

Africa and Islamic Finance Update 2016

Islamic finance set to take off in Africa and boost African countries into competition with new competitors.

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[/EINPresswire.com/](http://EINPresswire.com/) -- The Seychelles and Ghana issued Euro bonds, in 2006 and 2007 respectively, but it was not until 2011-12 that others followed suit with sukuk. In 2013, Nigeria became the first big economy in sub-Saharan Africa to issue a sukuk al-ijarah at USD \$71 Million Dollars. Osun State of Nigeria incorporated an SPV, Osun Sukuk Company Plc (the SPV), to which it transferred the land for construction of the schools. The SPV issued sukuk in the aggregate principal amount of \$71 million representing undivided ownership interests in the land. The net proceeds of the issuance were used by the SPV to pay the purchase price for the land and fund construction of the schools. The



land was leased back to the state government against periodical rental payments and partial redemption payments, which passed through to the sukuk holders in proportion to their ownership interest in the underlying asset based on the sukuk they held. The central banks of Nigeria and Mauritius are also shareholders in the International Islamic Liquidity Management Corp., which has started to issue sukuk to help Islamic banks manage their finances.

Soon after, Senegal raised \$200 Million through a sukuk issuance in 2014. That sukuk was the first major sukuk issued by a West African nation and achieved a profit rate of 6.25% with a four year maturity. Rolling with the African Sukuk momentum, South Africa issued a \$500m sukuk, which was more than four times subscribed, with an order book of \$2.2bn according to the SA Treasury, indicating that appetite for emerging market Islamic bonds matches that of developed world issuance. The bond, which matures in June 2020, is a Sukuk Al-Ijarah structure with cash flows based on infrastructure assets. Even Gambia and Sudan have issued sukuk, however, for small amounts and on a short-term basis. Gambia issued a USD \$40 million dollar sukuk al-salam in 2011. Also in 2011, Sudan issued a 160 million GBP sukuk. Sudan offered another sukuk at 758 million GBP in 2011 backed by a state electrical firm.

The Ivory Coast issued a Sovereign Sukuk in 2015 with its debut five year 150 billion CFA issuance sukuk priced at a profit rate of 5.75%. The sukuk is being arranged by the Islamic Corporation for Private Sector Development (ICD). The ICD signed an agreement in April 2015 for the implementation

of a five-year Sukuk programme for 300 billion CFA to be issued in two equal phases of 150 billion CFA each. A road show was held in Saudi Arabia from 14 to 19 November 2015 and followed a recent upward revision of the Ivory Coast's sovereign rating by Moody's from B1 to Ba3. The launch ceremony held in Abidjan was attended by the Prime Minister and Finance Minister as well as guests from the IMF, World Bank, African Development Bank as well as domestic CEO's of local banks.

Sukuk are particularly suited for sub-Saharan Africa, a region that needs huge investments in infrastructure. In addition, Morocco, Tunisia, and Kenya are laying the legal groundwork to issue sukuk and operate Islamic banks. Tunisia is planning a sovereign sukuk for USD 1 Billion dollars with a ten year term, 5.875 yield, and closing date of 2016. It is to be printed through the Central Bank of Tunisia and performed by Citibank, Natixis, and Standard Chartered.

Morocco agreed to a \$2.4 billion package with the IDB or Islamic Development Bank, under which it would receive \$600 million each year from 2013 to 2016. It also raised \$750 million in 2013 in a two-part re-opening of its \$1.5 billion bond. Dar Assafaa, an affiliate of the country's largest lender AttijariWafa Bank, became the nation's first wholly Shari'ah-compliant financial institution when the central bank approved its switch. The country introduced a law in January 2015 to regulate Islamic financial products and allow local and foreign banks to set up units that comply with the religion's ban on interest. Morocco is rated BBB- at Standard & Poor's, the lowest investment grade, while Egypt is B-, six levels into junk. Tunisia is rated Ba3 by Moody's Investors Service, three levels below investment grade. Algeria and Libya aren't rated. Morocco's Islamic finance bill, which came into force on January 30, also allows for the formation of a centralized Shari'ah board to oversee Islamic banks. The Moroccan Association of Participative Financiers estimates total investment in Shari'ah-compliant products in the country will reach \$7 billion by 2018. About \$1.8bn in assets are held by Islamic financial institutions worldwide, according to S&P. Islamic finance may account for as much as 10 per cent of the total banking assets within 10 years," said Mohamed El Kettani, the Chief Executive Officer of AttijariWafa.

Kenya's financial regulator has proposed a separate regulatory framework for Islamic financial institutions as part of a broad ten-year strategy designed to boost capital markets. Kenya is reviewing all laws and regulations governing its Islamic finance industry to aid the issuance of a debut sukuk. The East African nation, which issued its first Eurobond in 2014, wants to expand the range of financing available for infrastructure projects. The Treasury has said it is looking at the possibility of issuing sukuk in the 2016/17 fiscal year, starting in July. Kenya's central bank licensed two Shari'ah-compliant banks in 2007. At least one firm has since started to offer Shariah-compliant insurance products. Amadou Sy, a fellow at the Brookings Institution and former official at the International Monetary Fund who has studied the sector, says sukuk issuance could help Africa to pay for multibillion-dollar infrastructure programmes. "You have money from the Gulf and then you have the Islamic Development Bank, and also Malaysia and Indonesia – there is money out there," he said. The Islamic Development Bank, for example, is lending \$150m through Shari'ah-compliant facilities for the new Lekki port in Nigeria. It also supported the construction of the Kenitra power plant in Morocco with a \$200m loan.

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