ISLAMIC FINANCE IN AFRICA:
REACHING NEW FRONTIERS

OCTOBER 2016
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Islamic finance has enjoyed much success since its inception nearly four decades ago. Islamic finance assets continue to be heavily concentrated in the Middle East and Southeast Asia, although a number of new markets are emerging and many more, untapped. In these countries, Islamic finance assets account for a sizeable and growing share of the domestic banking sector, catering to both large corporate clients and household financing.

Reviewing 2015 developments, circumstances are proving to be less rosy and more uncertain. The industry suffered setbacks underpinned by weak commodity prices coupled with a turbulent global economic environment. Given the dependence of core Islamic finance markets on oil, the decline in oil prices and the impact of subsequent policy responses are set to dampen the industry outlook in the near term.

Although a period of slowdown is expected for the time being, the Islamic finance industry is still poised to transition to the next stage of development with greater international integration. This is so because the core value propositions of Islamic finance remain unchanged — it still offers an array of benefits and straightforward solutions for multiple stakeholders across the spectrum, and can significantly contribute to economic development in view of its direct link to physical assets and the real economy. The very nature of Islamic finance, and the greater awareness and interest in non-Muslim jurisdictions will continue to drive industry growth.

In the African context, despite experiencing a period of sustained economic growth and the myriad of successes that came with 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 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.

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. 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. Via Islamic finance, the efficient mobilization of all available resources will ensure the economic success of African countries.

As Africa rapidly transforms both demographically and geographically, the continent possesses immense potential in becoming the new powerhouse of the world. Testament to this belief, the Islamic Corporation for the Development of the Private Sector (ICD) boasts a unique presence in over 20 African countries, where we are mandated to provide critical Sharia’a compliant capital and deliver knowledge and partnerships. We also help manage risks and catalyse the required participation of others in order to achieve development goals. Overall, ICD as an award-winning Sharia’a compliant multilateral development bank aims to complement Islamic finance’s role as a facilitator of growth.

We hope this report will add to the important conversation on how Islamic finance can address the continuing obstacles to shared prosperity and inclusive growth, and how it can help the African continent prosper to the next stage.

Faithfully,

Khaled Al Aboodi
CEO of the Islamic Corporation for the Development of the Private Sector (ICD)
How the Global Economy Played Out in 2015

**JANUARY**
- The world economy adjusts to a fall in oil prices.
  - Oil prices have fallen considerably
- Investors welcome the European Central Bank’s announcement of quantitative easing
  - EUR 60 bln spending per month until September 2016
- US Federal Reserve changes its language from patient to more cautious
- Decline in oil prices favours advanced over emerging economies

**FEBRUARY**
- Tension rises, EU exit?
  - Surprise victory for Conservative Party
  - Terms of the bailout are nowhere nearer being agreed
  - Increased likelihood of forced Grexit

**MAY**
- US no longer the global locomotive it once was
  - The US economy is not in a position to continue as a driver of global growth
  - Escaping deflation
  - Tightening tantrum
  - Federal Reserve raises September rate rise
  - Sell-off in bond markets and currencies
- BRIC
  - Brazil: Corruption scandal and monetary tightening hit investment and consumption
    - Oil prices low amid tense situation with Ukraine
  - Russia: Too small, represents 10% of global activity
  - India: Reforms disappoint market
    - Property and manufacturing struggle. Weak growth = policy easing measures
    - India as global driver is slightly optimistic
  - China: Confidence in Chinese authorities shaken
    - Equity market slumps despite rescue efforts. Surprise yuan devaluation rattles markets further. Excess capacity issues still not reduced. Global steel prices squeezed. With interest rates close to zero, central banks are not well placed to react to the shocks.

**AUGUST**
- Japan: Weak industrial & domestic consumption fails to refl ate activity
  - India: India as global driver is slightly optimistic

**SEPTEMBER**
- After much speculation, the US Federal Reserve keeps interest rates on hold
- The world economy appears slow moving, unstable and vulnerable to shocks
  - The US Federal Reserve raises interest rate by 25 basis points, the first hike in nearly a decade. Market reactions muted.
Amidst the global headwinds, Africa’s economic growth declined markedly in 2015. In sub-Saharan Africa, the region witnessed its slowest economic expansion since the global financial crisis in 2008. Estimates by the International Monetary Fund (IMF) show that the region’s real GDP growth fell from 5.0% in 2014 to 3.8% in 2015. Softer commodity prices have put severe strains on many of the largest economies in the region, including oil exporters such as Nigeria and Angola, where oil constitutes approximately 95% of exports and over 66% of fiscal revenues. Collectively, fuel, ores and metals account for more than 60% of the region’s total exports, making it particularly susceptible to commodity price shocks. Additionally, many African countries bore the brunt of a tighter monetary policy in the US: concerns about the prospects of emerging markets have lured capital away from developing nations to advanced economies (the US in particular), resulting in currency volatility and overall weakness in African economies.
International commodity prices continue to decline in 2015, hitting many African economies hard

Meanwhile, other parts of Africa continue to face the wrath of Mother Nature—unusually strong El Niño, coupled with record-high temperatures, has had a catastrophic effect on crops and rainfall across southern and eastern Africa. The effects of the El Niño phenomenon vary: it may trigger increased rainfall in some areas, whereas for other areas, the weather pattern may result in drier conditions, producing droughts. Ethiopia, Zimbabwe, South Africa and Malawi were the worst-hit countries, where the drought has left huge numbers of people vulnerable to hunger and disease. In addition, compounding this shock, external financing conditions for most of the region’s frontier markets have tightened substantially compared to the period until mid-2014 when they enjoyed wide access to global capital markets.¹

Domestic factors also played a role in countries such as South Africa, where growth remained low as the country continues to be affected by labor conflict and chronic electricity shortages.

¹ IMF Regional Economic Outlook: Weakening Growth in Sub-Saharan Africa Calls for Policy Reset, April 2016

ZIMBABWE 1.5% 5.0% 7.0%
UGANDA 0.0% 2.0% 4.0%
TANZANIA 2.7% 5.6% 4.4%
SOUTH AFRICA 10.2% 8.6% 5.9%
SENEGAL 3.5% 4.4% 0.0%
NIGERIA 3.0% 5.9% 3.0%
MALAWI 3.0% 5.9% 3.0%
KENYA 3.0% 5.9% 3.0%
GHANA 4.4% 4.4% 4.4%
THE GAMBIA 2.7% 5.6% 4.4%
ETHIOPIA 4.4% 4.4% 4.4%
IVORY COAST 5.9% 8.6% 10.2%
CAMEROON 5.9% 8.6% 10.2%
BOTSWANA 3.0% 3.0% 0.0%
ANGOLA -0.3% 3.0% 3.0%

% y-o-y

Source: IMF

Sub-Saharan Africa GDP (% Share)

OTHER COUNTRIES 13.3%
NIGERIA 36.7%
TANZANIA 3.6%
KENYA 4.9%
ETHIOPIA 5.4%
ANGOLA 10.9%
SOUTH AFRICA 25.2%
In North Africa, the economic performances remain uneven. Morocco outperformed its peers in the region, spurred by robust private consumption and investment which buoyed broad-based growth. In the same vein, growth in Egypt recovered significantly in 2015, also partly due to restored political confidence and improved business sentiment, although net exports remained weak. Algeria continues to suffer from low oil prices, while in Tunisia, several high-profile terrorist attacks adversely impacted its tourism sector and social unrest continued to prevail, offsetting the gains from good harvests. Libya also continued its economic freefall in 2015, due to its chaotic political and security situation.

On a positive note, 2015 also witnessed robust growth in a handful of countries on the African continent—mostly non-commodity exporters—supported by buoyant private consumption and tailwinds from large-scale infrastructure investment efforts. Ivory Coast, Rwanda and Tanzania registered robust economic growth, reflecting lower exposure to the commodity slowdown. Cameroon continued its trend of solid and broad-based growth driven by agriculture and forestry, construction, industry and oil production, despite security problems in parts of its northern border region.

In any case, Africa remained the second fastest-growing regional economy in the world after East Asia in 2015, and a number of African countries were among the world’s fastest growing countries.
Africa’s Economy at a Glance

**SUB-SAHARAN AFRICA**

1. **GDP per capita**
   - USD 3,260

   - 5.8% average

3. **Informal employment**
   - 70%

4. **Middle class**
   - ($10 – $50/day)
   - 2001: 3.4%  → 2011: 3.9%

5. **Poverty rate**
   - ($2/day)
   - 2001: 75%  → 2011: 70%

**NORTH AFRICA**

1. **GDP per capita**
   - USD 10,726

   - 4.0% average

3. **Informal employment**
   - 62%

4. **Middle class**
   - ($10 – $50/day)
   - 2001: 15.5%  → 2011: 22.0%

5. **Poverty rate**
   - ($2/day)
   - 2001: 25.2%  → 2011: 21%

2016 OUTLOOK

While Africa’s collective long-term growth prospects are strong, Africa’s near-term outlook remain lackluster although there are pockets of bright spots.

Overall, a still-weak global economy coupled by subdued demand and declining commodity prices will continue to drag on economic activity in commodities-exporting countries, while monetary tightening in the US and less favorable global financial conditions will continue to dampen the near-term outlook. The weaknesses are not only attributable to the external environment, as multiple domestic challenges are resulting in growing macroeconomic imbalances and adding to the region’s economic woes. This include concerns over security and political instability in some countries.

Global Growth GDP Forecast (Annual %): 2015 – 2017F

<table>
<thead>
<tr>
<th>REGIONS</th>
<th>2015</th>
<th>2016F</th>
<th>2017F</th>
</tr>
</thead>
<tbody>
<tr>
<td>Advanced Economies</td>
<td>1.9%</td>
<td>1.8%</td>
<td>1.8%</td>
</tr>
<tr>
<td>+ US</td>
<td>2.4%</td>
<td>2.2%</td>
<td>2.5%</td>
</tr>
<tr>
<td>+ Euro-area</td>
<td>1.7%</td>
<td>1.6%</td>
<td>1.4%</td>
</tr>
<tr>
<td>+ Japan</td>
<td>0.5%</td>
<td>0.3%</td>
<td>0.1%</td>
</tr>
<tr>
<td>Emerging Market and Developing Economies</td>
<td>4.0%</td>
<td>4.1%</td>
<td>4.6%</td>
</tr>
<tr>
<td>+ CIS countries</td>
<td>-2.8%</td>
<td>-0.6%</td>
<td>1.5%</td>
</tr>
<tr>
<td>+ Emerging and Developing Europe</td>
<td>3.6%</td>
<td>3.5%</td>
<td>3.2%</td>
</tr>
<tr>
<td>+ Emerging and Developing Asia</td>
<td>6.6%</td>
<td>6.4%</td>
<td>6.3%</td>
</tr>
<tr>
<td>+ Latin America and the Caribbean</td>
<td>0.0%</td>
<td>-0.4%</td>
<td>1.6%</td>
</tr>
<tr>
<td>+ Middle East, North Africa, Afghanistan &amp; Pakistan</td>
<td>2.3%</td>
<td>3.4%</td>
<td>3.3%</td>
</tr>
<tr>
<td>+ Sub-Saharan Africa</td>
<td>3.3%</td>
<td>1.6%</td>
<td>3.3%</td>
</tr>
</tbody>
</table>

Source: IMF World Economic Outlook (2016)
In sub-Saharan Africa, readings for the first two quarters of the year continue to remain positive for selected countries such as Kenya’s well-diversified economy and Tanzania, where GDP growth continues to be sustained by large-scale infrastructure development. However, contractions will continue in the region’s two largest economies: South Africa, where the mining-based economy is still faced with weak global demand for resources, and Nigeria, where a significant drop in oil production, the persistent currency shortage and the depreciation of the naira weighs on the economy. Collectively, these two economic giants, along with other oil and metal exporters such as Angola, Republic of Congo, Cameroon, Chad, Equatorial Guinea, and Gabon will weigh on regional growth.

Economies that are more reliant on domestic demand such as Uganda will continue to fare well for the rest of the year, while Ivory Coast, Tanzania, Togo, Central African Republic, Kenya and Mozambique are projected to grow the fastest in the region this year at rates of 5.5% or more and will help mitigate the impact of lower oil prices on the oil-dependent economies of the region.

### Africa’s GDP Growth Forecast: 2015 vs. 2016

<table>
<thead>
<tr>
<th>Country</th>
<th>2015</th>
<th>2016F</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sub-Saharan Africa (selected)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Angola</td>
<td>3.0</td>
<td>2.5</td>
</tr>
<tr>
<td>Botswana</td>
<td>-0.3</td>
<td>3.7</td>
</tr>
<tr>
<td>Chad</td>
<td>1.7</td>
<td>-0.4</td>
</tr>
<tr>
<td>Central African Republic</td>
<td>4.3</td>
<td>5.7</td>
</tr>
<tr>
<td>Equatorial Guinea</td>
<td>-12.2</td>
<td>-7.4</td>
</tr>
<tr>
<td>Gabon</td>
<td>4.0</td>
<td>3.2</td>
</tr>
<tr>
<td>Republic of Congo</td>
<td>2.5</td>
<td>4.3</td>
</tr>
<tr>
<td>Cameroon</td>
<td>5.9</td>
<td>4.9</td>
</tr>
<tr>
<td>Ivory Coast</td>
<td>8.6</td>
<td>8.5</td>
</tr>
<tr>
<td>Ethiopia</td>
<td>10.2</td>
<td>4.5</td>
</tr>
<tr>
<td>The Gambia</td>
<td>4.4</td>
<td>2.3</td>
</tr>
<tr>
<td>Ghana</td>
<td>3.5</td>
<td>4.5</td>
</tr>
<tr>
<td>Kenya</td>
<td>5.6</td>
<td>6.0</td>
</tr>
<tr>
<td>Malawi</td>
<td>3.0</td>
<td>3.0</td>
</tr>
<tr>
<td>Mozambique</td>
<td>6.3</td>
<td>6.0</td>
</tr>
<tr>
<td>Nigeria</td>
<td>2.7</td>
<td>2.3</td>
</tr>
<tr>
<td>Senegal</td>
<td>6.5</td>
<td>6.6</td>
</tr>
<tr>
<td>South Africa</td>
<td>1.3</td>
<td>0.6</td>
</tr>
<tr>
<td>Tanzania</td>
<td>7.0</td>
<td>6.9</td>
</tr>
<tr>
<td>Uganda</td>
<td>5.0</td>
<td>5.3</td>
</tr>
<tr>
<td>Zimbabwe</td>
<td>1.5</td>
<td>2.7</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Country</th>
<th>2015</th>
<th>2016F</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>North Africa (excluding Libya)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Algeria</td>
<td>3.7</td>
<td>3.4</td>
</tr>
<tr>
<td>Egypt</td>
<td>4.2</td>
<td>3.3</td>
</tr>
<tr>
<td>Mauritania</td>
<td>1.9</td>
<td>4.1</td>
</tr>
<tr>
<td>Morocco</td>
<td>4.5</td>
<td>2.3</td>
</tr>
<tr>
<td>Sudan</td>
<td>3.5</td>
<td>3.7</td>
</tr>
<tr>
<td>Tunisia</td>
<td>0.8</td>
<td>2.0</td>
</tr>
</tbody>
</table>

Source: IMF World Economic Outlook (2016)
CHALLENGES FACING AFRICA’S ECONOMY

WEAK COMMODITY PRICES
+ Commodity prices have been on a downward trajectory in 2015, and not much of a recovery is expected in 2016. This will have widespread economic effects in resource-rich African countries

CHINA’S ECONOMIC SLOWDOWN
+ China is now the number-one trading partner for most African countries, making it a huge customer for African governments selling resources on the international market
+ China’s economic slowdown means that there is a subsequent lack of demand for the continent’s metals and minerals

DEPRECIATING CURRENCIES
+ As a result of China’s slowdown, the fall in commodity prices, and tighter monetary policy in the US, many African currencies have seen significant falls in value

INCREASING FISCAL VULNERABILITIES
+ Lower demand for commodities mean Africa trades less and earns less. If that cycle continues over a much longer period of time, African states could see their economies shrink, government coffers running dry and eventually countries taking on more debt

DROUGHT AND FOOD SECURITY
+ This could be the biggest crisis to hit African economies, especially in eastern and southern Africa
+ The United Nations have warned that 29 million people in southern Africa do not have a reliable food supply and 10 million in east Africa will need food aid this year
+ The 2016 harvest in many southern African countries could be a fraction of what it was just a few years ago and spending to import grain will have to be on several government budgets
The bigger picture is that Africa remains attractive, despite the continent facing a myriad of challenges such as slumping commodity prices, China’s economic slowdown, climate change and currency volatility among others.

Efforts in cutting down government excess and waste have provided a more solid footing in several countries. The promising young population, a growing middle class, investments in infrastructure projects, and relative political stability are further elements that form the foundations of Africa’s growth story.

The task confronting Africa is not only to maintain rapid economic growth but also to focus on sustainable development based on economic diversification that creates jobs, enhances access to basic services, reduces inequality and contributes to poverty eradication. Indeed, a deteriorating external environment demonstrates the importance of continuity in the implementation of the structural transformation agenda that fosters sustained and inclusive growth so as to reduce Africa’s external dependence.
African countries have been making inroads in global trade since the 1990s. Africa is encountering a number of trade-related challenges today, including poor infrastructure (such as transport and energy), restrictive immigration policies, and corruption among others. Additionally, weaker commodity prices and slowing demand in emerging economies have dampened the outlook for Africa’s commodity export revenues. Underpinned by the continent’s growing population and middle class as well as shifting consumer tastes, the need to improve trade is even more urgent. Now, more than before, political leaders across the continent realize the value in trading with one another and are taking active steps to improve the process. Currently, intra-regional trade is assessed to be less than 15% of Africa’s total trade. Although trade with China, Africa’s largest trading partner, was over USD300bln in 2015, the decreased demand for African goods due to China’s economic slowdown means countries are looking for fast-growing new markets. Hence, internal markets make more sense – developing on intra-African trade and sustaining domestic demand should be an economic priority.

Trade Remains Dominated by Commodities and Raw Materials

At least eight regional trade agreements exist, touching all corners of the African continent. One of these is the Economic Community of West African States (ECOWAS), a coalition of 15 countries in West Africa that have already established a free-trade zone. In June 2015, 27 African countries extending from Egypt to South Africa launched the Tripartite Free Trade Area (TFTA), which marks a major step towards the establishment of a continental agreement.
Highlight: Africa’s Continental Free Trade Agreement to Act as a Growth Driver

At the 25th Summit of the African Union held in South Africa in June 2015, African heads of government agreed to the creation of a continental free trade agreement (CFTA) by 2017 through negotiations on the liberalization of trade in goods and services. If negotiators are successful, the continent-wide trading bloc would involve 54 member states across Africa, and be the world’s largest free-trade area, by number of countries. It would establish a single market of more than 1 billion people — an estimated 2 billion or more by 2050 — with GDP of more than USD3.0tn. The CFTA is an expansion of the Tripartite Free Trade Area (TFTA), which integrates the East African Community (EAC), the Southern African Development Community (SADC) and the Common Market for Eastern and Southern Africa (COMESA), covering a total of 26 countries and about 626 million people.

Amidst the less than favorable external economic environment, the planned CFTA is set to boost intra-African trade and reinvigorate the region’s development, while serving as a catalyst for increased integration by Africa into the global economy. Based on estimates by the United Nations Economic Commission for Africa, the full liberalization of trade in goods (manufactures and agriculture) could increase trade between African countries by as much as USD35.0bln, an increase of more than 50% from current levels. Beyond intra-African trade expansion, the CFTA has the potential to stimulate structural transformation in African countries, provided that governments formulate and implement appropriate economic development policies that are linked to the CFTA. It will also unlock considerable business opportunities for companies worldwide, given the CFTA’s potential and size.

As mentioned, African countries have identified 2017 as the target deadline to complete the negotiations. While this goal may be ambitious given the challenges of reaching agreement among 54 diverse countries, negotiators are making progress. Major challenges remain however, such as the conflicting disciplines and benefits of the different regional economic communities already in place. To date, two sessions of the negotiating forum have taken place in February and May 2016, in addition to headway at the African Union Summit in July 2016.


With countries being ripe for trade and more trade agreements and government-led initiatives in place, the main challenges moving forward are political; seeing the agreements enacted into local legislation and then the enforcement thereafter. The goal is that the public and private sectors can collaborate to ensure that soft infrastructure is coupled by hard infrastructure.
INTERNATIONAL FINANCIAL FLOWS

Over the past few years, Africa has observed a significant increase in the volume of external financial flows (including private capital flows, official development assistance and remittances) to the region, especially in countries such as South Africa and Nigeria. Indeed, in 2014, Africa was the world’s second most attractive region to invest in according to an attractiveness survey by Ernst & Young. More recently, the volatile external backdrop especially underpinned by the slowdown of the Chinese economy have had significant effects on investments in Africa. According to a report by the African Development Bank, the estimated USD208.3bln of external finance that Africa attracted in 2015 was 1.8% lower than the previous year (2014: USD212.2bln). This figure is expected to rise to USD226.5bln in 2016.

On the FDI front, despite attracting increased FDI flows in the region’s extractive sector, infrastructure and consumer-oriented industries in 2015, Africa’s share is only 5% of total world FDI. Currently, the situation differs significantly between North Africa and sub-Saharan Africa. While FDI flows into North Africa reversed a downward trend (USD20.7bln in 2015 vs. USD17.2bln in 2014), regions within sub-Saharan Africa yielded mixed outcomes (FDI flows increased in East, West and Southern Africa while Central Africa witnessed a decline). The European Union countries and the US continue to be the largest investors in Africa, although the emerging economies are a vibrant source as well. From an investment perspective, the next few years will prove challenging — not because the region falls short on opportunities, but mostly because of the greater levels of uncertainty in the global economic environment. In addition, the uneven growth across the region also underline the fragmented nature of Africa’s many markets.

Inward FDI by Regions (2004-2016F)

Source: AfDB, IMF

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2 EY’s Attractiveness Survey: Africa 2014, Ernst & Young
Remittances from migrant workers are another important source of capital and foreign exchange for African households and countries alike, and it helped buoy Africa’s total external financial flows in 2015. While developed countries such as the US, France and the UK dominate remittances to Africa, Arab states and money coming from Cameroon, Ivory Coast and South Africa remain important. Estimates by African Development Bank show that remittances to sub-Saharan Africa will rise to USD33.6bn in 2016 (2015E: USD31.6bn), while remittances to North Africa are projected to rise to USD32.1bn (2015E: USD31.7bn).

Reported use of remittances for productive investment instead of consumption underline its positive multiplier effect on a local economy.
INFLATION AND MONETARY POLICY

Consumer price inflation remained moderate across the region in 2015, except in Ghana, Sudan, Angola, and Zambia, Egypt, and Malawi, where it was in the double digits. Inflation is expected to remain elevated in the near term, in which the currency weakness, eroding external and fiscal positions, as well as energy and water shortages are the main drivers of mounting inflationary pressures in the region. Fears about inflation triggered interest rate hikes by central banks in several countries (Angola, Ghana, Kenya, Mozambique, South Africa, Uganda, and Zambia), while Nigeria cut the benchmark interest rate in an effort to stimulate growth.

Sub-Saharan Africa: Inflation Trend (2000 – 2016F)

Source: IMF World Economic Outlook (2016)


Source: IMF World Economic Outlook (2016)
FISCAL AND CURRENT ACCOUNT BALANCE

In 2015, as anticipated, most resource-rich countries in the region experienced significant revenue shortfalls which severely impacted fiscal balances despite best efforts by governments to undertake expenditure adjustments and limit spending. As a result, mounting fiscal vulnerabilities are underway. Deficits are starting to increase again to an average of above 4.0% and are envisaged to rise to global recession levels. Meanwhile, the level of public debt in Africa varies. In many African countries, public borrowing has played a positive role in economic growth, making it possible for governments to invest in infrastructure among other things, but the tide is now turning. A majority of African countries now have twin deficits (both government budget and current account), which can pose serious risks to macroeconomic stability.


Source: IMF World Economic Outlook (2016)


![Sub-Saharan Africa: Current Account Balance (% of GDP) (2000 – 2016F)](image2)

Source: IMF World Economic Outlook (2016)
A low risk. Spending pressures are also a problem, especially when there is a dire need to reduce the large bottlenecks in economic and social infrastructure. Subsequently, it is vital to focus on targeted spending aimed at boosting growth and human development.

Given the increased budgetary pressures, keeping debt at sustainable levels remains a priority in many countries. According to a debt sustainability analysis by the World Bank and the IMF, two-thirds of countries assessed since 2012 are at a low or moderate risk of debt distress and around a third are a low risk. Spending pressures are also a problem, especially when there is a dire need to reduce the large bottlenecks in economic and social infrastructure. Subsequently, it is vital to focus on targeted spending aimed at boosting growth and human development.
SECTION 1: AFRICA’S ECONOMIC LANDSCAPE
The business climate remains a weakness for Africa’s growth prospects. According to World Bank’s Ease of Doing Business 2016, the continent does not fare particularly well, as a majority of African countries are among those placed at the bottom of ranking for 189 countries. On the bright side, sub-Saharan Africa accounted for about 30% of the improved global regulatory reforms and half of the world’s top 10 improvers (Uganda, Kenya, Mauritania, Senegal and Benin). Multiple reforms were also implemented in Ivory Coast, Madagascar, Niger, Togo and Rwanda. The region’s highest ranked economy is Mauritius, which has a global ranking of 32, followed by Rwanda (62nd), Botswana (72nd), South Africa (73rd), Tunisia (74th) and Morocco (75th). In particular, Rwanda’s ranking deserves attention, given its low GDP per capita. The country has greatly improved its business climate in recent years, and was designated the world’s best reformer in the World Bank’s Doing Business Survey 2010 and the second best reformer in the 2011 and 2014 surveys.

SECTION 2: ISLAMIC FINANCE OPPORTUNITIES IN AFRICA
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INTRODUCTION TO ISLAMIC FINANCE

Over the past few decades, the Islamic finance industry has shown remarkable growth. With a market share of roughly 1.0\%³, it remains a relatively small albeit viable part of the overall financial system currently.

At the same time, it is also one of the fastest-growing sectors of the international financial system. The robust growth of assets to approximately USD2.0tn at end-2015, with assets having grown at an estimated compounded annual growth rate (CAGR) of 17.3\% between 2009 and 2014 is testimony to the industry’s resilient performance. By comparison, the industry’s asset base was a modest USD150.0bln in the 1990s, with approximately 144 financial institutions offering Islamic financial services.

At the same time, it is also one of the fastest-growing sectors of the international financial system. The robust growth of assets to approximately USD2.0tn at end-2015, with assets having grown at an estimated compounded annual growth rate (CAGR) of 17.3\% between 2009 and 2014 is testimony to the industry’s resilient performance. By comparison, the industry’s asset base was a modest USD150.0bln in the 1990s, with approximately 144 financial institutions offering Islamic financial services.

To understand the value proposition of Islamic finance, one must first understand the foundation of Islamic finance. Broadly speaking, Islamic finance is governed by the principles of Sharia’a. By definition, Sharia’a provides a set of ethical principles which is derived from the teachings of the Islamic faith. It also governs every aspect of a Muslim’s life and the way one deals with one another⁴. Meanwhile, from a commercial point of view, Sharia’a is the ethical framework that delivers legal, moral, and spiritual guidance aimed at achieving the goals of Islam. These principles and values, many of which are universally applicable, equally apply to Islamic financial services and are strongly associated with the business ethics often advocated by regulatory bodies. They also focus on generally accepted view of social responsibility and consumer protection encouraged by society as a whole.

³ Various estimates and research reports indicate that the global Islamic finance sector represents a nascent 1.0\% of the total world’s financial industry
⁴ Investopedia
In summary, Sharia’a provides an ethical business framework and include the following precepts:

01 **HONESTY AND FAIR TRADE.** Trades have to be conducted in a fair and honest way and traders should not engage in practices such as manipulative tactics or cheating.

02 **DISCLOSURE AND TRANSPARENCY.** All characteristics including any potential faults, quality, and other relevant specifics need to be disclosed by the seller. All components of the transaction have to be completely transparent to all parties. Although the emphasis here is on the seller, the buyer has some responsibility and needs to ensure that he is aware of what is being sold to him.

03 **MISREPRESENTATION.** False declarations regarding the goods, the trader’s own standing or ownership of the asset should not occur.

04 **SELLING OVER AND ABOVE THE SALE OF ANOTHER.** Although bargaining is permitted, once a transaction is concluded, another party should not attempt to interfere in the transaction by offering his own goods at a better price.

05 **FORBIDDEN ITEMS ARE NOT ALLOWED TO BE TRADED.** Only goods and assets that are deemed to have a value in the eyes of Sharia’a are allowed to be traded. Any unlawful (haram) goods such as alcohol, weaponry, and other haram investments are prohibited.

06 **HOARDING IS NOT ALLOWED.** Notwithstanding that trade is encouraged, hoarding as well as excessive love of wealth is condemned. The emphasis is on balance, reasonableness and fairness.

07 **SALE OF GOODS AND ASSETS IN THE OPEN MARKET.** Competition is encouraged and transactions should take place in the open and fair market. All parties have to ensure that they are aware of general market conditions and pricing prior to concluding a transaction. Neither the buyer nor the seller should take advantage of the fact that the other party is unaware of market price and conditions.

08 **AVOID TAKING ADVANTAGE OF A SELLER’S VULNERABILITY.** Taking advantage of an individual who, under pressure, is forced to sell an item must at all times be avoided. Instead of taking undue advantage, the buyer should offer assistance to the seller during his plight. Writing off debt, revising repayment structures, or exploring other ways to assist a debtor suffering hardship is encouraged.
In addition to the guiding principles outlined earlier, Sharia’a defines three major prohibitions: Riba (usury), gharar (unnecessary uncertainty), and maysir (speculation).

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<th>THREE MAJOR PROHIBITIONS IN SHARIA’A</th>
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<td><strong>RIBA</strong></td>
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<td>+ Literal definition excess or usury</td>
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<td><strong>GHARAR AND MAYSIR</strong></td>
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<td>+ Both unnecessary uncertainty (gharar) and gambling (maysir) are prohibited due to their affiliation with excessive risk-taking</td>
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<td>+ The lexical meaning of gharar is to deceive, cheat, delude, lure, entice, and overall uncertainty</td>
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<td>+ Maysir or speculation occurs when there is a possibility for total loss to one party in the contract and is associated with games of chance or gambling. It has elements of gharar, but not every gharar is maysir.</td>
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Source: Ethica Institute, INCEIF, IFSB

The Evolution of Islamic Finance

The modern Islamic finance industry is relatively young. It emerged in the 1960s in response to the unmet need for a form of finance that Muslims could trust, and which was in accordance with their ethical and moral principles. It was marked with the establishment of the first Islamic bank in Egypt by Ahmad El Najjar, followed by the set-up of the Hajj Pilgrims Fund Board, also known as Tabung Haji (TH) in Malaysia.

In the early stages of development of the 1980s and 1990s, the Islamic finance industry was mainly present in the Middle East and South-East Asia in predominantly Muslim-based countries and focused mostly on the retail market. After the emergence of wholesale banking and subsequent product innovation, Islamic finance has now grown to include other segments of the industry including sukuk (Islamic bonds), asset management and takaful (Islamic insurance), thus fulfilling the diverse needs of retail and corporate customers. Islamic finance has also evolved in sophistication beyond its traditional boundaries, spanning across 75 countries in regions including Asia, Middle East, Europe, the Americas and more recently sub-Saharan Africa. To date, at least 700 financial institutions offer some type of Sharia’a compliant financial products.

The Islamic finance industry is broadening its ownership base and building a strong value proposition for it to reach wider acceptance and richer value.
The preference for Sharia’a compliant financial solutions gained traction following the aftermath of the global financial crisis of 2008 – 2009, which impacted the Islamic finance industry less severely as compared to its conventional counterpart. The conventional banking sector was estimated by the International Monetary Fund (IMF) to have experienced losses in the tune of USD3.0tn to USD4.0tn as a direct consequence of the crisis. In contrast, no Islamic bank required government bail-outs at a magnitude which was witnessed by some of the world’s largest banking institutions in advanced economies. The resilience of Islamic banks during the crisis demonstrates the intrinsic strengths rooted in Islamic finance that are underpinned by the forces of the Sharia’a principles. Islamic finance requires returns to be sourced from ethical investments which avoid highly risky and speculative investments that are deemed to be one of the primary triggers of financial upheavals.
Additionally, all financial transactions must undergo proper due diligence and be accompanied by an underlying productive economic activity. In summary, the Islamic finance model can only be extended to activities in the real sector that have economic values, thus establishing the close link between financial transactions and productive flows.

The cohort of institutions offering Islamic finance is not confined to new fully-fledged Islamic finance entities. Major players of the global conventional finance industry are venturing into Islamic finance either through new subsidiary entities or window operations. As Islamic finance continues to reach new heights, recent trends indicate that the industry is evolving into a deeper and more sustainable ecosystem. Currently, many non-traditional markets are working on measures to enable the introduction of Islamic finance in their financial territories. Positively, rigorous efforts have been made to harmonise Islamic financial practices, ranging from the creation of accounting standards for Islamic financial products (through the Accounting and Auditing Organisation for Islamic Financial Institutions, AAOIFI), to integration of those standards with global corporate and risk management standards (such as Basel Accords I, II and III) through the Islamic Financial Services Board (IFSB).

The remarkable growth rates of the Islamic finance industry are driven by a number of factors namely:

- A growing Muslim population standing at around 1.6 billion globally, making up over 23.0% of the world population⁶
- An increase in affluence which has led to growing economic participation of the Muslim population
- The search for ethical investments, coupled with greater awareness and increased preference for Sharia’a compliant financial solutions by both Muslim and non-Muslim investors alike
- Government and regulatory push for Islamic finance model is spearheading the growth momentum of the industry. A rising number of jurisdictions are keen to boost their position as international financial centers and attract further Islamic business
- A growing number of Islamic and conventional finance institutions entering the industry space
- Higher sukuk issuance, especially by investment grade issuers or countries, has increased the size and depth of the investment universe and is the catalyst for further development and issuance of Sharia’a compliant instruments in the public and corporate sectors
- A rise in sophistication through greater fundamentals in the contracts allowed under Sharia’a law and their appropriate utilization in the development of modern financial instruments

⁶ Pew Research Institute
The future outlook of the Islamic finance industry remains promising despite obstacles along the way, such as the recent impact of lower oil prices on tightening liquidity in many core Islamic finance jurisdictions. Several significant new players from diverse regions such as Africa, East Asia and the Americas have entered the market in recent years, and the trend is expected to continue. In view of the buoyant prospects for the industry in these new markets, it is likely that Islamic finance will continue its positive growth trajectory, and the pool of investors interested in Sharia'a compliant securities is expected to rise along with it. This is evidenced by the fact that many major international conventional players continue to develop their Islamic finance capabilities. ISRA forecasts that global Sharia'a compliant assets will increase to an estimated USD2.4tn in 2015 and will expand further to above USD3.0tn in 2018.

### Factors Contributing to the Robust Growth of Global Islamic Financial Assets

1. **VALUE PROPOSITIONS**
   - The breadth of contractual modes in Islamic finance are able to cater for the wide spectrum of risk profiles, ranging from the low risk sales and lease-based modes to the higher risk equity-based modes of financing.

2. **INCREASING DEMAND**
   - Growing demand from Muslim population for Sharia’a compliant financial solutions amid increasing acceptance by non-Muslims due to ethical reasons and availability of a wide range of products.

3. **REGULATORY SUPPORT**
   - Governments and regulatory bodies have taken steps to ensure that the regulatory framework is supportive. Incentives are also introduced to jumpstart the growth of the Sharia’a compliant finance industry.

4. **FINANCING GAP**
   - Sharia’a compliant financial instruments can act as potential tools to reduce the financing gaps and act as alternative fund-raising mechanisms to boost economic activity.

5. **TAP WIDER WEALTH BASE**
   - Abundant liquidity flows from the recycling of petrodollars generated by high oil prices over the years.
The industry growth is underpinned by the following factors:

+ Governments’ needs of financing ambitious infrastructure projects in line with their long-term economic goals. This poses as an opportunity for Islamic banks to provide financing support to meet the needs of these countries
+ Growing interest in interest-free banking and supply-side dynamics by financial institutions. Increasing investor awareness and education will continue to drive significant demand for ethical and socially-responsible investment products, and Sharia'a compliant investments can provide investors with a product which satisfies their responsible investing needs while not sacrificing returns
+ The Muslim population is one of the fastest-growing with rising disposable income. Over time, increased savings and investments will need to be met by Sharia'a funds
+ Growing competition will compel the industry to pursue continuous innovation in product design to include improvement in processes, better technologies and such, which will support the sustainability of Islamic finance
+ Active role played by government and regulatory agencies; multilateral bodies and industry players to promote the development of Islamic financial markets in their respective countries and globally
+ The increase of global trade flows in MENA and OIC countries will hold a large business potential for providers of Islamic trade facilities

Key Global Multilateral Institutions Engaged in Islamic Finance

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<th>THE ISLAMIC DEVELOPMENT BANK GROUP</th>
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<td>AFRICAN DEVELOPMENT BANK</td>
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<td>THE WORLD BANK GROUP</td>
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<td>ASIAN DEVELOPMENT BANK</td>
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THE GLOBAL ISLAMIC FINANCE INDUSTRY

In the past decade, Islamic finance has successfully gained much acceptance in the global arena as rising awareness of Sharia’a compliant propositions have encouraged more countries and entities to connect with the global cohort of Islamic finance stakeholders.

Today, there are at least 700 Islamic financial institutions operating across more than 70 countries. Currently, total global financial assets of the Islamic financial industry are estimated at USD2.4 tln and are expected to surpass USD3.0 tln by 2018. Given the dependence of core Islamic finance markets on oil, the decline in oil prices will dampen the outlook of the sector in the near term. This is on the back of subsequent policy responses by various jurisdictions which include spending cuts resulting in lower economic growth and lower credit demand. However, despite a period of slowdown in the near term, the Islamic finance industry is still positioned to grow given its unique value propositions.

Global Islamic Finance Assets (2009 – 2018F)

Source: IFIS, Zawya, ISRA estimates

ISRA estimates
The Islamic banking sector is the biggest segment of the global portfolio of Islamic financial assets, having recorded a CAGR of 16.1% between 2010 and 2014, standing at roughly US$882 bln as at end-2014, and is likely to represent a share of 86.0% of the industry’s US$2.4 tn market in 2015.

A number of new Islamic banks have been established, particularly in North and sub-Saharan Africa.

Saudi Arabia has the largest market share of total Islamic banking assets at 36%, followed by Malaysia at 17% and UAE at 16%.

The volume and range of products and services offered by Islamic banks have increased significantly in the last few years.

The sukuk market is still dominated by sovereign and multilateral issuers (70% of all issuances in 2015).

Excluding its historical biggest issuer, the global market for sukuk will remain at below-peak levels in 2016.

The correction started last year, mainly because the central bank of Malaysia (Bank Negara Malaysia), the largest issuers of sukuk worldwide, stopped issuing. Excluding the BNM effect, sukuk issuance dropped by around 5% in 2015 from 2014. According to Standard & Poor’s, sukuk issuance is estimated to reach US$50 – US$55 bln in 2016, compared with US$63.5 bln in 2015. The sovereign sukuk sector may expand on the back of increased budget deficits, particularly in the energy-exporting countries.
Although relatively a small sector, the Islamic funds industry continues to grow, underpinned by the large number of Sharia’a compliant capital market instruments such as fixed income instruments, money market instruments, Islamic equities and other structured products.

- The number of publicly available Islamic funds increased to 1220, although 71% of the funds have AuM are less than USD25mln.

- Saudi Arabia remains a key player (41% of global Islamic AuM) supported by demand and supply factors (increased awareness towards Sharia’a compliant investment products and strong governmental support).

- In Asia, Malaysia (market share of 24%, with more than one third of new Islamic funds being launched yearly since 2000), Indonesia (7%, supported by an aggressive effort to deepen the Islamic finance industry across all sectors) and Pakistan (7%, owing to increased awareness) are key jurisdictions.

- According to a Thomson Reuters projection, Islamic funds will grow by 5.1% per annum to reach USD77bln in 2019.

The takaful sector had a fair growth rate in 2014 with considerable variation across regions and countries.

- GCC and ASEAN regions continue to be key takaful markets (78% and 3% of global market share, respectively).

- Three jurisdictions account for 84% of the global takaful contributions: Saudi Arabia (37%), Iran (34%) and Malaysia (14%).

- Regions offering huge untapped potential include emerging takaful markets such as Africa (Sudan, Kenya, Nigeria, Tunisia) and Europe (Luxembourg, UK, France and Germany, home of the highest concentration of Muslims in the region).

Source: Bloomberg, MIFC, IFSB, ISRA, Zawya, Global Takaful Insight (2014), World Islamic Banking Competitiveness Report 2016 by EY
“Islamic finance is equity-based, asset-backed, ethical, sustainable, environmentally – and socially-responsible finance. It promotes risk-sharing, connects the financial sector with the real economy, and emphasizes financial inclusion and social welfare. Major financial markets are discovering solid evidence that Islamic finance has already been mainstreamed within the global financial system - and that it has the potential to help address the challenges of ending extreme poverty and boosting shared prosperity”

Abayomi Alawode, Head of Islamic Finance, World Bank
THE EVOLUTION OF ISLAMIC FINANCE IN AFRICA

1960
+ The establishment of the first Islamic bank in Egypt by Ahmad El Najjar

1977
+ Sudan established its first Islamic finance base with the opening of Faisal Islamic Bank, the second Sharia'a compliant bank in the world

1979
+ Sudan started the operations of the Islamic Insurance Company, the world’s first Islamic insurance company

1983
+ Islamic finance commenced in Tunisia with the establishment of the first offshore Islamic bank, Bayt Al Tamweel Al Saoudi Al Tounsi, also known as BEST Bank, which in 2009 became Al Baraka Bank of Tunisia

1989
+ Sudan’s banking system became 100% Islamic
+ Al Baraka (part of the Saudi Arabian-based Dallah Al Baraka group) and the Islamic Bank were the first Islamic banks granted licenses by the South African Reserve Bank

2005
+ Islamic banking emerged in Kenya with Barclays launching Islamic banking products in December 2005

2007
+ Extensive revisions to Islamic banking law were made, and Kenya’s central bank licensed two Sharia’a compliant banks – Gulf African Bank and First Community Bank
+ Mauritius amended its Banking Act to formally allow for Islamic banking activities
+ Morocco’s central bank decided to authorise certain types of Islamic financial products (called alternative financial products), in response to consumers’ demand

2008
+ Gambia’s central bank started issuing the short-dated Sukuk Al-Salam, which operates in broadly similar terms and conditions as the conventional Treasury Bills

2009
+ In May, Zitouna Bank became the first wholly Tunisian Islamic bank. Zitouna Bank is also the first wholly regionally-owned Islamic bank in the Maghreb Arab region
A new law governing the operation of Islamic banks were introduced by the Central Bank of Nigeria.

South Africa’s Amendment Taxation Laws Amendment Act of 2010 (the Act) recognized arrangements such as diminishing Musharakah, Murabahah and Mudarabah as credible alternatives to other conventional financing agreements, which enable banks to offer Sharia’a compliant products.

In Nigeria, two banks – Jaiz Bank Plc and Stanbic IBTC – were granted licenses to operate as a fully-fledged Islamic bank and window respectively in 2011 and both began operations in 2012.

Nigeria witnessed its inaugural sukuk issuance, where the state of Osun issued an Ijarah sukuk for financing amounting to NGN10.0bln (USD62.0mln). This was also the first sukuk from a major economy in sub-Saharan Africa.

In January, the Moroccan parliament adopted an Islamic finance law that finally set a legislative framework to the presence of Islamic banks on its soil.

Senegal successfully launched a four-year XOF100bln (USD171.96mln) sukuk, making it the first sub-Saharan country to launch a sovereign sukuk.

Following Senegal, South Africa issued a USD500mln 5.75-year sukuk in September.

Tunisia’s Ministry of Finance included a special tax system for sukuk and Islamic funds.

In February, the Central Bank of Nigeria issued guidelines for an advisory body that will oversee Islamic banking in the country, becoming the latest regulator to opt for a centralised approach to the industry.

The G20 group of nations’ decision to examine the use of sukuk to finance infrastructure investment could potentially boost the size of the sukuk market, including Africa.

The government of Uganda approved the Financial Institutions (Amendment) Bill 2015, paving the way for Islamic banking and finance in the country.

In December, Ivory Coast issued its inaugural sovereign sukuk for a value of CFA150bln.

Nigeria’s Securities and Exchange Commission (SEC) and the Debt Management Office (DMO) announced in February the implementation of a committee in charge of advising authorities regarding the issuance of the nation’s first sovereign sukuk, due to be issued by first quarter of 2017.

In February, Niger’s government will establish an Islamic bond programme worth CFA150bln (USD260 million), permitting its first issue of sukuk, with assistance from ICD.

Ivory Coast issued its second sukuk for a value of CFA150bln in July.

Togo launched its inaugural sukuk on the WAEMU market, aiming to raise CFA150bln.

It was reported that Kenya is reviewing all laws and regulations governing its nascent Islamic finance industry to aid the issuance of a debut sukuk.
## Islamic Finance Opportunities in Africa

### A Snapshot: Islamic Finance Activity in Selected African Countries

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<tr>
<th>COUNTRY NAME</th>
<th>ISSUED SUKUK</th>
<th>PLANNING SUKUK</th>
<th>ISLAMIC BANKS</th>
<th>BANKS WITH ISLAMIC WINDOWS</th>
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<th>ISLAMIC MICROFINANCE</th>
<th>OTHER SHARIA’A COMPLIANT PRODUCTS</th>
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*Source: EIU, data based on publicly available information*
Home to a quarter of the world’s Muslim population, Africa features a potentially strong demand for Islamic financial services and products, presenting significant opportunities to deepen and broaden financial intermediation. Although still comparatively under-developed, Islamic finance is expanding in many parts of the continent. Islamic financial service providers are now present across most of North Africa and in many countries of East and West Africa (particularly in those with sizable Muslim communities).

While there is no exact figure for the number of Sharia’a compliant institutions operating in Africa, estimates show that the continent currently hosts over 250 Islamic financial institutions that offer Sharia’a compliant services including Islamic banks, takaful companies, Islamic funds, Mudarabah companies, and Sharia’a compliant microfinance.

Why Islamic Finance in Africa?

1. Islamic finance can help Africa develop the right infrastructure that can transform the economy and people’s lives

Infrastructure development is a top developmental priority in Africa, particularly in two critical areas: power and transport. Without both of these sectors being properly developed, any further investment into secondary infrastructure (such as education, health, and housing) will struggle to materialize.

“Islamic finance has, in principle, the potential to promote financial stability because its risk-sharing feature reduces leverage and its financing is asset-backed and thus fully collateralized”

— Christine Lagarde,
IMF Managing Director
Basic infrastructure is still an issue for Africa: The continent’s access to electricity

Indeed, power is one of the greatest challenges facing the region across all aspects of the economic value chain. Access to electricity forms the basis of an industrialized economy and hence trade; yet less than 30% of Africans have access to electricity, compared to about 40% in similar low-income countries from other regions. In sub-Saharan Africa alone, the World Bank estimates that investments of between USD120bn and USD160bn are required per annum in order to provide electricity access to the entire region by 2030.

Africa is experiencing the fastest energy demand growth among the world’s regions, driven by urbanization, rising population and promising economic fundamentals. However, the fact remains: Africa is not reaping its full potential as the lack of power infrastructure is proving to be a setback to growth in the region, making it an urgent problem which needs to be addressed. More than 30 African countries are now experiencing power shortages leading to either expensive short-term fixes or power blackouts, and the economic cost of such power shortages is huge.
done. In many countries, most rail lines are remnants from the colonial period and are in a state of disrepair. Transport infrastructure improvements and maintenance which involve solid road and rail networks that spans regions are not yet keeping pace with Africa’s needs.

Apart from inadequate power infrastructure, connecting the vast continent with over 50 countries is not without its challenges. Currently, investments are underway in major carriage ways and regional railway projects, such as the Standard Gauge Railway that will connect Kenya, Uganda, Rwanda and South Sudan. However, much more needs to be done. In many countries, most rail lines are remnants from the colonial period and are in a state of disrepair. Transport infrastructure improvements and maintenance which involve solid road and rail networks that spans regions are not yet keeping pace with Africa’s needs.

### Key Issues in Africa’s Energy Sector

<table>
<thead>
<tr>
<th>LOW ACCESS AND INSUFFICIENT CAPACITY</th>
<th>POOR RELIABILITY</th>
<th>HIGH COSTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>+ Some 24% of the population in sub-Saharan Africa has access to electricity vs. 40% in other low income countries. Excluding South Africa, the entire installed generation capacity of sub-Saharan Africa is only 28 Gigawatts, equivalent to that of Argentina.</td>
<td>+ African manufacturing enterprises experience power outages on average 56 days per year. As a result, firms lose 6% of sales revenues in the informal sector. Where back-up generation is limited, losses can be as high as 20%.</td>
<td>+ Power tariffs in most parts of the developing world fall in the range of USD0.04 to USD0.08 per kilowatt-hour. However, in sub-Saharan Africa, the average tariff is USD0.13 per kilowatt-hour. In countries dependent on diesel-based systems, tariffs are higher still. Given poor reliability, many firms operate their own diesel generators at two to three times the cost with attendant environmental costs.</td>
</tr>
</tbody>
</table>

**Source:** World Bank

### The Trans-Africa Highway Network

[Map of the Trans-Africa Highway Network]

- Paved
- Unpaved
- Cairo - Dakar
- Algiers - Lagos
- Tripoli - Windhoek (Cape Town)
- Cairo - Gaborone (Cape Town)
- Dakar - Ndjamena
- Ndjamena - Djibouti
- Dakar - Lagos
- Lagos - Mombasa
- Beira Lobito

---
The Trans-African Highway network is an ambitious project which is being developed by the United Nations Economic Commission for Africa (UNECA); African Development Bank (ADB) and the African Union with the participation of regional international communities. The highway consists of nine different corridors that are designed to give every African country access to markets and ports.

Source: UNECA

Additionally, on a continent in shortage of good roads and productive factories, 90.0% of trade happens by sea, which means African ports also need to be modernized, expanded and maintained so as to push greater trade volumes, enable governments to collect more taxes and curb illegal activities. According to the World Bank, in 2011 shipping a container from Africa was typically twice as time-consuming as getting one shipped from India and about six times slower as doing it through an American port. On average, containers sit waiting in African ports for three weeks before being taken to their final destination, compared with a week in other emerging markets. Poor connections to the hinterland and red tape at customs are cited as some of the reasons for the substandard logistics performance.

Top 10 of Africa’s Internet Countries (as at November 2015)

<table>
<thead>
<tr>
<th>Country</th>
<th>Millions of Users</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nigeria</td>
<td>92.7</td>
</tr>
<tr>
<td>Egypt</td>
<td>48.3</td>
</tr>
<tr>
<td>Kenya</td>
<td>31.9</td>
</tr>
<tr>
<td>South Africa</td>
<td>26.8</td>
</tr>
<tr>
<td>Morocco</td>
<td>20.2</td>
</tr>
<tr>
<td>Sudan</td>
<td>9.3</td>
</tr>
<tr>
<td>Uganda</td>
<td>8.5</td>
</tr>
<tr>
<td>Tanzania</td>
<td>7.6</td>
</tr>
<tr>
<td>Tunisia</td>
<td>7.2</td>
</tr>
<tr>
<td>Algeria</td>
<td>5.4</td>
</tr>
</tbody>
</table>

Africa’s Internet Users (as at November 2015)

<table>
<thead>
<tr>
<th>Region</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>World</td>
<td>90.2%</td>
</tr>
<tr>
<td>Africa</td>
<td>9.8%</td>
</tr>
</tbody>
</table>

---

*‘The Bottleneck’, The Economist. May 2016*
How the Internet Enables Economic Growth

**INTERNET ACCESS ENHANCES THE PRODUCTIVITY OF LABOUR AND CAPITAL**

**LABOUR ENHANCEMENT**
Improved human resource qualification and specialisation

**ENTREPRENEURSHIP**
Facilitation of entrepreneurship and business expansion; access to new markets

**INFORMATION FLOWS**
Enhanced speed and quality of information flows result in reduced transaction costs

**INNOVATION**
Greater innovation and adoption of new organisational models and business processes

**FINANCIAL CAPITAL ACCESS**
Enhanced access to financial capital with services such as mobile banking

As at November 2015, there are an estimated 330,965,359 Internet users in Africa with a 28.6% penetration.

**Source:** Deloitte

It is not just with energy access and transport networks that Africa lags behind. Access to the internet is still considered a luxury for many. The internet is one of the most powerful tools for boosting trade, opening up new economic opportunities and driving productivity, innovation and entrepreneurialism. Internet connectivity has already transformed many aspects of the lives in developed economies and has provided sweeping economic and social benefits. Broadening these opportunities is critical to accelerating economic and social growth in developing economies, while enabling the transition from a resource-based to a knowledge-based economy. By and large, the knowledge economy is the future of Africa and the internet is the backbone.

**Internet Penetration in Africa (as at November 2015)**

![Graph showing internet penetration rate in Africa and the world](chart.png)

**Source:** Internet World Stats (www.internetworldstats.com/)

Rest of the World: 49.7%
World Average: 46.4%
Africa: 28.6%
Overall, increasing the current levels of energy access, improving transport networks and increasing internet connectivity in Africa will require sustained investments at much higher levels. As the rate of African economic growth and the resulting improvements in living standards have surpassed developed countries, the lack of sound infrastructure threatens to put a brake on development. Tackling the inefficiency and financial burden imposed by under-performing infrastructure is thus an important issue. The need for alternative sources of capital to finance infrastructure projects becomes increasingly more compelling with fragility of growth from major emerging markets.

To this end, Islamic finance can act as the catalyst in mobilizing funding into Africa. The burden of infrastructure financing projects can shift away from banks towards the sukuk market. Globally, sukuk has emerged as a competent alternative to conventional debt financing for large infrastructure and energy projects. This is so because Islamic finance requires a clear link with real economic activity and transactions have to relate to a tangible, identifiable asset, as in the case of infrastructure financing. Furthermore, sukuk investors typically have an appetite for longer periods and prefer stable and predictable cash flow, traits associated with infrastructure or energy projects. Positively, developing economies in Africa have already begun its entry into the sukuk market for such infrastructure financing with some having put in place the legal groundwork for sukuk issuances.

Islamic finance can be the answer to plug Africa’s revenue shortfalls caused by the global commodity slump

A commodity rout has left many African countries with billions of dollars’ gap in annual income, which means governments will need to find new ways to cover budget shortfalls. Projections by the IMF and World Bank point to a deterioration in public finances across most African countries in the near term underpinned by slow revenue-base growth as a result of dwindling commodity prices. This is especially the case 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.

Fiscal Balances in Selected African Countries (2015 vs. 2016F)

Source: IMF, World Bank
This has been a growing trend in several countries – Indonesia have announced recently that it plans to sell its first Islamic savings bond in August as the government finds new innovative products to finance its budget and diversify its funding base to attract retail investors (it is important to note however that while Indonesia is a frequent issuer of Sharia'a compliant debt, the bulk of the offerings are taken up by institutional investors and global funds). Meanwhile, GCC countries such Qatar are in talks to issue sukuk to shore up their finances pressured by low energy prices, while Kuwait is preparing legislation to facilitate sovereign sukuk issues for the same reason. In 2015, Oman made its sukuk debut with its five-year OMR200mln (USD517.93mln) benchmark offering. As one of the smaller GCC countries, Oman is seen to be more susceptible to the impact of lower oil prices and as such is likely to have a higher than average budget deficit. The issuance was expected to help bridge that gap.

Upcoming Sovereign Sukuk Issuances

<table>
<thead>
<tr>
<th>COUNTRY</th>
<th>AMOUNT</th>
<th>EXPECTED DATE</th>
</tr>
</thead>
<tbody>
<tr>
<td>OMAN</td>
<td>USD2.0bln</td>
<td>TBA</td>
</tr>
<tr>
<td>NIGERIA</td>
<td>TBA</td>
<td>First quarter 2017</td>
</tr>
<tr>
<td>JORDAN</td>
<td>JOD175mln</td>
<td>TBA</td>
</tr>
<tr>
<td>INDONESIA</td>
<td>TBA</td>
<td>2016</td>
</tr>
<tr>
<td>PAKISTAN</td>
<td>PKR79.1bln</td>
<td>TBA</td>
</tr>
<tr>
<td>EGYPT</td>
<td>TBA</td>
<td>2016</td>
</tr>
<tr>
<td>KAZAKHSTAN</td>
<td>TBA</td>
<td>2016</td>
</tr>
<tr>
<td>KENYA</td>
<td>TBA</td>
<td>2016</td>
</tr>
<tr>
<td>SOUTH AFRICA</td>
<td>TBA</td>
<td>2016</td>
</tr>
<tr>
<td>TURKEY</td>
<td>TRY1.8bln</td>
<td>February 2016</td>
</tr>
<tr>
<td>BANGLADESH</td>
<td>TBA</td>
<td>TBA</td>
</tr>
<tr>
<td>HONG KONG</td>
<td>USD500mln – USD1bln</td>
<td>TBA</td>
</tr>
<tr>
<td>SENEGAL</td>
<td>TBA</td>
<td>TBA</td>
</tr>
<tr>
<td>NIGER</td>
<td>CFA150bln</td>
<td>TBA</td>
</tr>
<tr>
<td>TUNISIA</td>
<td>USD500mln</td>
<td>TBA</td>
</tr>
<tr>
<td>UAE</td>
<td>TBA</td>
<td>TBA</td>
</tr>
<tr>
<td>NINGXIA HUI AUTONOMOUS REGION</td>
<td>USD1.5bln</td>
<td>TBA</td>
</tr>
<tr>
<td>SHANDONG PROVINCE</td>
<td>CNY30bln</td>
<td>TBA</td>
</tr>
<tr>
<td>SINDH PROVINCE</td>
<td>USD200mln</td>
<td>TBA</td>
</tr>
<tr>
<td>KUWAIT</td>
<td>KWD5bln</td>
<td>September 2016</td>
</tr>
<tr>
<td>MALDIVES</td>
<td>TBA</td>
<td>TBA</td>
</tr>
<tr>
<td>SRI LANKA</td>
<td>USD1bln</td>
<td>TBA</td>
</tr>
</tbody>
</table>

Source: Deloitte
Africa is home to the world’s fastest growing population. Sub-Saharan Africa alone is now home to over 250 million Muslims, a number that is projected to grow to more than 385 million by 2030. Within sub-Saharan Africa, Muslims are mostly concentrated in West Africa, which currently hosts 160 million Muslims and is expected to house 257 million Muslims by 2030. In addition, IMF estimates show that by 2035, the number of sub-Saharan Africans reaching working age (15–64) will exceed that of the rest of the world combined. Complemented with the right combination of policies and speed of transition, African countries can benefit considerably from a significant demographic dividend.
In a region where the challenge of providing affordable and accessible financial services to low-income or “unbankable” populations is an increasingly urgent one, policymakers in countries with substantial Muslim populations may consider the meaningful role that Islamic finance can play as part of a national financial inclusion and deepening agenda. For example, Islamic microfinance is a valuable tool for poverty alleviation as it steers poor populations into formal financial activity. It also has the potential to tap into fragmented Sharia'a compliant donor streams such as zakat, sadaqat and waqf, and streamline them toward strategic, impact-oriented goals. Indeed, the broad introduction of Sharia'a compliant products and services will encourage many of the unbanked to subscribe to formal banking services, thus resulting in a much larger proportion of the population participating actively and effectively in the name of economic development.
AFRICAN POVERTY
What does it look like? And why is it so?

**BY THE NUMBERS**

- **Seventy-five percent of the world’s poorest countries are located in Africa**

- **The 10 countries with the highest percentage of people living in extreme poverty are also in Africa**

- **Approximately one in three people living in Sub-Saharan Africa are undernourished**

**HISTORY**

- **Mid-19th Century**: Africa remains largely unexplored due to harsh conditions, rough terrain, disease, and river rapids

- **1870’s**: Henry Stanley travels from East to West Africa and dubs it the “Dark Continent”

- **1880’s**: The Berlin Conference begins the parceling of African land to European powers

- **1880’s**: European Imperialism exploits Africa’s natural resources

- **Mid-20th Century**: Colonization is brought to a halt and many African countries gain independence

- **Present**: Africa is left in a state of poverty, war, corruption and unstable political economic and social system
In addition, the main beneficiary of Africa’s growing middle-class will be consumer banking, namely retail products such as housing and car financing. African spending is predicted to almost double in the next decade. While Nigeria and South Africa currently lead this expansion of consumer demand in sub-Saharan Africa, other countries such as Angola, Ethiopia, Kenya, Uganda and Zambia will also see a substantial increase in their domestic demand. Thus, basic banking products will continue to grow, particularly as an increasing share of the population will be of working age (between 15 to 64 years old) and will continue to spend.

Overall, by helping to encourage strong and dynamic banking networks offering fair, flexible and ethical financing solutions for all segments of the population, Islamic finance can be a major player in the development of a continent that has so much potential.
Small and Medium Enterprises (SMEs), by its sheer size, dominate the world business stage. Although accurate, up-to-date data is hard to obtain, estimates indicate that more than 95% of enterprises across the world are classified as SMEs, and they are now widely recognized as engines of economic growth and key contributors to sustainable GDP.

Taking into account the limited access to bank loans in Africa, it is therefore not surprising that African enterprises are more likely to cite access to credit as the most important constraint on their operations and growth. Helping African SMEs to thrive is vital not only for Africa but for the global economy because it provides stable wage-paying opportunities for Africans thus creating a growing middle class with disposable income. This in turn drives African economic growth and welfare, and provides market opportunities for new investors.

**Sub-Saharan Africa vs. Rest of the World: Obstacles to Firms’ Operation and Growth**

The graph shows the growth obstacle noted as the most important one by firms in countries in sub-Saharan Africa and outside sub-Saharan Africa.

Data based on World Bank’s Enterprise Survey

*Source: ‘Small-and Medium-Sized Enterprise Finance in Africa’, by the Africa Growth Initiative at the Brookings Institution*
In this respect, Islamic finance can play a significant role in meeting the financing-gap for SMEs in Africa. Addressing this issue has been a priority for African governments and regional organizations for several years. Notable examples include ICD’s SME Funds Platform, which was created for the development of the SME sector in member countries through the deployment of Sharia’a compliant mezzanine capital into well-run small- and medium-sized businesses. For instance, the Theemar Fund in Tunisia has been successful in providing much needed capital to businesses and projects in the country.

As the asset-backed finance and risk-sharing nature of Islamic financial products aim to promote social and economic development through encouraging entrepreneurship, SME financing is a natural fit for Islamic finance.
Currently, trade and investment between African countries and other Muslim countries is growing. Islamic finance can be a catalyst in strengthening these ties and providing new opportunities in unimpeded trade.

Islamic Finance Trade Products

<table>
<thead>
<tr>
<th>IMPORT FINANCING</th>
<th>EXPORT FINANCING</th>
</tr>
</thead>
<tbody>
<tr>
<td>+ Documentary Credit</td>
<td>+ Inward Letter of Credit</td>
</tr>
<tr>
<td>+ Wakalah</td>
<td>+ Islamic Factoring</td>
</tr>
<tr>
<td>+ Murabahah</td>
<td>+ Islamic Bankers Acceptance</td>
</tr>
<tr>
<td>+ Shipping Guarantee</td>
<td>+ Islamic Credit Export Financing</td>
</tr>
<tr>
<td>+ Murabahah Working Capital</td>
<td>+ Islamic Export Credit Re-financing (pre-shipment)</td>
</tr>
<tr>
<td>+ Islamic Bankers Acceptance</td>
<td>+ Islamic Export Credit Re-financing (post-shipment)</td>
</tr>
<tr>
<td>+ Foreign Inward Bills for Collection (FIBC-i)</td>
<td>+ Accepted Bills-i</td>
</tr>
<tr>
<td>+ Domestic Inward Bills for Collection (DIBC-i)</td>
<td>+ Foreign Outward Bills for Collection-i</td>
</tr>
<tr>
<td></td>
<td>+ Domestic Outward Bills for Collection-i</td>
</tr>
<tr>
<td></td>
<td>+ Debt Trading Working Capital Financing</td>
</tr>
</tbody>
</table>

Source: ITFC

To this end, African countries should be more willing to explore Islamic finance, especially in countries where Sharia’a compliant assets account for as much as a quarter of total banking assets and where Islamic finance is the preferred mode of finance. Sharia’a compliant trade instruments range from Islamic bankers’ acceptances to Islamic factoring services.
Since Islamic finance is still a nascent industry in Africa, however the opportunities for the industry to flourish in Africa are manifold. Setting aside the enthusiasm for Islamic finance, Africa faces considerable challenges in developing strong Islamic financial markets. These need to be addressed by African regulators and the business community.

The disparity between the current state of Islamic finance in Africa and its potential raises questions about constraints to the development of this type of finance. While structural demographic and economic prospects for Africa are bright, several key enablers need to be in place to support sustainable growth moving forward, and the case for Islamic finance in Africa is strong.

Currently, the global Islamic finance industry faces several multi-dimensional challenges in its bid to unlock its huge potential, and it is no exception in Africa’s case. These challenges include:

- Circumstances where the scope of the Islamic finance and service offerings exceed limitations of the existing financial services laws, regulations and accounting regimes, therefore necessitating the introduction of amendments or special exemptions to be enacted. It will be important, among other measures, that African governments adapts its regulatory and supervisory framework to support the development of the industry. African regulators will have to produce general and specific rules and guidelines in order for this to take place. An approach that can be adopted by African regulators would be to retain the existing conventional financial framework in their respective countries and take incremental steps to accommodate the specificities of Islamic finance, which leads to gradual extension and differentiation of the legal and regulatory system over time.

- Varying interpretations of Sharia’a, often fuelled by different Sharia’a regulatory frameworks. The nature of Islamic law allows for different interpretations, which results in different practices and use of concepts across jurisdictions. If Islamic finance is to move deeper into mainstream global finance, the industry needs to further prove its credibility by harmonizing Sharia’a standards and practices across the board. The progressive harmonization of Sharia’a, in this respect, needs to be viewed as a driver towards greater financial integration.

- The recurring issue of tax treatment of Islamic finance products and the need to create an enabling tax environment which does not discriminatorily penalize these products for the structure and techniques utilized. Moreover, Sharia’a compliant structures and techniques are proven to offer enhanced downside protection and be more conducive to the development of a fiscally-sound economy on the back of its intrinsic links. Accordingly, changes are required to stamp duty, property and other tax regimes in order to enable Islamic finance products to compete with conventional ones.
The limited public awareness about Islamic finance in Africa. The low penetration levels of Islamic finance can be attributed to the lack of public awareness regarding Islamic finance products and services and the perception that Islamic finance is for Muslims only. When consumers lack knowledge about Islamic finance products and services, Islamic finance institutions often need to work harder than their conventional counterparts to educate people.

Meanwhile, the Islamic finance industry cannot develop without the professional human capital for Islamic finance. Currently, there are shortages in skills and capabilities in the Islamic finance business, including among regulatory authorities. Often referred to as the industry’s gatekeepers, the lack of qualified scholars is squeezing further growth in the industry. However, institutions such as International Center for Education in Islamic Finance (INCEIF) and Bahrain Institute of Banking and Finance (BIBF) are attempting to correct the problem with a variety of new courses and degrees. To move forward, it is necessary for Africa to create large pools of experts and highly-qualified professionals with in-depth expertise in Sharia’a and conventional financial practices to bridge the gap. African governments can introduce professional degree programs, Islamic finance talent development programs and courses for Islamic finance in collaborations with Islamic finance thought leaders such as Malaysia. Indeed, collaborations between mature and emerging regional centers in Islamic finance can serve as a catalyst for the development of talent and knowledge in the industry.

To date, growing number of players have started addressing these challenges systematically and to varying degrees of success. Together, if all the above challenges are met and appropriate measures are undertaken, the Islamic finance industry will reach a new dimension in Africa.
SECTION 3: COUNTRY PROFILES - ISLAMIC FINANCE DEVELOPMENTS
SECTION 3: COUNTRY PROFILES: ISLAMIC FINANCE DEVELOPMENTS

- Kenya 62
- Nigeria 64
- Ivory Coast 66
- Senegal 68
- South Africa 70
- Gambia 72
- Tunisia 74
- Sudan 76
- Zambia 78
KENYA: AT A GLANCE

Land area (sq.km) 569,000
Total population 44.86 million
Capital Nairobi
Currency Kenyan shilling
Official Language(s) Swahili, English

2015 IMF WORLD BANK
GDP growth (annual %) 5.6% 5.6%
GDP ($) $61.41bn $63.40bn
GDP per capita ($) $1,388 $1,377
Inflation (annual %) 6.6% 6.6%

GDP Breakdown by Sectors (2014)
- Services 50.4%
- Agriculture 20.2%
- Industry 19.3%

Life expectancy at birth, total (years) (2014) 62 YEARS
Poverty headcount ratio at national poverty lines (% of population) (2005) 45.9%
Adult literacy rate, population 15+ years, both sexes (2015E) 78.0%
Account at a financial institution, male (% age 15) (2014) 58.9%
Access to electricity (% of population) (2012) 23.0%
Account at a financial institution, female (% age 15) (2014) 51.9%
Unemployment, total (% of total labour force) (2014) 9.2%
Doing Business in Kenya (as of 2015) 108th (out of 189 countries)
Key Highlights and Recent Developments:

+ Kenya was the first country to introduce Islamic banking in the Eastern and Central African region and continues to lead in its growth.
+ Islamic banking emerged in Kenya with Barclays launching Islamic banking products in December 2005.
+ In a bid to deepen the country’s financial inclusion agenda, in May 2010, the Central Bank of Kenya (CBK), through the Finance Act, amended Section 45 of the Central Bank of Kenya Act to allow CBK to recognize the payment of a return rather than interest on government securities. This set the stage for the introduction of Sharia’a compliant investments in the country.
+ In 2011, Kenya launched its first fully-fledged takaful firm called Takaful Insurance Africa. Islamic lender First Community Bank also operates a takaful scheme while Reinsurance Corp has developed a Sharia’a compliant re-insurance product of its own.
+ To date, the government has ambitious plans to turn Nairobi into an international financial center. They have already signed a deal with the Qatari government to help them model the plan on Doha and develop the legal and regulatory framework to issue sukuk and Sharia’a compliant products.
+ Currently, there are two fully-fledged Islamic banks in Kenya – Gulf African Bank and First Community Bank, as well as Islamic banking services at several conventional lenders such as Chase Bank, Standard Chartered, National Bank of Kenya, Kenya Commercial Bank and Barclays.
+ Positively, Islamic banking in the country is gaining traction among non-Muslims. In 2015, the National Bank of Kenya opened 25,000 accounts in its Islamic banking window, National Amanah, almost 19,000 of which are held by non-Muslims. The bank expects to double that number by year-end.
+ In May 2015, Kenya’s regulator introduced new takaful rules which will allow the entry of conventional players into the sector, part of efforts to boost capital markets in East Africa’s biggest economy. Takaful is seen as a bellwether of consumer appetite for Islamic finance products. This development would see Kenya join the countries such as Pakistan and Indonesia in allowing takaful windows, which enable firms to offer Sharia’a compliant and conventional products side by side. The rules require separate financial reporting requirements for takaful windows from their parent firm, and their operating model must be approved by a board of religious scholars.
+ It was reported in February 2016 that Kenya is reviewing all laws and regulations governing its nascent Islamic finance industry to aid the issuance of a debut sukuk. The Treasury has said it is looking at the possibility of issuing the sukuk in the 2016/2017 fiscal year, starting in July, but no further details have been offered. After the country’s first issuance of the Eurobond in 2014, it aspires to expand the range of financing available for infrastructure projects like roads and power plants.

<table>
<thead>
<tr>
<th>Total Population (2014)</th>
<th>44.86 million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Muslim Population (2010)</td>
<td>2.89 million</td>
</tr>
<tr>
<td>% of Total</td>
<td>7.0%</td>
</tr>
<tr>
<td>Total Muslim Population (2030E)</td>
<td>5.49 million</td>
</tr>
<tr>
<td>% of Total</td>
<td>8.7%</td>
</tr>
</tbody>
</table>
# Nigeria: At a Glance

**Land area (sq.km)**
911,000

**Total population**
177.48 million

**Capital**
Abuja

**Currency**
Nigerian naira

**Official Language(s)**
English

<table>
<thead>
<tr>
<th>Year</th>
<th>IMF</th>
<th>World Bank</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>2.7%</td>
<td>2.7%</td>
</tr>
<tr>
<td>GDP ($)</td>
<td>$490.21bln</td>
<td>$481.07bln</td>
</tr>
<tr>
<td>GDP per capita ($)</td>
<td>$2,743</td>
<td>$2,640</td>
</tr>
<tr>
<td>Inflation (annual %)</td>
<td>9.0%</td>
<td>9.0%</td>
</tr>
</tbody>
</table>

**GDP Breakdown by Sectors (2014)**

- **Services**: 54.8%
- **Agriculture**: 20.2%
- **Industry**: 24.9%

**Life expectancy at birth, total (years) (2014)**
52.8 YEARS

**Poverty headcount ratio at national poverty lines (% of population) (2005)**
46.0%

**Adult literacy rate, population 15+ years, both sexes (2015E)**
59.6%

**Account at a financial institution, male (% age 15) (2014)**
33.6%

**Access to electricity (% of population) (2012)**
55.6%

**Account at a financial institution, female (% age 15) (2014)**
54.3%

**Unemployment, total (% of total labour force) (2014)**
7.5%

**Doing Business in Kenya (as of 2015)**
169th (out of 189 countries)
Key Highlights and Recent Developments:

+ With a population of close to 178 million people, Nigeria is home to the largest Muslim population on the continent, and is arguably the largest consumer market in Africa. Naturally, Islamic finance on the Nigerian soil has great potential.

+ Islamic finance gained foothold in the country in the early 1990s. Provisions of the Banks and Other Financial Act (BOFIA) 1991, which recognizes banks based on profit and loss sharing, provided for the establishment of Islamic banking in Nigeria.

+ Following this, Habib Bank was given approval in 1992 to operate an Islamic banking window offering a limited number of Sharia’a compliant products.

+ In January 2009, the Central Bank of Nigeria (CBN) joined the IFSB as a full member, and in 2010, it set up a non-interest banking unit in the Financial Policy and Regulation department.

+ In 2011, CBN published a framework providing guidelines for the establishment, operations, Sharia’a governance and supervision of Islamic banks which can be stand-alone fully-fledged institutions, subsidiaries or windows.

+ In the same year, two banks – Jaiz Bank Plc and Stanbic IBTC – were granted licenses to operate based as a fully-fledged Islamic bank and window respectively. Both institutions began operations in 2012.

+ Other mainstream banks, including First National Bank (FNB), Absa Bank and HBZ Bank offer Islamic finance windows alongside conventional services.

+ In March 2013, Nigeria amended the rules of the regulations of the Securities and Exchange Commission (SEC) to regulate the issuance of sukuk.

+ In the same year, Nigeria witnessed its inaugural sukuk issuance, where the state of Osun issued an Ijarah sukuk for financing amounting to NGN10.0bn (USD62.0mln). This was also the first sukuk from a major economy in sub-Saharan Africa.

+ The success of the debut sukuk issued by Osun, a state that is mainly Christian in composition, indicates that there is potential for the use of this type of instrument in the country.

+ In April 2013, the country issued new guidelines to oversee the operation of its takaful industry.

+ In February 2015, CBN issued guidelines for an advisory body that will oversee Islamic banking in the country, becoming the latest regulator to opt for a centralised approach to the industry.

+ Nigeria’s advisory body, known as the Financial Regulation Advisory Council of Experts, will be tasked with ensuring all banking products conform to Sharia’a principles. The published guidelines set out minimum requirements for the advisory body, which will comprise a minimum of five members including a central bank official.

+ To date, financial institutions that offer Islamic banking products in Nigeria are already required to have their own boards of Sharia’a finance experts, who are limited to serving in one institution at a time.

+ The central bank’s advisory body will be guided by the principles of Sharia’a governance issued by the Malaysia-based Islamic Financial Services Board (IFSB).

+ In February 2016, Nigeria’s Securities and Exchange Commission (SEC) and the Debt Management Office (DMO) announced the implementation of a committee in charge of advising authorities regarding the issuance of the nation’s first sovereign sukuk by this year to fund the country’s NGN2.2tln 2016 budget deficit. However, latest reports indicate that the issuance has been postponed to the first quarter of 2017.

+ Meanwhile, in May 2016, the country’s regulator granted Jaiz Bank Plc a national license to operate in all 36 states of the federation. Before the license, the bank was operating in a regional license which allowed it to operate geographically in a third of the country. Therefore, the bank held branches only in Abuja Federal Capital territory, and the northern states of Kaduna and Kano.

+ Moving forward, the government has ambitions to establish the country as the African hub for Islamic finance due to the country’s large Muslim population.

### Key Statistics:

<table>
<thead>
<tr>
<th>Category</th>
<th>Estimated Population</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Population (2014)</td>
<td>177.48 million</td>
</tr>
<tr>
<td>Total Muslim Population (2010)</td>
<td>75.73 million</td>
</tr>
<tr>
<td>% of Total</td>
<td>47.9%</td>
</tr>
<tr>
<td>Total Muslim Population (2030E)</td>
<td>116.83 million</td>
</tr>
<tr>
<td>% of Total</td>
<td>51.5%</td>
</tr>
</tbody>
</table>

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**ISLAMIC FINANCE IN AFRICA: REACHING NEW FRONTIERS**

**SECTION 3: COUNTRY PROFILES - ISLAMIC FINANCE DEVELOPMENTS**

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65
### IVORY COAST: AT A GLANCE

- **Land area (sq.km):** 318,000
- **Total population:** 22.16 million
- **Capital:** Yamoussoukro
- **Currency:** West African CFA franc
- **Official Language(s):** French

#### 2015 IMF WORLD BANK

<table>
<thead>
<tr>
<th></th>
<th>IMF</th>
<th>WORLD BANK</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP growth (annual %)</td>
<td>8.6%</td>
<td>8.4%</td>
</tr>
<tr>
<td>GDP ($)</td>
<td>$31.17bln</td>
<td>$31.75bln</td>
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<tr>
<td>GDP per capita ($)</td>
<td>$1,315</td>
<td>$1,399</td>
</tr>
<tr>
<td>Inflation (annual %)</td>
<td>1.2%</td>
<td>1.2%</td>
</tr>
</tbody>
</table>

#### Key indicators:
- **GDP ($):** $31.17bln (IMF) / $31.75bln (WORLD BANK)
- **GDP per capita ($):** $1,315 (IMF) / $1,399 (WORLD BANK)
- **Unemployment, total (% of total labour force) (2014):** 4.0%
- **Adult literacy rate, population 15+ years, both sexes (2015E):** 43.3%
- **Access to electricity (% of population) (2012):** 55.8%
- **Life expectancy at birth, total (years) (2014):** 51.6 YEARS
- **Poverty headcount ratio at national poverty lines (% of population) (2005):** 46.3%
- **Account at a financial institution, male (% age 15) (2014):** 18.1%
- **Account at a financial institution, female (% age 15) (2014):** 12.0%
- **Doing Business in Kenya (as of 2015):** 142nd (out of 189 countries)

#### GDP Breakdown by Sectors (2014)

- **Services:** 56.5%
- **Agriculture:** 22.4%
- **Industry:** 21.1%

#### Sector Breakdown:

- **Services:** 56.5%
- **Industry:** 21.1%
- **Agriculture:** 22.4%

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The Islamic Corporation for the Development of the Private Sector (ICD)

**Services:** 56.5%

**Industry:** 21.1%

**Agriculture:** 22.4%
Key Highlights and Recent Developments:

+ Ivory Coast, the biggest economy in francophone West Africa and the second biggest economy in the ECOWAS sub-region, has been experiencing record economic growth of average 8.5% in the past three years under President Alassane Ouattara, who was re-elected in a landslide victory in October 2015.

+ On the financial front, Ivory Coast’s financial sector is less developed than the regional average and is significantly smaller than that of other countries in the low-income group.

+ Nevertheless, Islamic finance is set to become increasingly integrated with the country’s financial sector over the coming years.

+ Ivory Coast is a member of OIC and Islamic Development Bank, which should serve as an advantage to the proponent of the introduction of the system in the country.

+ Joining a growing number of sub-Saharan African nations tapping Islamic finance debt markets in seeking cash for development projects, in December 2015, the government issued its inaugural sovereign sukuk worth CFA150bln (USD244mln). The sukuk remains the largest West African sovereign sukuk ever issued.

+ In August 2016, the country issued its second sovereign sukuk for a value of CFA150bln and a seven-year maturity. The sukuk is backed by the property assets of the state including the building of the International Trade Centre of Abidjan (ICC) in the Plateau district, valued at CFA98bln, and administrative towers A and B which are the seat of several ministries.

<table>
<thead>
<tr>
<th>Total Population (2014)</th>
<th>22.16 million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Muslim Population (2010)</td>
<td>7.96 million</td>
</tr>
<tr>
<td>% of Total</td>
<td>36.9%</td>
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<tr>
<td>Total Muslim Population (2030E)</td>
<td>12.98 million</td>
</tr>
<tr>
<td>% of Total</td>
<td>39.9%</td>
</tr>
</tbody>
</table>
**SENEGAL: AT A GLANCE**

- **Land area (sq.km)**: 193,000
- **Total population**: 14.67 million
- **Capital**: Dakar
- **Currency**: West African CFA franc
- **Official Language(s)**: French

<table>
<thead>
<tr>
<th>Year</th>
<th>IMF</th>
<th>WORLD BANK</th>
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<tr>
<td>2015</td>
<td>GDP growth (annual %)</td>
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<td>GDP ($)</td>
<td>$13.67bln</td>
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<td>GDP per capita ($)</td>
<td>$913</td>
</tr>
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<td></td>
<td>Inflation (annual %)</td>
<td>0.1%</td>
</tr>
</tbody>
</table>

- **GDP Breakdown by Sectors (2014)**
  - **Services**: 60.7%
  - **Agriculture**: 15.8%
  - **Industry**: 23.5%

- **Life expectancy at birth, total (years) (2014)**: 66.4 YEARS
- **Poverty headcount ratio at national poverty lines (% of population) (2005)**: 46.7%
- **Adult literacy rate, population 15+ years, both sexes (2015E)**: 55.6%
- **Account at a financial institution, male (% age 15) (2014)**: 16.0%
- **Access to electricity (% of population) (2012)**: 56.5%
- **Account at a financial institution, female (% age 15) (2014)**: 8.2%
- **Unemployment, total (% of total labour force) (2014)**: 10.0%
- **Doing Business in Kenya (as of 2015)**: 153rd (out of 189 countries)

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**The Islamic Corporation for the Development of the Private Sector**

**SECTION 3: COUNTRY PROFILES - ISLAMIC FINANCE DEVELOPMENTS**
Key Highlights and Recent Developments:

+ Due to its large Muslim population base, the demand for Islamic financial products and services in Senegal is huge.
+ Senegal has only one Islamic bank, Banque Islamique du Senegal, even though Muslims constitute about 96% of the population. The bank was established in 1983.
+ In 2011, the Ministry of Finance appointed a foreign firm to advise on necessary regulatory changes needed with the Central Bank of West African States (BCEAO) to create a favourable legal environment for the implementation of Islamic banks and the attraction of Islamic foreign direct investment.
+ Also in 2011, the Ministry of Finance announced its intention to issue its first sukuk and this materialized in August 2014, when Senegal became the first full sovereign to issue a CFA100.0bn (USD200.0mln) leasing sukuk. The sukuk provided the government with access to a more diversified investor base and encouraged a number of other African countries to look more closely at this alternative funding source.
+ Senegal seeks to position itself as sub-Saharan Africa’s first choice for Arab investors on the continent. To this end, the Dakar-based Institut Africain de la Finance Islamique is an advisory and training organization that regularly works with the government on developing Senegal as a center for Islamic finance.
+ However, obstacles such as the lack of a regulatory framework to accommodate Islamic finance still remain. Currently, Islamic finance in the country is governed by existing conventional regulations of the Union Economique et Monétaire Ouest Africaine as well as regulations specifically introduced by the Ministry of Finance to be able to issue the country’s sovereign sukuk.
+ Tamweel Africa Holding, an ICD subsidiary based in Senegal, is responsible for promoting Islamic finance in sub-Saharan Africa. It has already established multiple Islamic banks in the region including across Senegal, Niger, Guinea, and Mauritania, with others in the piple for Mali, Chad, Benin and more.
+ In April 2015, the government voted in a law to allow waqf, or funds that distribute resources for social projects. From an economic perspective, waqf can be regarded as a type of savings-investment mechanism where funds are diverted from consumption and invested in productive assets that provide revenue.
+ Through the adoption of this new law, Senegal aims to find alternative sources of funding for its development projects and the fight against poverty.
+ There is also a large potential for the takaful market, although major regulatory barriers act as a major hurdle.
**SOUTH AFRICA: AT A GLANCE**

- **Land area (sq.km)**: 1,210,000
- **Total population**: 54.00 million
- **Capital**: Cape Town
- **Currency**: South African rand
- **Official Language(s)**: English, Afrikaans

**2015**

<table>
<thead>
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<tr>
<td>GDP growth (annual %)</td>
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<td>GDP per capita ($)</td>
<td>$5,695</td>
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<tr>
<td>Inflation (annual %)</td>
<td>4.6%</td>
</tr>
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</table>

**GDP Breakdown by Sectors (2014)**

- **Services**: 68.1%
- **Agriculture**: 2.4%
- **Industry**: 29.5%

**Additional Data**

- **Life expectancy at birth, total (years) (2014)**: 57.2 YEARS
- **Poverty headcount ratio at national poverty lines (% of population) (2005)**: 53.8%
- **Adult literacy rate, population 15+ years, both sexes (2015E)**: 94.6%
- **Account at a financial institution, male (% age 15) (2014)**: 68.8%
- **Access to electricity (% of population) (2012)**: 85.4%
- **Account at a financial institution, female (% age 15) (2014)**: 68.8%
- **Unemployment, total (% of total labour force) (2014)**: 25.1%
- **Doing Business in Kenya (as of 2015)**: 73rd (out of 189 countries)
Key Highlights and Recent Developments:

+ The South African banking sector has offered Islamic banking since the 1980s and has witnessed significant growth in this sector, despite Muslims being only 1.5% of the country's total population.
+ In 1989, Al Baraka- part of the Saudi Arabian-based Dallah Al Baraka group — and the Islamic Bank were the first Islamic banks granted licenses by the South African Reserve Bank.
+ However, Islamic Bank was liquidated in 1998 because of corporate governance issues.
+ Legislative reforms were implemented in 2011 to accommodate Islamic finance. The Amendment Taxation Laws Amendment Act of 2010 (the Act) recognized arrangements such as diminishing Musharakah, Murabahah and Mudarabah as credible alternatives to other conventional financing agreements, which enable banks to offer Sharia’a compliant products. However, the Act recognized sukuk as another form of Islamic finance restricted to the government only.
+ Following this, in September 2014, the country successfully issued its debut USD500.0mln sukuk. At the time, the sukuk was the largest sukuk issuance from sub-Saharan Africa and only the third sukuk to be issued by a non-Islamic country.
+ The sukuk was jointly arranged by BNP Paribas, Kuwait Finance House Investment and Standard Bank of South Africa.
+ The sukuk was part of efforts by the country’s National Treasury to diversify its funding and investor base.
+ After the issuance of its inaugural sukuk in 2014, the National Treasury proposed further amendments to tax laws to extend the current legislation in respect of Murabahah and Sukuk to cover all listed companies in 2016.
+ In August 2016, it was reported that South Africa’s cash-strapped Eskom was exploring the possibility of issuing sukuk tranches to raise funds from international markets.
+ To date, the country has one fully-fledged Islamic bank (Al Baraka Bank). Other banks such as First National Bank, Absa Bank and HBZ Bank house Islamic finance windows alongside their conventional banking services.
GAMBIA: AT A GLANCE

**Land area (sq.km)**
10,100

**Total population**
1.93 million

**Capital**
Banjul

**Currency**
Gambian dalasi

**Official Language(s)**
English

<table>
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<tr>
<td>2015</td>
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<tr>
<td>GDP growth (annual %)</td>
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<td>-</td>
</tr>
<tr>
<td>GDP ($)</td>
<td>$0.893bn</td>
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<td>GDP per capita ($)</td>
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<td>Inflation (annual %)</td>
<td>6.8%</td>
<td>-</td>
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</table>

**GDP Breakdown by Sectors (2014)**

- **Services**: 62.8%
- **Agriculture**: 21.3%
- **Industry**: 15.9%

**Life expectancy at birth, total (years) (2014)**
60.2 YEARS

**Poverty headcount ratio at national poverty lines (% of population) (2005)**
48.4%

**Adult literacy rate, population 15+ years, both sexes (2015E)**
55.6%

**Account at a financial institution, male (% age 15) (2014)**
-

**Access to electricity (% of population) (2012)**
34.5%

**Account at a financial institution, female (% age 15) (2014)**
-

**Unemployment, total (% of total labour force) (2014)**
7.0%

**Doing Business in Kenya (as of 2015)**
151st (out of 189 countries)
KEY HIGHLIGHTS AND RECENT DEVELOPMENTS:

+ Despite having roughly 95% of the population identifying as Muslims, the country has only one Islamic bank and takaful company — The Arab Gambian Islamic Bank and Takaful Insurance Company of The Gambia.

+ The Arab Gambian Islamic Bank was established under the Companies Act 1955 and has been licensed by the Central Bank of Gambia to operate according to Sharia'a principles under the Financial Institutions Act 1992, as amended in 1993.

+ Meanwhile, the Takaful Insurance Company of the Gambia started operations in 2008. The government has been proactive in promoting Islamic finance, with regulations amended to facilitate the takaful industry. For example, local municipalities have begun offering their workers takaful coverage through the Takaful Insurance Company of The Gambia.

+ In addition, Gambia is an example of an African country that has successfully tapped into the sukuk market through regular issuance of short-term sukuk.

+ In 2008, Gambia’s central bank started issuing the short-dated Sukuk Al-Salam, which operates in broadly similar terms and conditions as the conventional Treasury Bills.
**TUNISIA: AT A GLANCE**

- **Land area (sq.km)**: 155,000
- **Total population**: 10.99 million
- **Capital**: Tunis
- **Currency**: Tunisian dinar
- **Official Language(s)**: Arabic

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<table>
<thead>
<tr>
<th>2015</th>
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<tbody>
<tr>
<td>GDP growth (annual %)</td>
<td>0.8%</td>
<td>0.8%</td>
</tr>
<tr>
<td>GDP ($)</td>
<td>$43.58bln</td>
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<td>GDP per capita ($)</td>
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<td>$3,872</td>
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<tr>
<td>Inflation (annual %)</td>
<td>4.9%</td>
<td>4.9%</td>
</tr>
</tbody>
</table>

**GDP Breakdown by Sectors (2014)**

- **Services**: 61.9%
- **Agriculture**: 8.8%
- **Industry**: 29.3%

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- **Life expectancy at birth, total (years) (2014)**: 74.1 YEARS
- **Poverty headcount ratio at national poverty lines (% of population) (2005)**: 15.5%
- **Adult literacy rate, population 15+ years, both sexes (2015E)**: 81.1%
- **Account at a financial institution, male (% age 15) (2014)**: 34.1%
- **Access to electricity (% of population) (2012)**: 100.0%
- **Account at a financial institution, female (% age 15) (2014)**: 20.5%
- **Unemployment, total (% of total labour force) (2014)**: 13.3%
- **Doing Business in Kenya (as of 2015)**: 160th (out of 189 countries)
Key Highlights and Recent Developments:

+ In Tunisia, Islamic finance commenced in 1983 with the establishment of the first offshore Islamic bank, Bayt Al Tamweel Al Saoudi Al Tounsi, also known as BEST Bank, which in 2009 became Al Baraka Bank of Tunisia.

+ In May 2009, Zitouna Bank became the first wholly Tunisian Islamic bank. Zitouna Bank is also the first wholly regionally-owned Islamic bank in the Maghreb Arab region.

+ This brings a total of two fully-fledged Islamic banks in Tunisia, with UAE’s Noor Bank also present via a representative office.

+ In February 2013, United Gulf Financial Services — North Africa (an investment company based in Tunisia and a subsidiary of the Bahrain-based United Gulf Bank, a member of the KIPCO Group) announced the launch of the Sharia’a compliant fund (Theemar Investment Fund) with a capital of TND50mln (USD32mln).

+ Theemar is financed by the Islamic Corporation for the Development of the Private Sector (ICD) and the Deposits and Securities Fund of Tunisia, and is the largest Sharia’a compliant Tunisian investment fund under the Tunisian Monetary Authority. It targets small-and medium-sized businesses seeking finance to support the Tunisian economy.

+ Tunisia first drafted its comprehensive Islamic finance regulatory framework in November 2012, but it has yet gained approval. However, in the January 2014 Fiscal Law, the Ministry of Finance included specific tax instruments for sukuk and Sharia’a funds, and the government also approved a sukuk law in October 2014, allowing the country to raise funds via the Islamic capital markets.

+ On the takaful front, takaful has been available in Tunisia since 1982 with the establishment of re-Takaful operator BEST RE, despite the lack of a specific regulatory framework.

+ To date, there are at least five takaful providers in Tunisia, including BEST Re (takaful and re-takaful provider), Zitouna Takaful (established 2011), El Amana Takaful (2013), At-Takafulia (2013) and Nigeria’s Continental Reinsurance, which opened an office in Tunis in 2014 and with that, launched Sharia’a compliant products.

+ In April 2014, Zitouna Bank signed an agreement with Islamic banks in Senegal, Niger, Guinea, Mauritania and Sudan on the exchange of experts and capacity building in the microfinance sector. The agreement covers exchanges in the development of Islamic banking and financial products. It is aimed at establishing a cooperation network in the field of finance and business to improve the environment for investment and trade among the signatory countries.

+ In March 2015, leasing firm El Wifack signed an advisory services contract and term sheet with the Islamic Corporation for the Development of the Private Sector (ICD) to facilitate its conversion into a fully-fledged Islamic bank.

+ It has been reported that the government is in the midst of finalising an integrated legal framework dedicated solely to Islamic finance, to serve as a regulating mechanism. Thus, firms are preparing to issue sukuk as the government finalises rules covering the sector, creating a new funding option for companies.
SUDAN: AT A GLANCE

**Land area (sq.km)**
2,380,000

**Total population**
39.35 million

**Capital**
Khartoum

**Currency**
Sudanese pound

**Official Language(s)**
Arabic, English

**2015**

<table>
<thead>
<tr>
<th>IMF</th>
<th>WORLD BANK</th>
</tr>
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<tbody>
<tr>
<td>GDP growth (annual %)</td>
<td>3.5%</td>
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<tr>
<td>GDP ($)</td>
<td>$83.61bln</td>
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<tr>
<td>GDP per capita ($)</td>
<td>$2,175</td>
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<tr>
<td>Inflation (annual %)</td>
<td>16.9%</td>
</tr>
</tbody>
</table>

**GDP Breakdown by Sectors (2014)**

- **Services**: 50.4%
- **Agriculture**: 29.2%
- **Industry**: 20.4%

**2015**

- **Life expectancy at birth, total (years) (2014)**: 63.5 YEARS
- **Adult literacy rate, population 15+ years, both sexes (2015E)**: 58.6%
- **Access to electricity (% of population) (2012)**: 32.6%
- **Unemployment, total (% of total labour force) (2014)**: 14.8%
- **Poverty headcount ratio at national poverty lines (% of population) (2005)**: 46.5%
- **Account at a financial institution, male (% age 15) (2014)**: 20.2%
- **Account at a financial institution, female (% age 15) (2014)**: 10.0%
- **Doing Business in Kenya (as of 2015)**: 159th (out of 189 countries)
Total Population (2014): 39.35 million
Total Muslim Population (2010): 30.86 million
% of Total: 71.4%
Total Muslim Population (2030E): 43.57 million
% of Total: 71.4%

Key Highlights and Recent Developments:

+ The country first established its Islamic finance base with the opening of Faisal Islamic Bank in 1977, the second Sharia'a compliant bank in the world.
+ In 1979, the country started the operations of the Islamic Insurance Company, the world’s first Islamic insurance company.
+ In 1992, the Sudanese government created a Higher Sharia’a Control Commission (HSCC) as a regulatory body to supervise the development of the banking system and its compliance with Islamic law. In the same year, Sudan became the first country in the world to form a Supreme Sharia’a Council within a central bank.
+ Although Sudan is considered the oldest fully Sharia’a compliant market, it still lags a number of new market players in terms of access to data and financial inclusion.
+ To date, 37 Islamic banks hold almost 90.0% of the financial system.
+ Due to the large proportion of the population living in poverty, many microfinance initiatives, most of which are Sharia’a compliant, were implemented in the country.
+ In 2007, the Central Bank of Sudan created a Microfinance Unit and required that banks allocate 12.0% of their portfolio to microfinance. 10 dedicated microfinance institutions have been set; 12 banks have introduced Islamic microfinance windows; and five insurance companies have developed ‘micro’ products.
+ Sudan has a relatively active domestic sukuk market. Since 1999, the Central Bank of Sudan through the Sudan Financial Services Company (which was established by the Central Bank with Sudan’s Ministry of Finance and National Economy (MFNE) in 1998) has been mandated to trade and market all government securities.
+ Government Musharakah Certificates, known as Shahama, and Government Investment Certificates, similar to conventional treasury bills and government bonds, as well as Central Bank Ijarah Certificates (additional Islamic certificates) are regularly issued by the Ministry of Finance and National Economy for managing macroeconomic and banking liquidity as a form of Sharia’a compliant monetary policy.
+ Consequently, in 2014, Sudan dominated the global sovereign short-term sukuk market after Malaysia.
+ Domestically, sukuk are traded on the Khartoum Stock Exchange (KSE) set up in 1994, which is overseen by its own Sharia’a Board.
+ Only one corporate sukuk was issued in 2007 by Berber Company, raising USD120.0 million with a 7-year tenor.
+ After the secession of South Sudan in 2011, Sudan established a fully-fledged Sharia’a compliant financial system.
ZAMBIA: AT A GLANCE

- **Land area (sq.km):** 743,000
- **Total population:** 15.72 million
- **Capital:** Lusaka
- **Currency:** Zambian kwacha
- **Official Language(s):** English

**2015**

<table>
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<td>3.2%</td>
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<td>GDP ($)</td>
<td>$21.89bln</td>
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<td>$1,307</td>
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<tr>
<td>Inflation (annual %)</td>
<td>10.1%</td>
<td>10.1%</td>
</tr>
</tbody>
</table>

**GDP Breakdown by Sectors (2014)**

- **Services:** 57.5%
- **Agriculture:** 9.6%
- **Industry:** 32.9%

- **Life expectancy at birth, total (years) (2014):** 60.8 YEARS
- **Poverty headcount ratio at national poverty lines (% of population) (2005):** 60.5%
- **Adult literacy rate, population 15+ years, both sexes (2015E):** 85.1%
- **Account at a financial institution, male (% age 15) (2014):** 32.9%
- **Access to electricity (% of population) (2012):** 22.1%
- **Account at a financial institution, female (% age 15) (2014):** 29.7%
- **Unemployment, total (% of total labour force) (2014):** 13.3%
- **Doing Business in Kenya (as of 2015):** 97th (out of 189 countries)
Key Highlights and Recent Developments:

+ In October 2008, the country hosted its first ever Islamic Banking Conference in its capital, which set in motion the country’s entry into Islamic finance.
+ In December 2014, the Bank of Zambia officially launched guidelines for regulating Islamic banking in the country.
+ The Islamic Finance guidelines which have been established under Government Gazette Notice No. 716 of 2014 are to be issued to licensed banks intending to offer Islamic banking through window operations and institutions which may be granted Islamic banking licenses to conduct Islamic banking business.
+ Currently, the country is laying the groundwork to accommodate Islamic windows within conventional banks following the release of guidelines by the Bank of Zambia in December 2014.
+ In Zambia, Standard Bank (Stanbic) and First Rand Bank, which is the parent of First National Bank (FNB), have strong Islamic finance businesses.