their populations. Financial institutions are making great strides in developing a range of products to match the demands of these countries. Innovation in development financing has the potential to be a determining factor for rapid, sustainable and inclusive growth over the medium term. An example of this innovation is that of using Islamic Finance.

South Africa, Nigeria, Senegal and the Ivory Coast are a few countries that tapped into the Islamic Finance industry, through the issue of a Sukuk. A sukuk, in simple terms is an Islamic bond, structured in such a way as to generate returns to investors without infringing Islamic law (that prohibits interest).

Sukuk represents undivided shares in the ownership of tangible assets relating to projects or special investment activity. A sukuk investor has a common share in the ownership of the assets linked to the investment although this does not represent a debt owed to the issuer of the bond.

“A sukuk, in simple terms is an Islamic bond, structured in such a way as to generate returns to investors without infringing Islamic law (that prohibits interest).”

In the case of conventional bonds, the issuer has a contractual obligation to pay to bond holders, on certain specified dates, interest and principal. In contrast, under a sukuk structure the sukuk holders each hold an undivided beneficial ownership in the underlying assets. In 2016, the Africa Finance Corporation (AFC) also issued a Sukuk to raise fund for deployment in infrastructure development. This Sukuk was awarded the Islamic Finance Deal of the year by the Banker Magazine[2].

With the need for infrastructure on the Continent, and the need for an underlying asset to be part of an Islamic Finance transaction, it makes perfect sense to link the 2 needs to each other and to use a Sukuk as an example to raise funds to invest in this Infrastructure deficit on the continent.

Africa has a Muslim population of around 600 million, as per the Pew Research, and there is a further opportunity to allow for inclusion investing from people of the Muslim faith into such Debt instruments that are Shari’ah (Islamic Law) compliant.

Africa is not only blessed with its people, it also has tremendous natural resources too. There needs to be a key focus on developing these resources to allow for manufacturing of goods and services for export to the halal economy. This example showcases a circular type of economy which will appeal to investors in an Islamic Debt note (Sukuk).

The Opportunity

There is a surplus of funds currently in the Islamic Finance industry and hence we need to attract these funds by structuring debt in a Shari’ah compliant manner and generates comparable yield. Shari’ah Compliant Asset managers invests mostly in Equities and Properties due to a dearth in other asset products, and there is thus a further need to develop a fixed income type of product to allow for better diversification in these portfolios. Sukuks meet this need.[3]

“Africa is not only blessed with its people, it also has tremendous natural resources too.”

What next?

There needs to be more regulation and tax development to allow for the inclusion of Sukuk in the Debt Capital

1. World Bank
2. https://www.biznews.com/africa/2017/05/16/islamic-finance-transaction-sukuk/
3. http://www.chinagoabroad.com/en/article/the-outlook-for-africa-s-islamic-debt-capital-market

markets on the African continent. South Africa has already made such developments, with amendments already been made in its Income Tax Act. Other countries have begun doing the same, but more needs to be done to level the" playing fields" to ensure that Islamic Debt has the same benefits as conventional debt.

More training is also required to educate and upskill people to understand and execute these Sukuk transactions as well as marketing the capabilities and benefits of using these types of products.

This is a new and exciting opportunity to explore and working with the right partner, will result in success. As a local bank, RMB can leverage its expertise and on-the-ground knowledge of the African market to structure the successful conclusion of an Islamic Debt Capital market deal.

"There is a surplus of funds currently in the Islamic Finance industry and hence we need to attract these funds by structuring debt in a Shari'ah compliant manner and generates comparable yield."

Contributor's Profile
Ebrahim Moolla has 10 years' banking experience. He began his career at Deloitte auditing major South African and international banks. In 2011, he joined FirstRand Bank working in various roles within FirstRand Group Treasury. He has assisted in setting up and implementing the group treasury functions for Islamic banking.

Ebrahim is a CA (SA) and has a CIMA qualification in Islamic Finance.

WILL ARTIFICIAL INTELLIGENCE REJUVENATE ISLAMIC FINANCE?

By **Rosie Kmeid,** Vice President, Global Corporate Communications & Marketing, Path Solutions

There are a number of industries that have already witnessed the impact of Artificial Intelligence (AI). But if AI has impacted one industry more than any other, it's the financial services industry. It therefore should be no surprise that the financial services sector is leading others in adopting AI.

The history of AI goes back to the 1950s when John McCarthy, an American computer scientist pioneer and inventor, coined the term in his 1955 proposal for the 1956 Dartmouth conference, the first conference on artificial intelligence. The objective was to explore ways to make a machine that could reason and act like a human. This was only the inception of AI as a concept but it wasn't implemented until the late 1990s. Over the years, AI enhanced its role and scope to include natural language processing, image recognition, deep learning, speech recognition and emotions. However, the pace of AI only picked up seriously after 2011 when tech giants showed signs of great interest and adoption, investing heavily in R&D.

The AI revolution is not only restricted to the world of finance, but it has taken it by storm. Faced with unprecedented challenges, financial institutions have started racing to embrace AI to gain a competitive advantage. The newborn awareness of AI to power change, growth and innovation points to more opportunities for financial institutions to boost performance.

Although the application of AI in the financial services sector is at a nascent stage, the astonishing speed of change in behavior patterns among customers is forcing financial institutions to be agile and rethink the way services are delivered to meeting the diverse and evolving needs of their customers, thus taking them to the next phase of the sector's evolution.

Disruptive AI reshapes global finance

For financial institutions the adoption of AI is not an option anymore; Customers' needs are changing rapidly, and traditional banking methods won't suffice anymore, especially with millennials. The need to embrace new technologies is imminent to compete in a data-driven, highly digitalized and device-using world.

By replacing older statistical-modeling approaches with AI and cognitive computing technology, financial institutions would see costs cut dramatically, along with improved operational efficiency and enhanced overall profitability. AI can also solve and even anticipate complex financial problems. The suite of tools available in AI such as machine learning, deep neural networks, natural language processing are amongst the few of the tools bringing a whole new experience to the world of finance.

Despite this strong IT need, it has been noticed that some conventional financial institutions are still in the early stages of AI adoption. On one hand, regulations and limitations in budget or resources are putting restrictions on the adoption of AI, and on the other AI continues to expand and grows smarter and more effective, combining human insight with automation and analytics, which present a double-edged risk to traditional banking, thus a stumbling block to progress.

Once AI-based systems surpass human performance, they are much likelier to spread quickly. The fear of falling way behind in the technology race will pressure these financial institutions to adopt AI-based technologies at any cost. Reaching this threshold opens up vast new possibilities for transforming their businesses.

AI: Islamic finance slow on the move

While AI continues to gain momentum across the financial services industry, Islamic financial institutions still lack the agility to fundamentally transform their businesses with modern AI. Despite being too close to that all-powerful machine intelligence, here the applicability of AI-based systems is yet quite narrow.

Islamic finance is still in the dismissive mode, thinking AI will not impact the industry. But, as customers become more sophisticated and knowledgeable, AI becomes extremely critical to Islamic finance. Just as in other aspects in life, the smart use of AI is a game-changer for the industry.

When it comes to technology, what applies to conventional finance also applies to Islamic finance. As estimated by Gartner, by 2020, customers of financial institutions will conduct 85 percent of their financial transactions with no human interaction. With changing customer needs and a growing generation of millennials, a bigger challenge for Islamic financial institutions is the fierce competition of conventional banks offering financial services that are both attractive and popular among millennials.

"Faced with unprecedented challenges, financial institutions have started racing to embrace AI to gain a competitive advantage."

Today's customers of Islamic financial institutions require greater transparency, personalised products and seamless experience across all channels. Disruptive AI challenges the old models and provides them with greater choice, convenience and reachability. It can make proactive recommendations to customers, and suggest courses of action based on data, logic and specific circumstances, which helps elevate the customer experience. AI is able to influence the speed and accuracy of this experience too.

"Disruptive AI challenges the old models and provides them with greater choice, convenience and reachability."

Where do AI and Islamic finance intersect?

The lack of legacy infrastructure in Islamic financial institutions is making them fertile ground for innovations. And while those same institutions are seeking a differentiator in their intense competition with the conventional ones, AI promises to deliver exciting opportunities.

Currently, AI is at the peak of its buildup cycle. Millennial Muslims represent a significant group of tech-savvy customers. As this target customer segment develops, it will require a suite of personalized services to address its needs and cultural values. One thing is evident, there is no conflict between innovation and Sharia. Thus, the coming years will be about combining AI with Islamic finance in order to ensure its survival.

In conclusion, we are at cusp of a real tech revolution. Plus, the building of a strong financial sector remains a work in progress. In tomorrow's world, there's no industry that can benefit more from AI. This ground-breaking technology promises to deliver endless opportunities - most of them have not yet been tapped, and many believe the reality is not far off.

The effects of AI will be magnified in the coming decade, where every industry will transform its core processes and business models to take advantage of its proven and countless capabilities. One thing is for sure though, technology pioneers are the ones driving the reconfiguration of financial services in the AI space.

"Once AI-based systems surpass human performance, they are much likelier to spread quickly. The fear of falling way behind in the technology race will pressure these financial institutions to adopt AI-based technologies at any cost. Reaching this threshold opens up vast new possibilities for transforming their businesses."

Contributor's Profile

Rosie Kmeid brings to the post a wealth of experience in strategic positioning and campaigning having held various senior positions across a variety of sectors including audiovisual, IT and telecom in addition to working for the Lebanese Government as Head of International Relations & Diplomacy. She is a regular speaker in international conferences and had several publications in the area of finance with special focus on financial markets and IT trends. Rosie holds a Master's degree in International Law from the Université Panthéon-Assas (Paris II) and a BA in Political Sciences and International Affairs from the Lebanese American University, and speaks fluent French, English and Arabic.

AFRICA: BUILDING THE ECOSYSTEM FOR A TAKAFUL INSURANCE INVESTMENT

By **Hatim El Tahir**, Director, Deloitte, Middle East

Global assets for Takaful (Shari'a compliant insurance) reached US$ 38 billion in 2015 and were mainly driven by three key countries - Saudi Arabia, Iran and Malaysia, which together represent 85% of the total (ICD-Thomson Reuters, 2016).   , compared with total Islamic finance assets, Takaful industry remains negligible and accounts for less than 2% of the total assets (see Table 1).

Generally, conventional insurance penetration rates in the Middle East, Asia and African markets are invariably less than 5%, with the exception of Malaysia, Singapore, Japan and Hong Kong where penetration rates amounted to 5.1%, 6.2%, 10.1% and 11.5% respectively. What is interesting is that the global Takaful insurance market exhibited double digit growth, representing 18% Compound Annual Growth Rate (CAGR), during the period 2007-2012 with worldwide gross Takaful contributions reaching US$18.3 billion in the first half of 2013. Nonetheless, the size of the industry still remained fragmented and significantly small compared to global Islamic financial assets with a market share of 1.1%. These figures should not discourage the reader, and our industry study and analysis suggest that there are enormous growth prospects in the Middle East, South Asia and Africa.

Clearly, Africa with improving regulatory and business friendly strategies now in place in some countries make Islamic finance and Takaful insurance stand out as key industry in the socio-economic development and welfare of societies. Either by having a large Muslim population or a government who supported the provision of alternative ethical or participatory finance. This is also called interest free banking in Ethiopia and non-interest banking in Nigeria.

As shown on the Table 1, Sub-Saharan Africa's total Islamic finance represents a tiny share of just over US$5 billion and Takaful insurance contribution is negligible. However, there is rising niche markets in countries such as Kenya, Nigeria, Sudan, and Tunisia. This article provides analysis of key economic and regulatory developments and as well as highlight some the potentials growth and strategies that will create a conducive investment environment in the Takaful sector in Africa.

The Islamic investment market in Africa is growing with wide opportunities for Takaful operators to hold a spread of Shari'a compliant investments and assuage any concerns a regulator may have. There has been a gradual increase in the gross contribution income in Africa from US$378.3 million in 2009 to an estimated US$432.2 million in 2011, an increase of about 25% in gross contribution income in these three years.

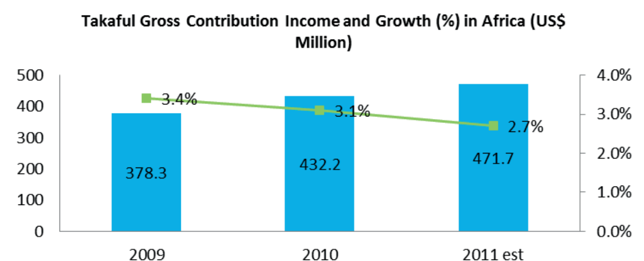
**This is article is based on Deloitte ME IFKC Research and Analysis.*

Table 1

The Islamic Finance Structure and Takaful Proportion

Country/ Region	Breakdown of Islamic Financial Segments by Sectors (USD billion, 2015)				
	Banking Assets	Sukuk Outstanding	Islamic Funds 'Assets	Takaful Contributions	Total Islamic Finance Assets
Asia	228.73	205.88	21.67	9.48	465.75
GCC	749.34	101.18	24.50	17.54	892.55
MENA (exc. GCC)	425.31	6.05	12.81	10.72	454.89
Sub-Saharan Africa	1.35	2.43	1.24	0.01	5.02
Others	46.37	4.91	6.22	0.00	57.50
Total	**1,451.09**	**320.44**	**66.44**	**37.75**	**1,875.71**

Source: The IFSB Report, 2014 and Deloitte Analysis



Source: World Islamic Insurance Directory 2013 & Deloitte Analysis

Sudan clearly leads the African region with a gross contribution income of US$363.4 million in 2010, followed by Egypt with gross contribution income of US$58.9 million in the same year. However, there are other countries in the African region at their initial stage in the Takaful industry, and these include Kenya, Nigeria and Tunisia.

Kenya

Economic overview

According to CIA World Factbook estimates, Kenya's GDP (PPP) was US$76.07 billion in 2012, and nominal GDP was US$41.84 billion in the same year. Kenya's population is placed at 39 million, out of which more than 10% is considered Muslim. As of March 2014, Kenya's economic prospects were positive with above 5% GDP growth expected, largely because of the expansion in tourism, telecommunications, and recovery in agriculture.

The potential market for Takaful products is projected to be around a quarter of the estimated four million Muslims in the country.

Institutional support
The Insurance Regulatory Authority (IRA) Strategic Plan (2013 – 2018) aims to improve insurance penetration from 3.1% in 2012 to 3.5% by 2018. The IRA has placed guidelines in its document regarding Takaful development and has given a timeframe for the completion of Takaful development by December 2014.

Market practice
Key Takaful operators include the following;
There are a number of Takaful operators in Kenya offering Shari'a based Takaful products from basic motor vehicle products to complex pension schemes, such as the Takaful Umbrella Fund. Companies distribute their products through registered brokers and agents.

Nigeria
Economic overview
Nigeria, whose total population of 170 million (51% Muslim) is growing at a high rate of 2.4% per annum, is considered a favorable destination for Takaful operators. According to estimates by the CIA World Fact book, the GDP of Nigeria was US$522 billion in 2013, with contributions from agriculture standing at 40% and the services sector at 30%. The insurance penetration of the country in 2010 was recorded at only 0.6%. Moreover Nigeria's favorable status is also related to:

- The existence of an Islamic banking system in Nigeria, with a Shari'a legal system in operation and an apex court called the Shari'a Court of Appeal
- A thriving oil industry, making Nigeria Africa's top oil producer.

Institutional support
The National Insurance Commission (NAICOM), Nigeria has already announced the release of its Takaful-insurance guidelines and registration requirements to the insurance industry and other stakeholders in order to increase insurance penetration in Nigeria. The regulator has also devised a minimum deposit requirement and risk-based capital requirements along with the provision of the establishment of an Advisory Council of Experts (ACE) for Takaful operators.

Market practice
NAICOM approved three insurers in 2008 for Takaful products and issued guidelines for Takaful operations in 2013.
Company L is licensed by NAICOM. Company L is a segregated group which offers Sharia'-compliant life and non-life products. The products of Halal Takaful range from individual family to group products.

Tunisia
Economic overview
Based on CIA World Fact book estimates of a GDP (PPP) of US$105.3 billion and growth rate of 3%, dominated by the services sector which accounts for 53.7%, Tunisia presents an enormous opportunity for Takaful expansion. The Takaful industry in Tunisia is still in its very initial stage but it is expected to account for 10-12% of the market in the next five years, according to the Middle Eastern Insurance Review of the African region. The estimated population of the country is around 10.7 million with the majority being Muslim, and Islam designated as the state religion.

Institutional support
The Tunisian National Constituent Assembly (NCA) provided separate chapters in the insurance code for the establishment of a legislative framework to rule Takaful insurance in July 2014. Through this law, Takaful has become a regulated framework in the system, with regulations made for Takaful insurance, and financial management of Takaful insurance companies.

Market practice
Takaful has been available in Tunisia since 1982. This was followed by the establishment of a re-Takaful operator despite the absence of a specific regulatory framework. More companies were established offering a wide range of Takaful and re-Takaful products since 2011. There are presently three Takaful operators in the country.

Outlook and Way Forward
Recent industry reports and Deloitte research reveals that the Takaful product offerings and diversity of products in Africa are lacking, and practice and regulatory reforms are yet to be improved to cater for mass markets and achieve growth rates in counter Middle East and Asian markets such as Saudi Arabia, UAE, Malaysia and Indonesia.

More precisely, industry stakeholders and regulators have to develop frameworks that support the investment from as key industry players in the Gulf region and Malaysia. Some of these changes required include building the ecosystem with the right market participants' education and awareness strategies.

It is vital, however, to build common knowledge goals and collaborative industry dialogues in key African markets, engaging regulators, practitioners and professionals to develop regulatory frameworks and standards, and best practices and that will boost the growth, effectiveness and competitiveness of Takaful insurance industry. For instance, Takaful operators in the Gulf region and the Middle East are expanding and limited with market capacity. Africa, being close to these markets make a natural option for expanding their operations and business. A number of Gulf Islamic financial institutions including Takaful firms are eyeing footage in Africa. Gulf African Bank was set and operate out of Kenya, Al Baraka Banking Group has operations in several African countries as well as Al Salam Bank. Thus, governments and businesses in Africa need to leverage its potentials working these institutions and others to build enabling regulatory and vibrant markets and identify opportunities. Key to this, is building good Sharia' governance, risk controls and talent and leadership strategies.

INTRAPRENEURSHIP KEY TO AFRICA'S FUTURE, THOMSON REUTERS

Industries are being disrupted one by one and as a result, business environments are constantly changing. Those that are embracing change and looking for ways to innovate faster and better are succeeding. Those that don't, are struggling. And, intrapreneurship is playing a critical role here.

Speaking at the first local Intrapreneurship Conference in Cape Town, Saidah Nash Carter, Head of Innovation at Thomson Reuters Africa said: "Intrapreneurship is a driver for accelerating culture change and organizational transformation and developing the capability to capitalize on opportunities for growth and we need to open these channels of collaboration if we are to truly realize great opportunities across Africa."

The potential in Africa is mainly about inclusion and exploring new innovative ways of providing services. However, it is hard to innovate in big companies – as they often sit with challenges around legacy procedures and infrastructures that can restrict their ability to innovate quickly. It is for this reason that Thomson Reuters believe it is critical to initiate such discussions around driving collaborative efforts through intrapreneurship; aimed at developing solutions that will start to address, or even solve, large scale problems affecting African countries.

"There is plenty of opportunity to leverage great things across Africa and there is so much that we could do through a community collaboration. By leveraging technology and look at leaner and more innovative ways of doing business, this will help us facilitate the growth of starts-up and achieve significant social impact. In fact, everyone should be thinking about the business of the future. We need people to be pushing the boundaries and leading change," said Carter.

The Fourth Industrial Revolution is a change of power which goes back to the individual and the people. However, bottom-up innovation is difficult to predict. "We are already seeing a lot of disruption and this will only increase," said Carter. "Big corporates will have to decide on how to operate with the new playing field and identifying opportunities is something that they need to stay focused on."

Take digital money and blockchain, for example, which will eventually result in everyone being part of the system. An ecosystem for trading data is emerging. A marketplace is emerging – which brings with it opportunities and concerns.

Continued Carter: "Africa's growth here is already taking place. Due to the success of M-Pesa, Kenya is widely recognized as a leading hub for mobile payments. And, we are going further than this – looking at solutions that optimize solar, drive last mile delivery and open up financial inclusion by improving access to, as well as trust in new banking platforms. Healthcare is also a great opportunity in Africa. With greater levels of mobile heath, remote support is extending reach. These solutions are very much needed in Africa and can only be achieved through collaboration."

With talk about frictionless currency transfer and e-governments as well as digital identities, the big fear story is that of the rise of machines. The growth in the intelligence and capabilities of machines present both a threat and opportunity. Greater Artificial Intelligence (AI) and automation will free up time, but also threaten jobs – if people don't evolve.

"For Africa, the conversation on AI on the future workforce needs to shift from pessimistic concerns around job losses to excitement and engagement about what technology might mean for the future workforce. Focus needs to shift to looking at what re-training will be required to ensure people continue to enjoy productive and rewarding lives, and as machines learn to assume more and more responsibilities in society. It is not about machines replacing humans in the workforce, but rather about machines augmenting humans – making people's jobs easier and potentially more interesting, but not making them redundant," added Carter.

Africa's problems can be solved through real solutions, but it requires deeper collaboration and partnerships that are more dynamic, long-term orientated and democratized. "Together with start-ups, I believe we will be able to capture innovation and leverage the power of technology across Africa. This will help to not only facilitate the growth of start-ups, but also drive significant social impact. There is no one recipe for how to do it, but we are committed to fostering an innovative discussion so that we are able to light up the lives of millions of people. I believe people will rally behind change and they are ready to evolve and move to the next levels of innovation - and we plan to be here every step of the way," concluded Carter.

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ARE ENTREPRENEURS BORN OR MADE?
A BLUEPRINT FOR THE PERFECT ENTREPRENEUR

The Power of Personality

Detangling nature vs. nurture is always a messy task. We know that entrepreneurial parents have entrepreneurial children. But is that because the children grow up in a business-savvy environment or is it because they share some of the genes of their parents?

Three twin studies have revealed that 50%-60% of the variance in entrepreneurship is explained by genetics[1]. Genes can influence chemical reactions in our brains that influence our behaviour. There is a gene that affects sensations of pleasure in response to risk-taking. Another gene leads to an extroverted personality, which conveys a constellation of traits useful for networking and salesmanship: gregariousness, sociability, exhibitionism. There is even a gene for picking out salient information in one's environment, which could explain why entrepreneurs are so strong in pattern recognition of business trends and opportunities.

Of course the nature-nurture debate never has a simple answer. Virtually all reputable scientists see behaviour as a mixture of both. Further, there is fascinating new research suggesting that different environments and experiences changes can turn genes off and on[2].

So how might you go about creating the right environmental experiences or 'training' to create the perfect entrepreneur? And what would you be looking for in terms of entrepreneurial raw materials or genetic predisposition to ensure the experiment was a success?

Sculpting an entrepreneur: A how to guide

How would you mould an Eliza Doolittle into a modern day Alan Sugar or Deborah Meaden?

Those who study entrepreneurship believe that a tolerance for risk is the quintessential entrepreneurial trait. However, when we asked entrepreneurs in a Barclays study[3] what defines them, persistence ranks above risk. Indeed this is the largest difference between entrepreneurs and mere mortals: they do not quit. Faced with adversity, rather than cut their losses and reinvest their energies in another endeavour, they persevere, often quickly "pivoting" to stay in the game. They readjust their strategy, improvise innovation to adapt and see setbacks as opportunities. Should they fail, they remain quite pleased with themselves, at least compared to the rest of us. They embrace failure as a 'badge of courage', as a learning experience, as character-building. If forced to move on, they rapidly re-engage in a new challenge.

It is clear that instilling a relentless drive for success and the belief that this can be achieved with hard work is essential in any entrepreneurial training. This should involve a series of tasks that require creativity, innovation and persuasion. They should be challenging enough such that failure is inevitable most of the time. While success should be met with very large "jackpot-type" rewards, failure should be met with a lot of positive re-enforcement as well. The gruelling tasks you see on reality TV are not far off, aside from the public humiliation that ensues for the losers. Failure must be seen as a rite of passage.

Of course the training should include an abundance of experiences with risk. But the risks have to be of the sort that can be and controlled in that they depend on a combination of skill and luck, not pure gambling tasks. Poker rather than roulette bets on their judgements of future events, risks that can be hedged with contingency plans, etc. The risks should serve as analogies for success stories of brave entrepreneurial role models. The objective is to celebrate and desensitize risk but crucially, the risk should be enjoyed.

As well as persistence and a tolerance for risk, there are essential elements to consider in the cultivation of an entrepreneur. Aside from the more obvious training in accounting, finance, marketing, etc., pattern recognition tasks can help the trainee spot opportunities, with false negatives punished more than false positives. On the more psychological side, there should be no deference given to established authority or the status-quo. And finally, don't wait until the last minute to bring the perfectly refined Eliza to the ball. Networking exposure is essential from the start, particularly where you can bridge two previously disconnected networks. That is where innovation lies.

Choosing the right lump of clay

In making a bionic entrepreneur, it would be prudent to select someone who naturally excels in areas where naturally-born entrepreneurs fall short. While entrepreneurs make charismatic leaders, they do not always make good managers because they find participative decision making challenging and tend to think in terms of "task first, people second". You should also choose someone who rationally calculates risk and will accept prospects even if they are outside of his or her control. Natural entrepreneurs do not like risks where they cannot influence the outcome. For example, they show an aversion to investing in financial markets that is very uncharacteristic of people with their generally high level of risk tolerance. Finally, because natural entrepreneurs can have mercurial personalities, you should err on the side of someone with high composure. You might take out some of their spice but the level-headedness would be an asset against their competitors

First featured on Barclays' Investment Philosophy website: www.investmentphilosophy.com

1 http://pubsonline.informs.org/doi/abs/10.1287/mnsc.1070.0761?journalCode=mnsc | http://aging.wisc.edu/midus/findings/pdfs/836.pdf | http://twinsuk.ac.uk/wp-content/uploads/2012/03/Nicolaou-OBHDP-2009.pdf
2 http://www.sciencedaily.com/releases/2008/04/080422150659.htm
3 Wealth Insights Vol 7: Entrepreneur in Adversity

AFRICA'S MACROECONOMIC OUTLOOK AND MONETARY POLICY UPDATES

IMF says rising debt, political risk dim sub-Saharan Africa's economic outlook: Economic growth is expected to rise to 3.4 percent in sub-Saharan Africa next year from 2.6 percent in 2017, the IMF said in a report, but warned that rising debt and political risks in larger economies would weigh down future growth.

Sub-Saharan Africa economic growth to pick-up next year: Nigeria and South Africa are expected to lift sub-Saharan regional growth next year, a Reuters poll showed, once their central banks cut rates to boost Africa's largest - but sickly - economies.

IMF cuts Cameroon GDP growth forecast to 3.7 pct for 2017: Cameroon's economic growth rate is expected to slip to 3.7 percent this year, down from an earlier estimate of around 4 percent, due to falling oil production, the International Monetary Fund (IMF) stated. The IMF, meanwhile, said that inflation would remain low this year at 0.5 percent.

IMF lowers forecast for Rwanda's 2017 GDP growth from 6.2 percent to 5.2 percent: The International Monetary Fund issued a revised forecast for Rwanda's gross domestic product this year, lowering its projected growth from 6.2 percent to 5.2 percent.

Namibia's economy to grow faster in 2017 as mining bounces back: Namibia's economy will grow at 1.6 percent this year and by double that in 2018 as the mining sector emerges from years of contraction and the impact of recent severe drought eases, the finance minister hinted.

Sudan's GDP seen lower in 2017 from previous year: Sudan expects economic growth to slow down to 3.5 percent this year compared to 4 percent in 2016, with GDP and inflation targets for 2018 still being discussed by government, Finance Minister Mohamed Othman Rukabi said.

Kenya economy to fare better after elections than post-2008 vote: Kenya's economy has weathered the election storm better than it did a decade ago, a Reuters poll of economists suggested, and they expect investment to pick up next year if calm returns to the country soon.

Angola leaves benchmark lending rate unchanged at 16 percent: Angola's central bank kept its benchmark lending rate unchanged at 16 percent following a policy meeting on 1st November 2017 as consumer price inflation slows, the regulator said in a statement.

Botswana cuts interest rates to record low of 5 percent: Botswana's central bank cut its benchmark lending rate to a record low of 5 percent on Tuesday 24th October 2017, citing positive inflation outlook and efforts to stimulate economic activity.

Egypt central bank keeps main interest rates on hold: Egypt's central bank left its main interest rates unchanged on Thursday 26th September 2017 at a meeting of its monetary policy committee, it said in a statement. The bank has raised key interest rates by a total of 700 basis points since it floated the pound in November 2016.

Mozambique cuts rate 50 bps despite inflationary risks: Mozambique's central bank lowered its new monetary policy interest rate (MIMO) by a further 50 basis points to 21.0 percent and cut its required reserve ratio for banks by a further 100 points to 14.0 despite a high risk of inflationary pressure on 26th October 2017.

Uganda cuts rate 50 bps to boost credit and economy: Uganda's central bank cut its Central Bank Rate (CBR) by 50 basis points to 9.5 percent, saying a "cautious easing of monetary policy is warranted to boost private sector credit growth and to strengthen the economic growth momentum" as inflation is forecast to remain around the medium term target while economic activity is slowly gaining momentum.

The Bank of Ghana held its prime lending rate at 21 percent: On September 25th, 2017 while markets were expecting a 100 bps cut. Policymakers said it was time to pause the easing cycle due to emerging risks to the inflation outlook, namely upward adjustments in ex-pump petroleum prices which are likely to transmit through prices in the coming months.

Nigeria central bank holds benchmark interest rate at 14 percent: Nigeria's central bank held its benchmark interest rate at 14 percent on Tuesday 26th September 2017, its governor said following a Monetary Policy Committee meeting. Loosening at this time would exacerbate inflationary pressures and worsen the exchange rate and inflationary rate condition.

South Africa maintains rate but 3 members wanted a cut: South Africa's central bank left its benchmark repurchase rate at 6.75 percent, citing "heightened uncertainties in the economy" as capital investments continue to contract due to low business confidence and political uncertainty.

Kenya central bank holds benchmark lending rate at 10.0 percent: Kenya's central bank held its main lending rate at 10.0 percent as expected on Monday 18th September 2017, saying food supplies were likely to improve and lower pressure on inflation.

AFRICAN EQUITY MARKET INDICATORS AS AT 31-OCTOBER-2017

Country Name	Index Name	Index at 31-October	1-month % Δ	YTD % Δ	1-Year % Δ	1-Year Low	1-Year High	30 Days Volatility %
Botswana	BSE DCI	8,915	-0.17	-5.16	-8.35	8,897	9,774	1.780
BRVM	IC Comp	231	-2.13	-20.92	-15.30	222	293	10.338
Egypt	EGX 30	14,342	3.27	16.18	71.03	8,338	14,386	13.013
Ghana	GSE ALSI	2,361	1.52	39.81	36.63	1,508	2,458	9.385
Kenya	FTSE NSE15	162	-0.14	21.49	18.21	120	173	11.801
Malawi	MSE ALSI	20,049	0.65	50.51	45.47	12,861	20,127	12.851
Mauritius	SEMDEX	2,198	-1.43	21.54	21.95	1,795	2,235	4.164
Morocco	MORALSI	12,373	1.92	6.26	17.12	10,480	12,951	9.771
Namibia	Local	12	-98.98	-98.92	-98.89	12	1,189	1,379.230
Nigeria	NIG ALSI	36,680	3.50	36.49	34.75	24,547	38,242	10.149
Rwanda	RSEASI	132	0.49	4.00	3.28	124	133	3.553
South Africa	JSE ALSI	58,980	6.12	16.44	16.58	48,936	59,038	7.892
Swaziland	SSX ALSI	398	0.30	4.72	5.17	379	398	1.257
Tanzania	DAR ALSI	2,112	-0.21	-3.91	-15.20	1,979	2,517	13.843
Tunisia	TUNIS	6,105	-1.23	11.22	11.20	5,410	6,386	4.116
Uganda	USE ALSI	1,680	-2.24	13.69	6.80	1,331	1,837	14.623
Zambia	LuSE ALSI	5,127	3.08	22.20	19.05	4,010	5,134	9.553
Zimbabwe	IDX (USD)	521.85	24.73	261.07	331.92	120	522	21.389

SELECTED AFRICAN CURRENCY EXCHANGE Vs. US DOLLAR AS AT 31-OCTOBER-2017

Country Name	Currency Name	Index at 31-October	1-month % Δ	YTD % Δ	1-Year % Δ	1-Year Low	1-Year High	30 Days Volatility %
Algeria	Dinar	115.17	-1.57	-4.14	-4.73	107.60	115.65	3.592
Angola	Kwanza	168.16	-0.59	0.07	-0.36	164.88	169.65	6.572
Botswana	Pula	0.09	-2.57	1.28	-0.52	0.09	0.10	7.103
CFA Franc	CFA Franc	575.52	-2.48	9.45	4.94	547.82	636.39	12.239
Egypt	Pounds	17.64	-0.05	2.82	-49.65	8.86	19.67	1.505
Ethiopia	Birr	27.27	-13.47	-17.92	-17.91	22.11	27.41	2.776
Ghana	Cedi	4.40	0.17	-3.75	-9.43	3.90	4.82	7.384
Kenya	Shillings	103.76	-0.49	-1.20	-2.23	101.32	104.18	1.929
Malawi	Kwacha	725.50	0.12	0.27	-0.76	716.00	730.54	1.818
Mauritius	Rupee	34.28	-0.97	4.92	4.68	31.84	36.47	9.939
Morocco	Dirham	9.50	-0.38	6.58	3.71	2.75	10.32	5.535
Mozambique	Metical	60.70	0.67	17.59	27.94	58.58	77.67	8.873
Nigeria	Naira	359.81	-0.23	-12.36	-13.60	304.38	369.50	14.996
Rwanda	Franc	853.98	-0.94	-3.74	-5.24	425.00	855.00	2.281
South Africa	Rand	14.14	-3.81	-2.83	-4.71	12.31	14.65	10.151
Tanzania	Shilling	2,235.69	-0.13	-2.45	-2.27	2,137.00	2,272.50	4.630
Tunisia	Dinar	2.50	-0.63	-7.36	-10.01	2.17	2.58	8.726
Uganda	Shilling	3,651.98	-1.36	-1.52	-4.96	3,471.00	3,666.69	1.130
Zambia	Kwacha	10,024	-3.1075	-0.86	-4.23	8,766	10,175	9.209

SELECTED AFRICAN GOVERNMENT INTERNATIONAL BONDS AS AT 31-OCTOBER-2017

Country Name	Maturity	Price at 31-October	Mid-Yield at 31-October	1-month Yield Chg (%)	YTD Price Change (%)	Price 1-Year Low	Price 1-Year High	Amount Outstanding (US$ M)
Angola	12-Nov-25	109.230	7.923	-0.286	12.288	86.206	109.306	USD
Cameroon	19-Nov-25	118.843	6.460	-0.041	10.052	100.807	119.358	USD
Congo	30-Jun-29	75.182	9.577	0.904	17.137	63.766	81.661	USD
Cameroon	19-Nov-25	118.843	6.460	-0.041	10.052	100.807	119.358	USD
Egypt	30-Apr-40	99.596	6.911	-0.205	13.729	85.885	100.750	USD
Ethiopia	11-Dec-24	103.279	6.049	-0.069	11.548	87.394	103.589	USD
Gabon	16-Jun-25	100.474	6.867	-0.097	6.605	81.889	102.405	USD
Ghana	14-Oct-30	133.447	6.819	-0.314	12.274	106.494	133.480	USD
Kenya	24-Jun-22	104.237	6.088	-0.297	9.771	91.157	105.080	USD
Ivory Coast	31-Dec-32	98.873	5.928	-0.073	6.386	88.498	100.264	USD
Morocco	11-Dec-42	111.929	4.686	0.008	9.581	100.880	116.038	USD
Namibia	29-Oct-25	101.920	4.956	-0.012	3.560	98.076	104.457	USD
Nigeria	12-Jul-23	105.036	5.336	-0.034	8.165	89.886	106.818	USD
Rwanda	02-May-23	104.056	5.754	0.106	4.416	95.826	105.367	USD
Senegal	30-Jul-24	107.688	4.896	-0.122	7.500	96.756	108.529	USD
South Africa	24-Jul-44	94.262	5.799	0.228	-4.424	91.188	107.318	USD
Tanzania	09-Mar-20	105.108	5.253	-0.025	-0.161	102.708	106.272	USD
Tunisia	19-Sep-27	110.064	6.831	-0.025	3.587	106.090	110.176	USD
Zambia	30-Jul-27	109.201	7.612	-0.037	10.108	89.124	110.965	USD

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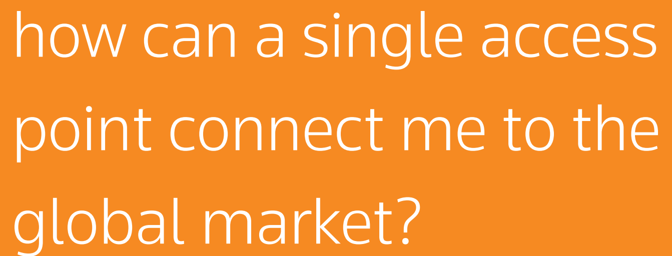

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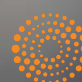

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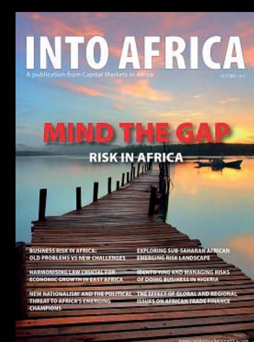

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