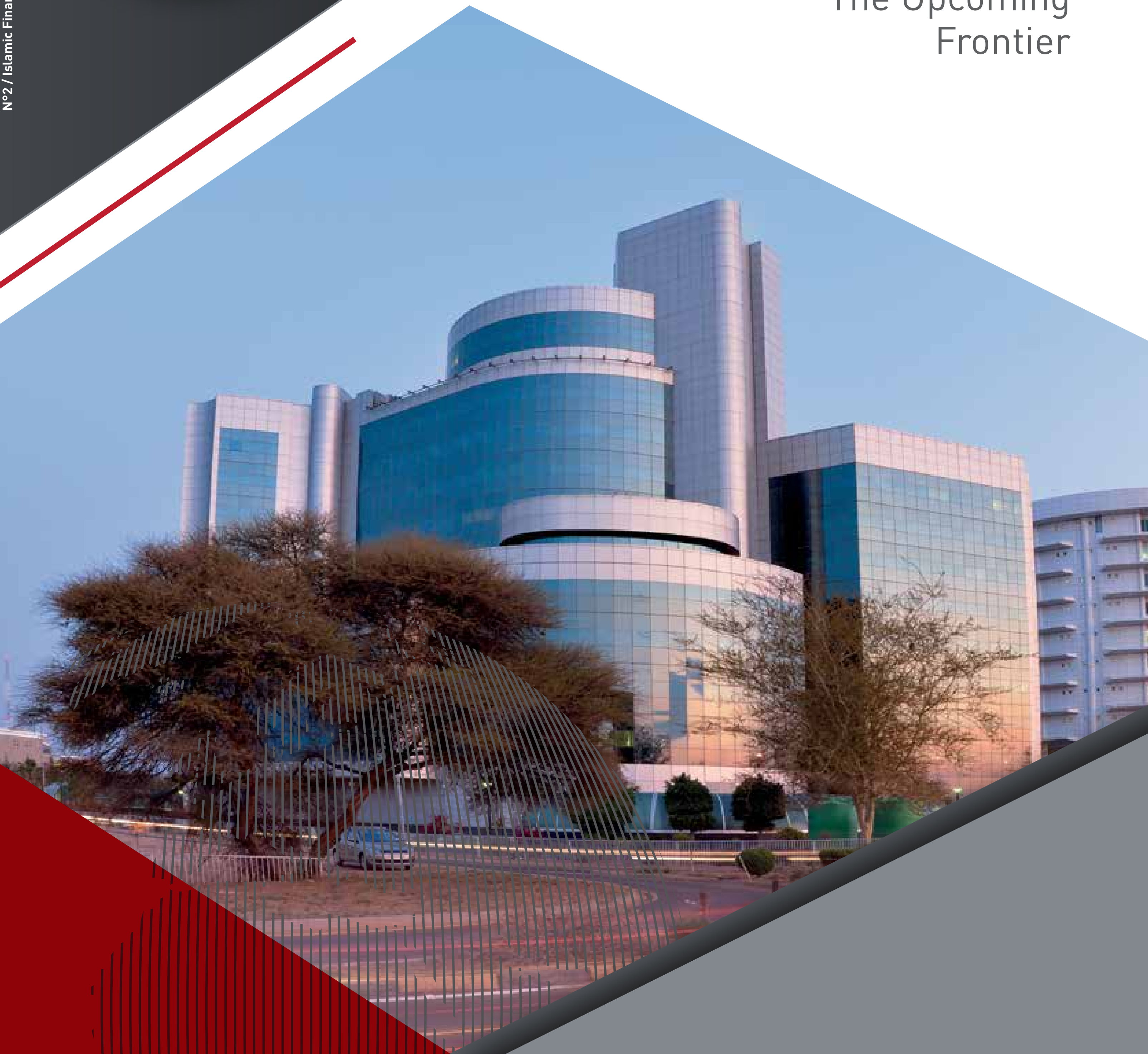
CFC Africa Insights

Islamic Finance in Africa :

The Upcoming Frontier



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CFC Africa Insights
Islamic Finance in Africa : the Upcoming Frontier

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Executive **summary**

Africa, the world's second largest and second most populous continent, has long been a sleeping giant in the development of Islamic finance, but now has awoken to become an active contributor to the industry's development. The Islamic finance industry is currently valued at $2.2 trillion and is projected to reach $3.8 trillion by 2022, according to the Islamic Finance Development Report. A continent of 1.2 billion people where around 40 percent are Muslim has huge potential to shift the growth curve of Islamic finance to cater to such a large population. However, a lack of qualified personnel and a lack of standardized regulations as well as the absence of an active Islamic finance market has stunted its growth trajectory.

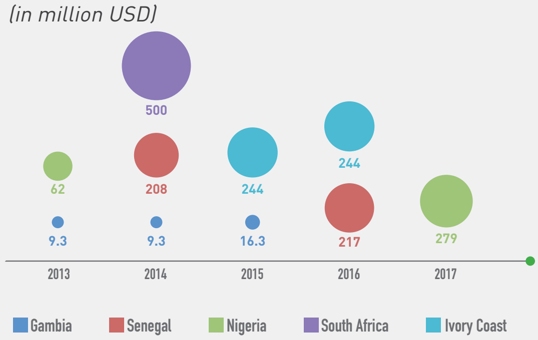
Africa is making headways into Islamic finance

According to the Islamic finance Development Report, Islamic finance assets in Africa stood at $31.1 billion in 2016 with 206 Islamic finance institutions operating across Africa. There have been a total of 147 Sukuk issuances during 2016, mostly within sub Saharan Africa which proves there is a growing interest in Islamic finance across the continent. Muslim minority countries such as Kenya and South Africa are gearing up to accommodate Islamic finance operations. There have been developments in the Sukuk sector where, in 2014, South Africa issued the largest sovereign Sukuk issuance in Africa. Kenya has made revisions to its banking and capital markets regulations to pave the way for a sovereign Sukuk issuance in the future. The industry also witnessed Francophone Africa making its debut to the Sukuk market with two issuances coming out of the Ivory Coast.

Source: Islamic Finance Development Report

African Sukuk Issuance 2013 - 2017

(in million USD)



Source: Islamic Finance Development Report

Morocco is gearing up for Participative finance

Morocco has paved the way for Participative banking to operate by a revision of its banking regulations, which includes the licensing of five full-fledged Participative banks and three Islamic windows to operate in the country. Through the Casablanca Finance City (CFC), Morocco is taking steps towards positioning itself as an Islamic finance hub for Africa. The Morocco Islamic Finance Report estimated that Participative banking could potentially account for up to 5 percent of total banking assets in Morocco, while Fitch Ratings anticipates five to ten percent growth in Participative bank deposits.

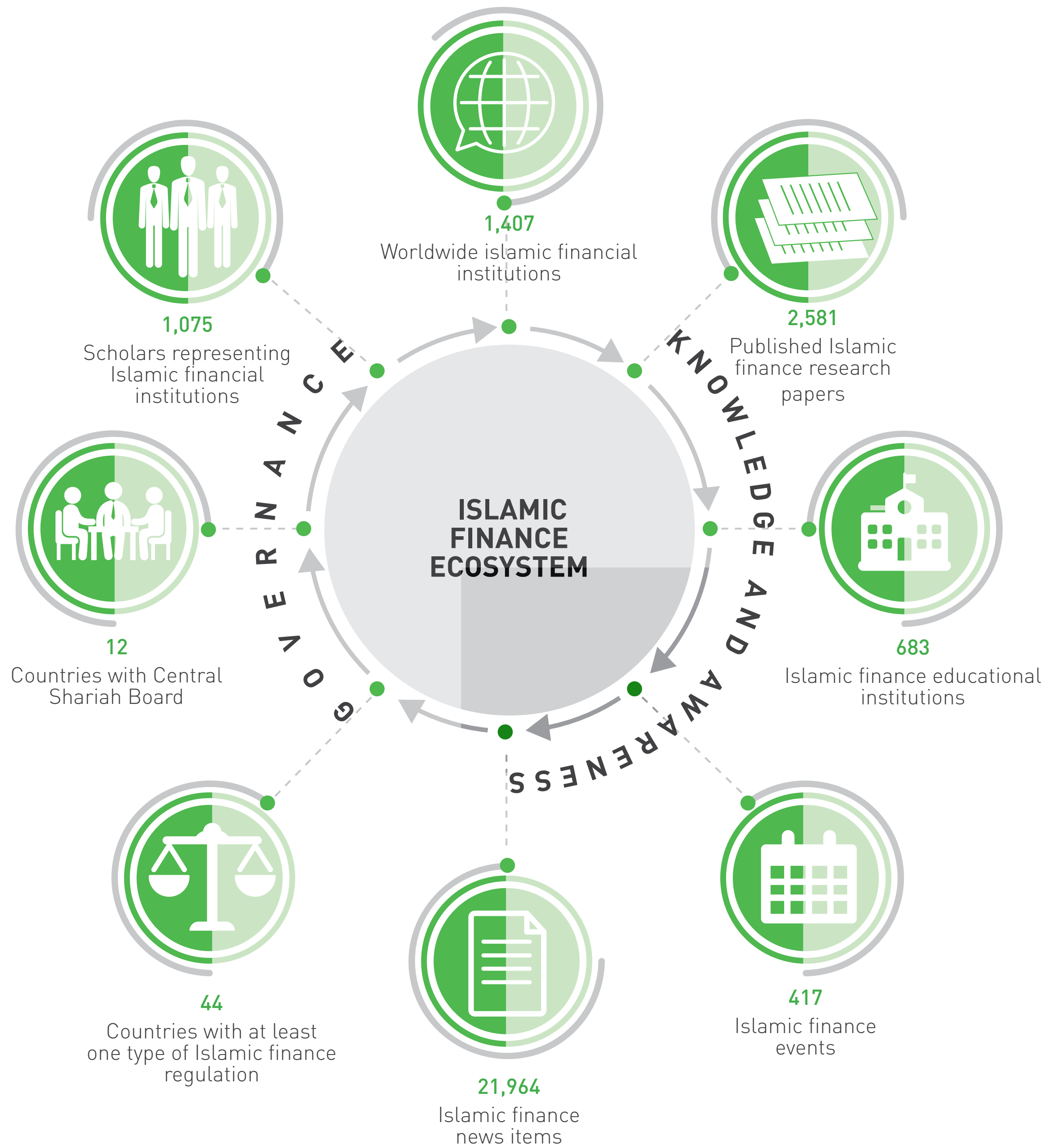
Creating a healthy Islamic finance ecosystem in Africa

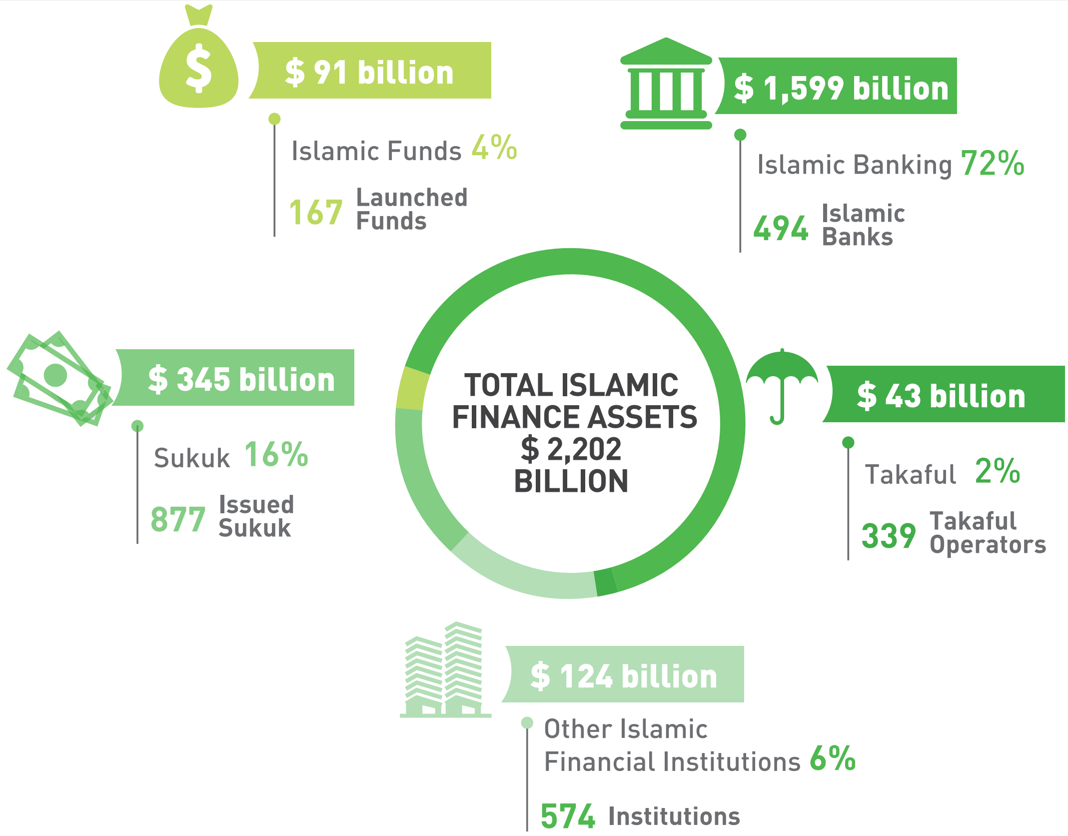
Africa has a high growth potential to develop Islamic finance through collaborative efforts between the government and financial institutions to create a robust Islamic finance ecosystem to grow the asset base of Islamic finance not only within Africa but also attract the global market to take notice of Africa as a relatively untapped market with huge potential for Islamic finance development. A growing trend in Africa is the use of Sukuk issuances for infrastructure development as seen in Nigeria's sovereign Sukuk issuance or to offset budget deficits. If this trend continues, it would not only attract foreign investors, but would make a positive impact on the economy of the issuing country and the African continent as a whole. Islamic finance is expected to play a large role in raising financial inclusion and increase banking penetration rates in countries with a high rate of unbanked persons in Africa.

Islamic asset management needs to be nurtured in Africa

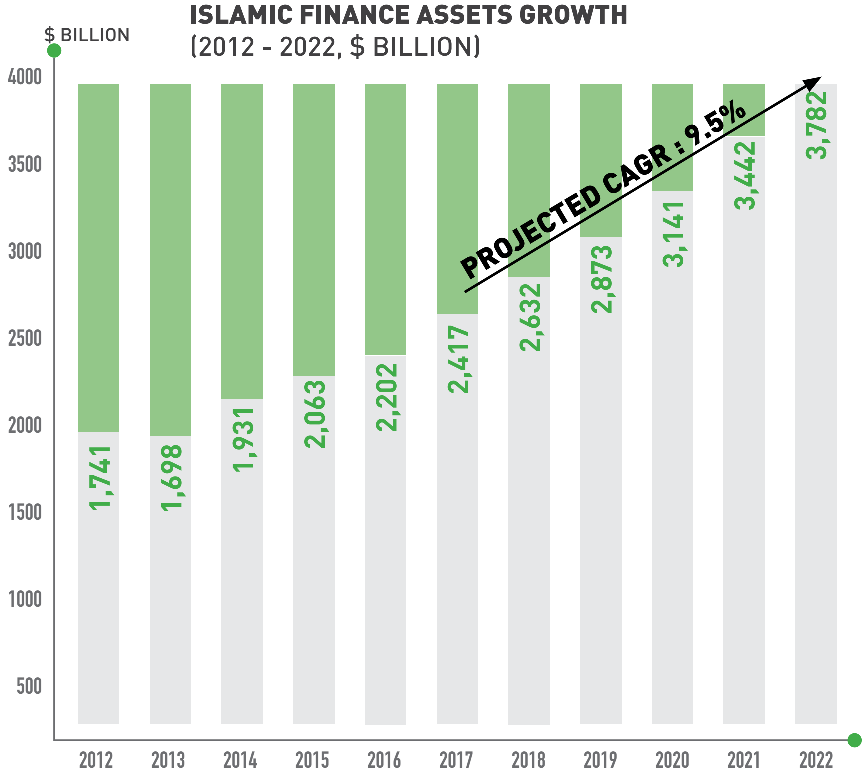
Islamic Asset management in Africa is still at its early stages of development with a majority of the Islamic finance centres in Africa absent in the Islamic asset management market. South Africa is the only active player in Islamic asset management with 98 Islamic funds under management valued at $1.8 billion in 2016. Other African countries can follow suit to create a diverse portfolio of Islamic capital market products that can cater to faith conscious investors with different risk thresholds. After the successful issuance of sovereign Sukuk in countries like Nigeria and Ivory Coast, these countries can look into developing their Islamic asset management sector and introduce Islamic pension funds to help grow their Islamic asset base. Kenya's retirement fund is in the midst of creating a Shariah compliant pension fund to cater to its 4 million Muslim population which shows there are still many untapped opportunities for Islamic finance in Africa..

Global Islamic Finance
Industry Landscape (2016)





ISLAMIC FINANCE ASSETS GROWTH
(2012 - 2022, $ BILLION)



The total value of Islamic finance assets is projected to grow to **$3.8 trillion** by **2022**

Global Islamic Finance **Development 2017**

Top Countries in Islamic Finance Development 2017

1- Malaysia

2- Bahrain

3- United Arab Emirates

4- Oman

5- Pakistan

6- Kuwait

7- Saudi Arabia

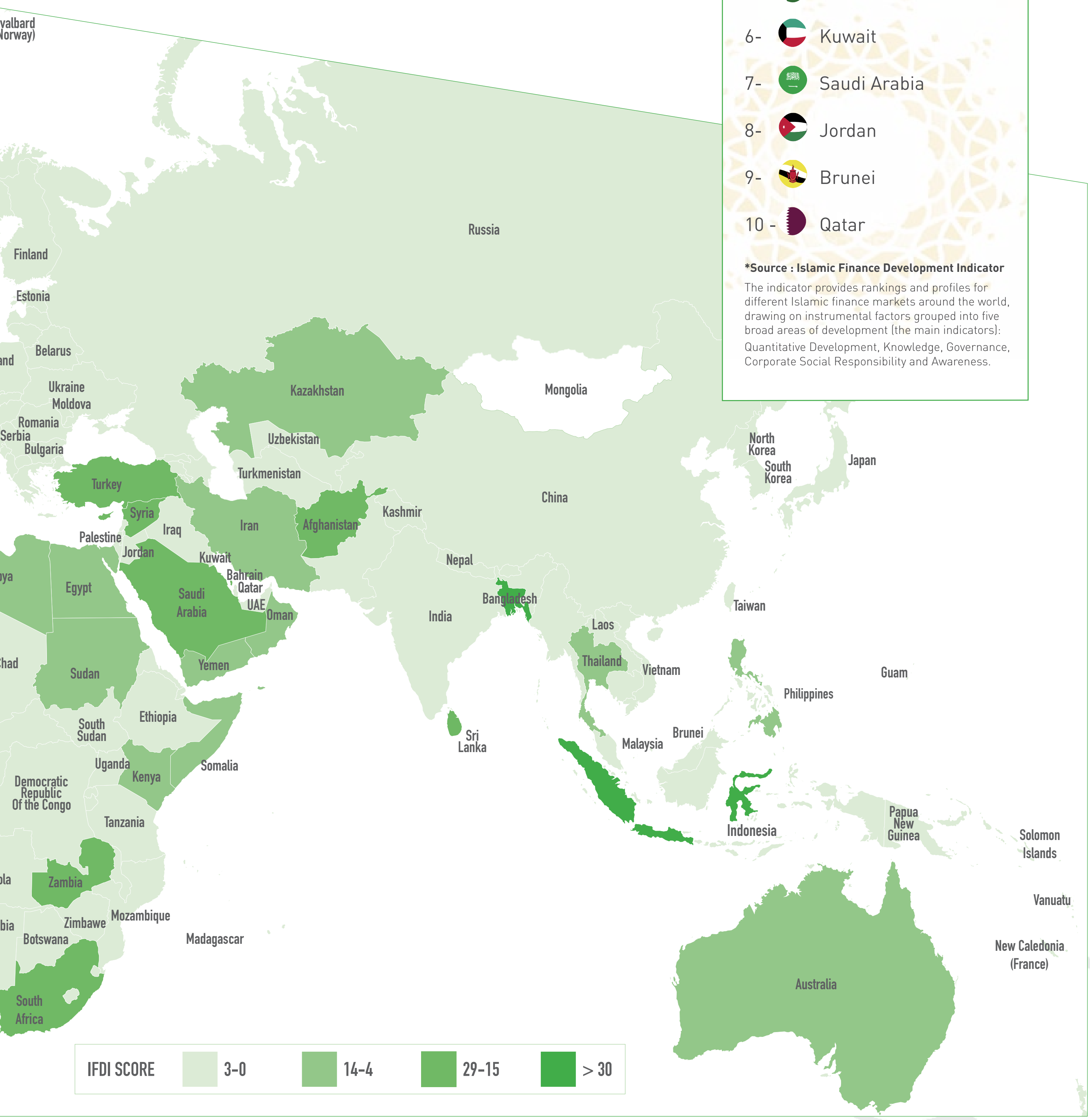
8- Jordan

9- Brunei

10 - Qatar

***Source : Islamic Finance Development Indicator**

The indicator provides rankings and profiles for different Islamic finance markets around the world, drawing on instrumental factors grouped into five broad areas of development (the main indicators): Quantitative Development, Knowledge, Governance, Corporate Social Responsibility and Awareness.



There was robust growth of total Islamic finance assets supported by growth in all sectors

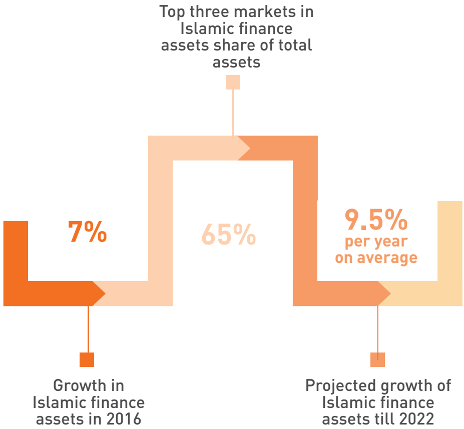
Sustained growth of Islamic finance assets worldwide

The Islamic finance industry expanded by 7%, in 2016 reaching $2.2 trillion in total global assets. These assets are held in five major sectors: Islamic banking, Takaful, Sukuk, Islamic funds and other Islamic financial institutions, such as financing and real estate companies. Industry growth has persisted despite a brief slump caused by the decline in oil prices in mid-2014, leading to a slowdown in some of the industry's core markets. The most important regions in the industry are the Middle East and North Africa (MENA), Southeast Asia and South Asia, with the GCC accounting for 45% or $986 billion of total Islamic finance assets. The rest of MENA accounts for a further 27% of assets or $594 billion.

The global Islamic finance industry is underpinned by 1,407 financial institutions, ranging from full-fledged Islamic financial institutions such as Islamic banks, Takaful firms, and Shariah-compliant investment companies to Islamic windows at conventional financial institutions that are tapping the growing demand for Islamic financial services.

The strong prospects for Islamic finance industry growth are based on its ongoing expansion into the full suite of Islamic financial services. The partial improvement in the oil prices from $33 in 2014 to $66 per barrel in early 2018 has improved conditions for such growth. In addition, governments in countries such as Iraq, Algeria, and Tunisia are turning to Islamic finance in order to recover from weak government revenues or to attract investments. This enabled different Islamic finance sectors such as Islamic funds and Islamic banking to improve performance. Islamic finance assets are projected to reach $3.8 trillion by 2022, an average annualized growth of 9.5%.

$ 2.2 Trillion
Total Islamic finance assets in 2016



Top three countries in Islamic finance assets (2016)

Iran	Saudi Arabia	Malaysia
$ 545 billion	$ 473 billion	$ 406 billion

"Islamic banking is encouraged as a tool of economic returns in some countries"

Islamic banking maintained resilient growth

In 2016, Islamic banking still drives the biggest share of Islamic finance industry growth, as it holds by far the largest share of total Islamic finance assets. The largest Islamic banking markets in the world are Iran and Saudi Arabia. Islamic banks in Saudi Arabia have reaped the benefits of the Saudi government's recent international and domestic sovereign Sukuk, while Iranian banks are strategizing to capture business from anticipated foreign investment inflows to the country following the suspension of sanctions.

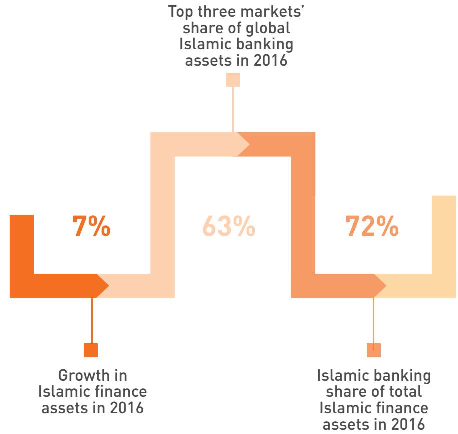
New markets are working to establish or develop their local Islamic banking industries, such as Russia and Morocco. Recently established markets, like Maldives and Oman, are witnessing rapid growth in their Islamic finance assets. Countries in Sub-Saharan Africa such as Uganda, Kenya in the east and Benin, Mali and Senegal in the west have also seen rapid growth. To capture this growth, several governments around the world are developing their regulations for Islamic banking. Nigeria, for example, gave clearance for Islamic microfinance banks in April 2017, while Tunisia included a chapter on Islamic banking in its new banking law released in April 2016.

In total, 67 countries had Islamic banking or Islamic banking windows in 2016. In the countries that have Islamic banking and reported Islamic banking assets, the Islamic banking industry holds an average of 5% of total banking assets. GCC countries have the largest average share, where 37% of banking assets are Shariah-compliant, followed by the MENA region outside the GCC with an average share of 30%.

An emerging trend in Islamic banking has been the rise in mergers and acquisitions between banks, whether full-fledged banks or conventional banks with windows, in regions such as the GCC, Pakistan and Malaysia. In the GCC, consolidation is on the rise as a result of the industry's widespread adaptation to lower profit margins following the drop in oil prices, which resulted in lower consumer spending, as well as fiscal consolidation measures by their governments.

$ 1.6 Trillion

Total Islamic Banking assets in 2016



Top three countries in Islamic Banking assets (2016)

Iran	Saudi Arabia	Malaysia
$ 464 billion	$ 371 billion	$ 165 billion

A jump in Sukuk issuance observed in 2017 with new and existing sovereign markets resolving to it

Sukuk growth slowed globally in 2016 as the result of many governments in core markets such as the GCC opting to issue conventional sovereign bonds instead of Sukuk. Total corporate Sukuk issuance at institutions such as Islamic banks also slowed in growth during this period. Malaysia remains the top market among the 26 countries where Sukuk was issued in 2016. Debut issuances in 2016 came from Senegal, Jordan, Oman and Ivory Coast.

The sector revived in 2017, with a jump in Sukuk issuance in 2017, particularly in the GCC. Saudi Arabia debuted its record-breaking international issuance amounting to $9 billion across two tranches. It was also followed by a series of domestic riyal-denominated issuances that will give a boost to its Islamic finance industry. Saudi Arabia is a leading example of many countries resorting to Sukuk to finance their economic development policies. Indonesia is another country that tapped the Sukuk market in 2018. It became the first Asian sovereign to sell green Sukuk, a trend that is catching on recently, alongside SRI Sukuk.

Non-banking Islamic financial firms showing a greater importance in supporting economies

Islamic financial institutions other than Islamic banks or Takaful operators are also gaining a bigger share of the pie, accounting for $124 billion or 6% of total Islamic finance assets in 2016. These types of companies remain concentrated in Malaysia, Iran and Saudi Arabia but can be found in 47 other markets.

Financing companies based on the Ijara (leasing) model are expected to become popular in countries such as Saudi Arabia and Pakistan. It is also projected that Shariah-compliant non-bank financing firms will play a larger role in supporting SMEs in the GCC region either through venture capital, private equity, or peer-to-peer lending. Islamic fintech is also beginning to serve such financing needs in different markets. An alliance, Islamic Fintech Alliance, has been formed in 2016 by a consortium of Islamic fintech companies of 8 members from Europe, Asia and the Middle East which aims to develop a Shariah-compliant fintech ecosystem.

$ 345 Billion
Total Sukuk volume outstanding in 2016

1%
Growth in Sukuk outstanding in 2016

16%
Sukuk share of total Islamic finance assets

$ 601 Billion
Projected Sukuk volume outstanding by 2022

$ 124 Billion
Total other Islamic financial institutions assets in 2016

3%
Growth in other Islamic financial institutions assets in 2016

6%
Other Islamic financial institutions share of total Islamic finance assets in 2016

$ 253 Billion
Projected other Islamic financial institutions assets by 2022

Islamic funds rebounded in performance following the recovery in oil prices

The Islamic asset management sector is the fastest growing sector in the Islamic finance industry, reaching $91 billion in assets in 2016. One feature of the unprecedented growth of Islamic funds is their strong expansion in Iran. These are mostly comprised of local equities, which reflect the improved prospects in the local market following the lifting of sanctions. Islamic funds in other countries such as Saudi Arabia and Malaysia saw a rebound in their performances as well after it negative growth in the years following the economic downturn in 2014.

There are opportunities in the Islamic asset management industry gaining traction recently such as Islamic pension funds, Islamic wealth management and SRI funds.

Consolidation on the horizon for the Takaful sector

The Takaful sector accounted for $43 billion of global Islamic finance assets in 2016, up 7% from 2015. A total of 48 countries had Takaful operators or Takaful windows in 2016, together totaling 339 operators. Saudi Arabia has the largest Takaful market, with total assets of $15 billion, followed by Iran ($11 billion) and Malaysia ($8 billion). Turkey, Pakistan and Indonesia are the fastest growing Takaful markets in terms of assets, thanks to improving regulatory support.

Consolidation is also affecting the Takaful industry, notably in recent years among Saudi Arabia and Bahrain operators. Meanwhile, in Southeast Asia, Takaful operators have undergone restructuring to meet their regulators' requirements, moving towards industry consolidation. For Malaysia, new regulations require family and general Takaful operations to be separate, while in Indonesia, Islamic units now must be spun off from conventional operations. In 2017, MAA Takaful in Malaysia was acquired by Zurich Insurance.

$ 91 Billion
Total Islamic funds AuM outstanding in 2016

37%
Growth in Islamic funds AuM in 2016

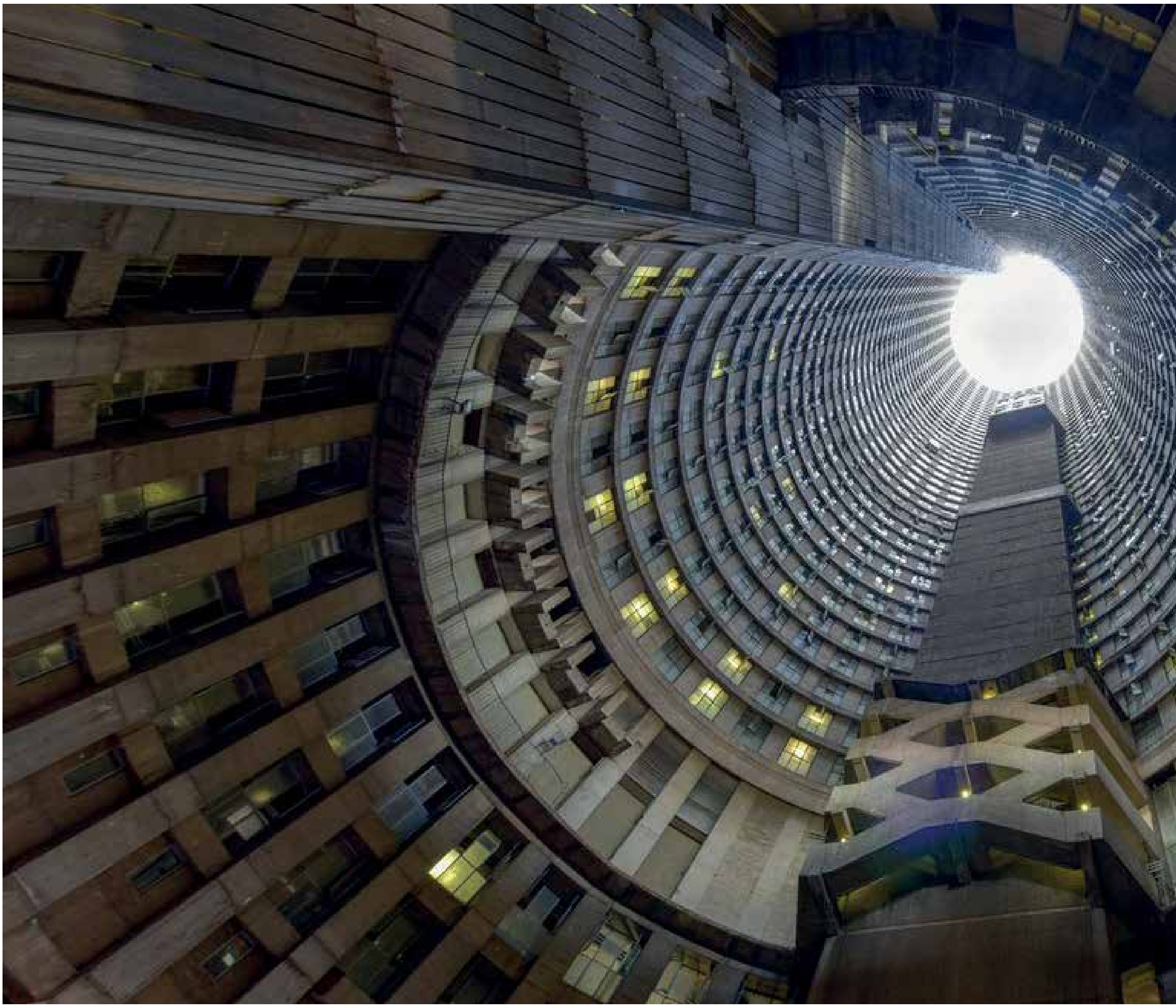
4%
Islamic funds share of total Islamic finance assets

$ 403 billion
Projected Islamic funds AuM outstanding assets by 2022

$ 43 Billion
Total Takaful assets in 2016

7%
Growth in Takaful assets in 2016

2%
Takaful share of total Islamic finance assets in 2016



Africa:
The next frontier for Islamic Finance

In 2016, Africa was home to more than 480 million Muslims and had Islamic finance presence in more than 28 countries, with total Islamic finance assets of $31.1 Billion

Africa:
The next frontier for Islamic finance

Africa, the world's second largest and second most populous continent is set to grow its Islamic finance sector. In 2016, Africa was home to more than 480 million Muslims and had Islamic finance presence in more than 28 countries, with total Islamic finance assets of over $31.1 Billion.

A long road ahead for Islamic finance development in Africa

While still having a comparatively underdeveloped Islamic finance sector to the GCC and South East Asia, Islamic finance is expanding in many parts of the continent. Islamic financial service providers which include retail commercial banks and Islamic asset managers are now present across Africa, particularly in those with sizable Muslim communities and where established regulatory framework for Islamic finance exist. Banking and capital markets are currently the main growth drivers for Islamic finance in Africa, being used predominantly in the form of Sukuk to fund infrastructure projects and financing budget deficits.

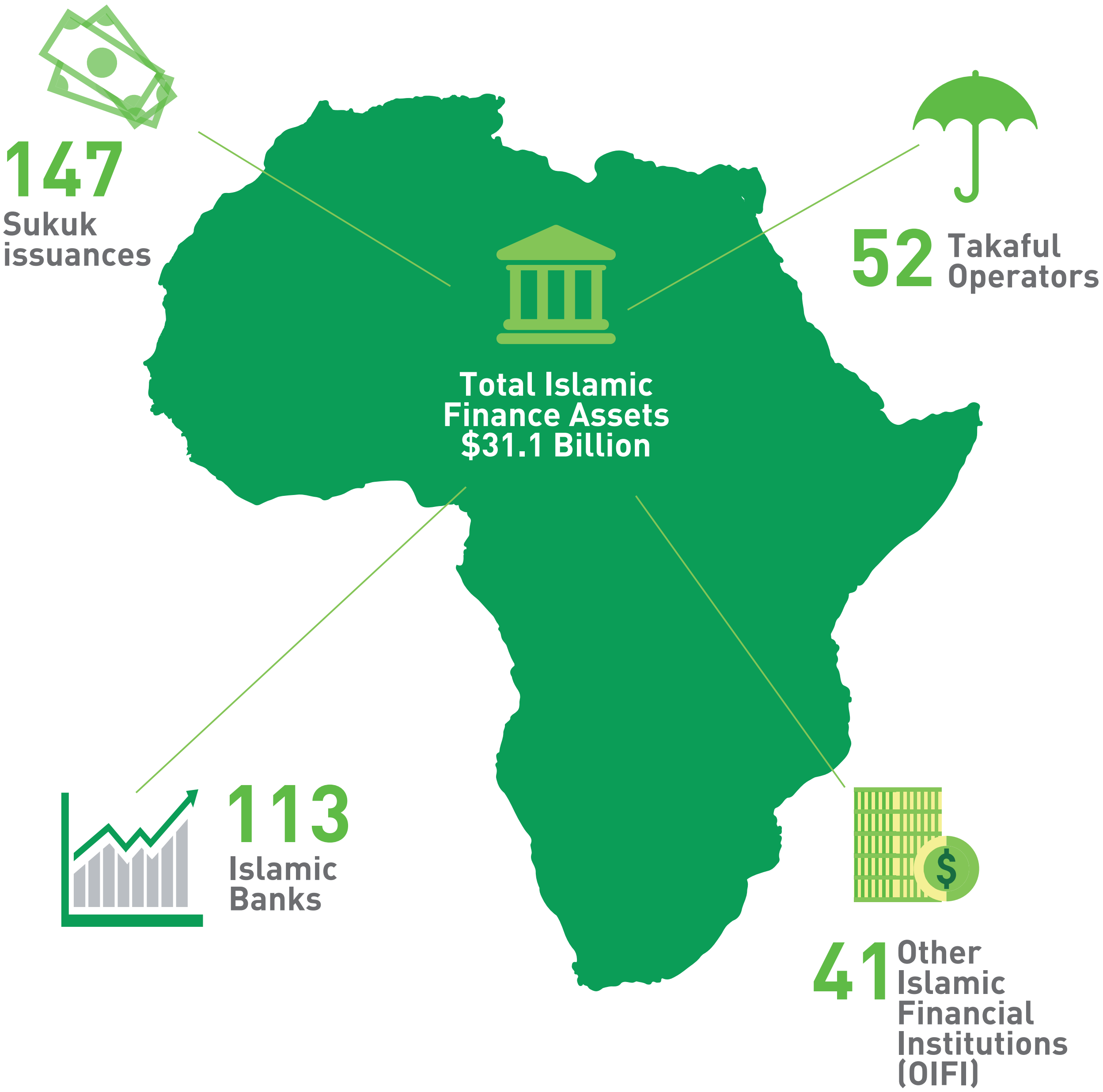
There were also 206 Islamic financial institutions operating across Africa and six countries have Sukuk outstanging namely Togo, Gambia, Nigeria, Senegal, Ivory Coast and South Africa.

Introduction of regulatory frameworks to support growth

A number of African countries across different regions have been working on introducing Islamic finance regulatory frameworks to allow Islamic banks to operate and sovereigns and corporates to issue Sukuk. By the end of 2016, 15 countries have already established legal frameworks for Islamic finance, including Kenya, Morocco, Niger, Nigeria, Senegal, South Africa, Sudan and Uganda.
There were also 206 Islamic financial institutions operating across Africa and six countries have issued Sukuk namely Togo, Gambia, Nigeria, Senegal, Ivory Coast and South Africa.

Knowledge in Islamic finance is a top priority for Africa

In terms of education and research, Africa as a whole is making it an important part of the Islamic finance ecosystem to develop human capital to furnish the ever-growing sector. According to the Islamic Finance Development Report, a total of 190 research papers were published on the Islamic finance in 2016 by affiliations in Africa. Most covered topics were on microfinance and regulatory frameworks, the result of growing interest in ways to alleviate poverty. There could be a further increase in research papers published in Africa once a new center of excellence in Islamic finance in West and Central Africa is completed by the Islamic Corporation for Private Sector Development (ICD) together with the University of Paris-Dauphine and the African Centre for Advanced Studies in Management (CESAG). Nigeria and Tunisia lead Africa in terms of research papers in Islamic finance with 55 papers, followed by Morocco with 18 papers.

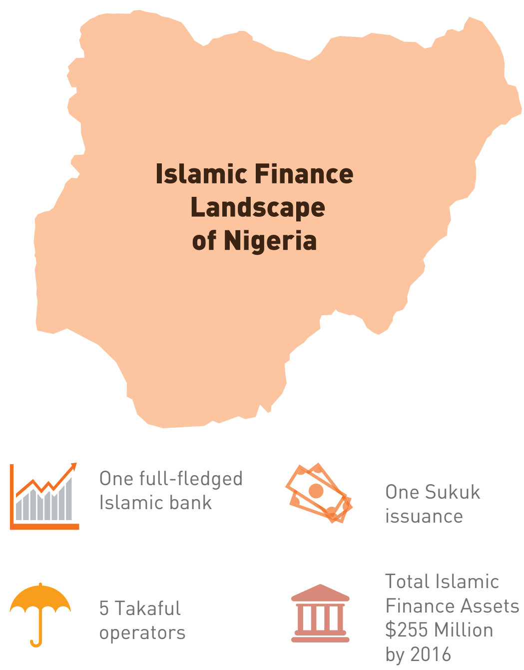


Source: Islamic Finance Development Report 2017

Nigeria:

Africa's largest economy ripe for Islamic finance growth

Nigeria is the most populous country in Africa and is home to over 80 million Muslims. In 1991, the Nigerian government issued the regulations allowing Islamic banking to operate under the Provisions of Banks and Other Financial Act (BOFIA). The first Islamic bank was established in 1992 as an Islamic banking window of the then Habib Bank (now Bank PHB). In 2009, a revision to the BOFIA act to recognize Non-Interest Financial Institutions (NIFIs) which would operate based on Islamic commercial jurisprudence. The Act stated that all banks categorized under BOFIA, which includes NIFIs, must be a licensed entity, thus allowing for non- interest banking licenses to be issued which allowed Islamic banking operations. By 2011, the Central Bank of Nigeria issued new guidelines for non- interest banking which gave rise to Nigeria's first full-fledged Islamic bank, Jaiz Bank to commence operations. In 2016, Jaiz Bank had over $200 million worth of Islamic banking assets and aims to open at least 100 branches nationwide by the end of 2017[1].



Source: Islamic Finance Development Report 2017

Regulatory framework developed for a healthy Islamic finance ecosystem

The Islamic Finance Development Report values the Islamic finance sector in Nigeria at $255 in 2016. Currently there is one full-fledged Islamic bank and three Islamic banking windows. Nigeria has set up in 2013 a centralized Shariah advisory body known as the Financial Regulation Advisory Council of Experts (FRACE) under the Central Bank

1 New rules, products lay groundwork for Nigeria Islamic finance sector
Web URL: https://www.reuters.com/article/islamic-finance-nigeria/new-rules-products-lay-groundwork-for-nigeria-islamic-finance-sector-idUSL6N0G61PA20130806

of Nigeria operating as an independent body responsible for ensuring regulations and guidelines relating to appointments for Shariah advisory boards and banking products and operations are compliant to the guidelines on non-interest banking.

Sukuk debut paves the way for more Sukuk issuances

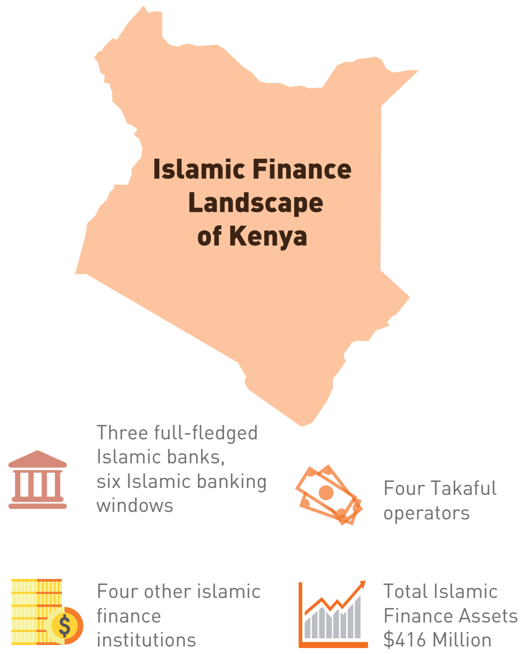
The government of Nigeria has issued regulations for Sukuk issuances in 2013 after the Osun state government issued its first Sukuk worth $62 million in the same year. The Federal Government issued the second Sukuk in 2017 raising as much as $279 million. Nigeria had experienced some opposition in implementing Islamic finance mainly due to a lack of awareness relating to Islamic finance as an alternative to conventional finance. However, sensitization schemes highlighting the benefits of Islamic finance to the economy were conducted by the Central Bank and Ministry of Finance to educate the public on the basics of Islamic finance.

Kenya:
A gateway to East Africa's Islamic finance sector

Kenya, East Africa's second biggest economy in terms of GDP, is working its way towards being an Islamic finance center to cater to the over 4 million Muslim population. Kenya has been able to position itself well to become one of the favourable destinations for Islamic finance in middle Africa in addition to positioning Nairobi as an international financial center. The government recent signing of a new bill establishing the Nairobi Financial Centre Authority in 2017, tasked with providing a legal framework to support the development of the financial services sector in the country. According to the Islamic Finance Development Report, total Islamic finance assets in Kenya were valued at $416 million in 2016.

Government playing a key role in the development of Islamic finance

As part of Kenya's 2017/18 budget, the Ministry of Finance announced the launch of an Islamic Finance project management office to support the capital markets authority in the drafting and execution of its Islamic finance policies. An amendment to the Public Finance Management Act by the government is expected to pave the way for alternative funding sources, including a sovereign Sukuk issue in the near future.



Source: Islamic Finance Development Report 2017

Kenya aims to foster the development of Islamic finance in middle Africa

Kenya currently has one full-fledged foreign Islamic bank and two Islamic banking windows. There are two Takaful operators and one other Islamic finance institution. The Capital Market Master Plan by the Capital Market Authority aims to position Kenya as an Islamic finance hub for middle Africa in the next five years. According to the Capital Market Authority Master Plan 2014 – 2023, Kenya will aim to increase the Islamic finance market capitalization by establishing itself as a centre of excellence for the real sectors of the economy. The Master Plan is also aiming to position the country as a gateway to middle Africa for regional and international capital flows facilitated by innovative products such as derivatives, asset management and Islamic finance.

Regulatory framework in Kenya is conducive for Islamic Finance growth

The Central Bank of Kenya's Banking Act sections 4 and 5, which allow Islamic banking services to be offered exclusively by an entity, has attracted foreign banks such as Dubai Islamic Bank to open their African flagship branches in Kenya. In 2018, the Kenyan retirement fund received regulatory approval to create a Shariah compliant pension fund. Similarly, the Capital Market Authority amended the Capital Markets Act to facilitate the development of Shariah compliant products and the government is looking to issue a sovereign Sukuk. In terms of awareness, Kenya has been at the forefront in organizing events related to Islamic finance in an aim to drive and unlock the potential of Islamic investments to support the economic sector.

Ivory Coast:

Africa's fastest growing economy embraces Islamic finance

Ivory Coast, which has a population of over 23 million people made up of almost 40 percent Muslims, is growing to become an active player in the Islamic finance industry in West Africa. With strong support from the Islamic Corporation for the Development of the Private Sector (ICD), the Ivory Coast has been able to kick-start its Islamic banking operations. The ICD's partnership with Afriland First Bank has created the country's first Islamic banking window in 2016.

Source: Islamic Finance Development Report 2017

A healthy appetite for Sukuk

There are currently no regulations for Islamic finance in the Ivory Coast. Although Islamic finance is at very early stages of development, the government of Ivory Coast has issued two sovereign Sukuk back to back in 2015 and 2016 with five and seven-year maturity, respectively. The government was able to raise $244 million from each issuance. The proceeds of the Sukuk have been used for the economic development in the country. The country's two sovereign issuances have witnessed full subscription showing a healthy demand for Sukuk and an opportunity for corporates in the country to capitalize on Sukuk as an alternative instrument to finance their debt and raise funds. By the end of 2017, the Ivory Coast's sovereign issuance is the second largest in Africa after South Africa who issued a $500 million Sukuk.

> **"By the end of 2017, the Ivory Coast's sovereign issuance is the second largest in Africa after South Africa who issued a $500 million Sukuk."**

A bright future lies ahead for Islamic finance in Ivory Coast

Islamic finance can play a larger role in the wider economy of the Ivory Coast by exposing the country to the international Sukuk markets and positioning it as a leader in the Islamic debt capital markets compared to its Sub-Saharan African counterparts. The IMF has identified the Ivory Coast as the second fastest growing economy in Africa with an estimated annual growth rate of 7.4%. The Government can also utilize Sukuk to partially fund the $7 billion infrastructure development activities, which will be utilized for infrastructure spending over the next five years. Among the projects is building a bridge in Abidjan. Islamic finance offers a variety of structures.

For instance, Istisna Sukuk would be the most suitable choice for building the bridge where a contract will be issued to a party to construct and deliver the Istisna asset on a pre-agreed timing. This structure has been proved to be successful as witnessed in Malaysia, where Sukuk Istisna was used to construct the Penang bridge tolls in 1995.

South Africa:
Among the most developed Islamic finance markets in Africa

Known for its strong reputation in conventional financial services in Africa and for its developed banking system and regulations, South Africa has introduced Islamic finance operations to its existing finance ecosystem. Although South Africa has a relatively low Muslim population compared to Western and Eastern Africa, Islamic finance has been able to make a significant footprint in the country with a lot of Islamic finance activities taking place in past decade.

Source: Islamic Finance Development Report 2017

Early attempts at Islamic banking fell through

The first Islamic financial institutions in South Africa started in the 1980s with the establishment of Jaame Limited and the Islamic Bank of South Africa Ltd in 1988. Both banks were dissolved due to inadequate liquidity instruments and a very rigid regulatory atmosphere suited for conventional finance. Since then, the South African government, through the South African Reserve Bank, has taken an active interest in revising regulations to allow Islamic banks to operate within a regulated environment. Total Islamic finance assets in South Africa are estimated at $2.6 billion as of 2016.

To date there is one full-fledged Islamic bank and four Islamic windows in South Africa, with total assets worth of $388 million as of 2016 and 98 Islamic funds under management worth $1.8 billion.

Islamic banking regulations are needed to grow Islamic finance

Although South Africa has one of the most active Islamic finance markets in Africa, there are no regulations specific to Islamic finance as a whole, which also includes Takaful. There is no Shariah advisory board at the national level to ensure compliance of Islamic banks to Shariah. However, Islamic banks rely on internal Shariah boards or independent advisory committees to ensure Shariah compliance in their banking operations. In 2010, amendments were made to the Taxation Laws Amendment Act to recognise Murabaha, Diminishing Musharaka and Mudharaba as forms of Islamic finance equivalent to traditional finance products. In 2011, additional changes were made to the Act to introduce Sukuk as a form of Islamic finance limited to the government, paving the way for a sovereign Sukuk issuance. A draft of the taxation laws amendment bill 2015 proposes that legislation related to Murababa and Sukuk to be extended to listed companies.

South Africa issues the largest sovereign Sukuk in Sub-Saharan Africa

In 2014, South Africa issued its first sovereign Sukuk worth $500 million making it the largest sovereign Sukuk issuance in Sub-Saharan Africa. The Sukuk was oversubscribed four times, which shows a strong demand for Sukuk in the country. Another Sukuk issuance is planned to take place in 2018 to bridge the government's budget deficit of $4 billion. There is a need for the government to extend regulations that allow private companies to issue Sukuk domestically or in the international market. Transportation and utility companies in South Africa have expressed an interest in issuing Sukuk in the near future, as an alternative source for their funding needs[1]. A strong demand for Sukuk in South Africa proves that more focus should be made to develop its Islamic capital market by the government in order to create a healthy ecosystem for Islamic finance to thrive.

1 https://www.reuters.com/article/safrica-Sukuk/south-africa-proposes-extending-Sukuk-tocorporate-issuers-idUSL5N10804Y20150728

Participative Finance in Morocco

Morocco has witnessed a strong interest and demand for Participative finance and experts anticipate a healthy growth in the short to medium-term.
In this context, CFC can be an asset for the development of this industry in Morocco and beyond in Africa.

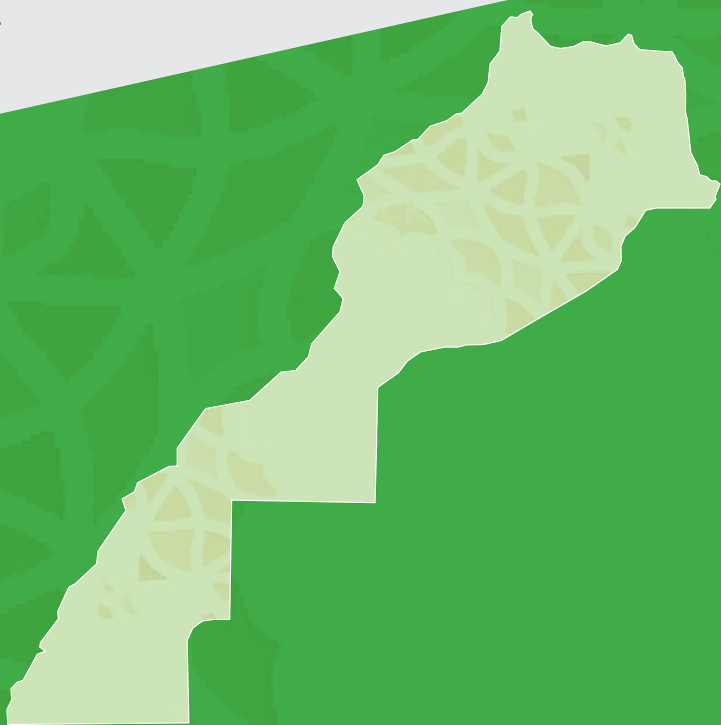
Participative Finance in Morocco

Morocco is recognized as a leading financial center in Africa, supported by a large and advanced financial system. The country has channeled the advancement of its financial system towards offering the most developed Participative finance ecosystem in the continent. Although the Participative finance asset base remains very small with a limited number of institutions, Morocco has laid groundwork for industry development by establishing regulatory frameworks for several sectors, and a centralized Shariah authority. The Higher Council of the Ulama was reorganized by royal decree in 2015, to take the role of central Shariah authority governing all sectors of Participative finance. The council comprises 10 Shariah scholars and industry experts, five of which are permanent members.

Morocco also has industry association to facilitate further industry development - the Moroccan Association for Participating Finance Professionals (AMFP).

Morocco kickstarts Participative finance development

Morocco has witnessed efforts to establish its Participative finance industry since the 1980s, with several domestic and foreign financial institutions seeking licensing. Although Participative finance had been overlooked for a long time, the Moroccan authorities actively reconsider establishing it as a key industry. There is significant interest and demand for Participative finance products and services, where 98% of respondents expressed an interest in Participative banking products of which 79% were very interested. Towards meeting this demand, the development of Participative finance has picked up pace in recent years, mainly in the regulatory space.



1985 — Applications to establish Islamic banks submitted to Bank Al Maghrib by 2 international groups

1996 — Launch of Morocco's first Islamic fund created by Wafa Bank

2007 — Conventional banks allowed to offer alternative Islamic financial products through Islamic windows

2010 — Dar Assafae received approval from Bank Al Maghrib to offer Islamic products based on Murabaha contracts

2013 — Securitization law approved by the Moroccan parliament allowing sovereign and corporate Sukuk issuances

Feb 2015 — Royal decree establishing a Central Shariah Board to govern Participative finance under the High Islamic Scholars Council

Mar 2015 — BAM publishes Morocco's new Banking Law, which introduced a regulatory framework for Participative banking.

Jan 2017 — BAM approves licenses for five full fledged Participative banks and 3 windows.

Mar 2017 — BAM approves 5 Islamic finance structures: Murabahah, Musharakah, Ijara, Mudaraba and Salam.

May 2017 — Opening of Morocco's first Participative bank - Umnia Bank

Jul 2017
- BAM issues regulations for Sukuk and Takaful
- Approval for Participative banks to accept deposits
- BAM finalizes standard Murabahah contracts, and sets Ijara contracts for final approval.
- Opening of Bank Assafa

Dec 2017 — Opening of Bank Al Tamweel wa Inma (BTI) Bank

New regulations to boost infant industry

According to Islamic Finance Development Report (IFDI) data, until the end of 2016, Participative finance in Morocco was limited to Shariah-compliant funds and Participative finance institutions other than banking and Takaful. However, efforts taken by the Moroccan authorities are expected to significantly boost Participative finance activity in the country. The recent regulations issued have paved the way for the establishment of Participative banking, Takaful and Sukuk in the short- to medium-term.

Morocco opens doors to Participative banks in 2017

In 2015, Morocco's new banking law was published in the Official Bulletin, which included a legislative framework for Participative banking. The law permits five primary Shariah-compliant contracts: Murabaha, Ijara, Mudaraba, Musharaka and Salam, in addition to any Shariah-compliant contract approved by BAM and reviewed by the Supreme Council of the Ulamas. Conventional banks were also allowed to set up Participative banking windows.

In January 2017, BAM granted licenses to five Participative full-fledged banks and three Islamic banking windows to operate in Morocco, which were not permitted to accept deposits until July 2017. Some of these banks have been established as partnerships between conventional banks in Morocco and well-established GCC Islamic banks. Other banking licenses were offered to the Moroccan units of international banks such as Societe Generale, BNP Paribas and Credit Agricole. As of 2018, after a year of operations by Participative banks in Morocco, there were 82 branches and 2.2 billion dirhams ($230 million) in financings. Having both conventional and Islamic banking heavyweights operating, the newly established banks will give Participative banking strong credibility in Morocco and help gain the trust of prospective customers.

Participative banks licensed by BAM in 2017

Subsidiaries

Umnia Bank	Bank Assafa	Bank Al Yousr	Bank AlTamweel wa Inma (BTI) Bank	Al Akhdar Bank
Joint Venture between Credit Immobilier et Hotelier and Qatar International Islamic Bank	Subsidiary of Attijariwafa Bank	Partnership between Banque Centrale Populaire Group and Guidance Financial Group	Partnership between BMCE and Dallah Al Baraka	Joint Venture between Credit agricole and ICD

W i n d o w s

Dar Al-Amane	Arreda	BCMI Najmah
Subsidiary of Societe Generale	Subsidiary of Credit du Maroc (Credit Agricole)	Subsidiary of BMCI (BNP)

Figures released by Bank Al Maghrib in June 2018 after almost 1 year of exercise by the Participative banks in Morocco: 82 branches and 2.2 Billion Dirhams ($230 million) in financings.

Projected growth for Participative finance up to 10%

The Morocco Islamic Finance Report estimates that, based on the historical performance of new Islamic banking markets, Participative banking could potentially account for up to 5% of total banking assets in Morocco. Projections from Fitch Ratings anticipate relatively healthy growth in Participative bank deposits between 5% and 10% in the short- to medium-term, with up to 200 branches once the industry is properly established.

As part of its efforts to further develop the Participative banking sector, BAM is currently in the process of finalizing ad-hoc Shariah-compliant instruments that will facilitate liquidity managements between Participative banks. The authorities are also working on amendments to tax regulations to ensure tax neutrality between Participative and conventional banks' offerings.

Large insurance market set for Takaful growth

Morocco is home to Africa's second-largest insurance market, which has seen rapid growth over the last ten years, making it a high potential market for Takaful. Market participants expect that Takaful in Morocco could potentially command between 10% to 15% in market share, in line with Malaysia. The Morocco Islamic Finance Report estimates that Takaful contributions could reach $200 million in the medium term.

Initially, the Moroccan government had approved an insurance bill in 2015 that also covered guidelines for Takaful and re-Takaful operations, based on AAOIFI general guidelines. In May 2015, Takaful regulation was introduced by ACAPS in July 2017, with licensing to be granted once BAM finalizes its requirements for Takaful operations. It is anticipated that Takaful operators will be required to follow a Wakala model and initially be limited to family Takaful, which could increase costs and limit growth prospects for Takaful. Another key challenge is the dearth in Shariah-compliant investments, which constitutes a key component of Takaful operators' profits. The lack of suitable investments will likely leave Participative financial institutions with underutilized liquidity that may otherwise generate more significant profits.

As for other non-bank financial institutions, there are five non-bank Participative financial institutions operate in Morocco, according to IFDI data. They include three asset managers, a financing company and a microfinance provider.

Morocco debut Sukuk on the horizon in 2018

As with several African countries, Sukuk can play a vital role for Morocco's government to tap new debt markets and attract financing especially from the GCC to fund its budget deficit and development projects. The expansion of Morocco's renewable energy capacity to 52% of electricity output by 2030 is a particular area where Sukuk can be tapped for funding. The launch of Sukuk in Morocco would also address the shortage of Shariah-compliant investments in the country.

Over the past five years, Morocco has shown interest in issuing its first sovereign Sukuk, more so following the introduction of Sukuk regulation in July 2017. In addition, the parliament was set to approve amendments to the Securitization Law in March 2018, enabling the government to issue sovereign Sukuk through an SPV. The Moroccan government had announced that it would be issuing four dirham-denominated Sukuk starting in 2018. The planned issuances will follow four different structures: Ijara, Wakala, Musharaka, and Murabaha. Multiple government Sukuk issued for a range of maturities will also establish a benchmark yield curve to support the pricing of subsequent issuances and encourage the corporates to tap the Sukuk market.

Also underway is a Shariah-compliant equity index currently being developed by the Casablanca Stock Exchange (CSE) – a first for Morocco. In addition, CSE is developing a Sukuk listing framework-targeting issuances from African countries.

Government push needed to boost Islamic funds and microfinance

Morocco leads the MENA region in the microfinance space with a gross loans portfolio of $474.4 million in 2016, supported by the Microfinance Act of 1999. Although gross portfolio of microfinance represents 0.5% of GDP, the introduction of Shariah-compliant microfinance could potentially boost the sector. Shariah-compliant microfinance is a new concept in Morocco and requires government support through Shariah-compliant microfinance programs that can be offered through Participative banks and microcredit institutions, which could be supported by the Islamic Development Bank Group.

There is a limited number of Shariah-compliant funds operating in Morocco. The largest Shariah-compliant fund is the $16 million[1] Attijari Al Moucharaka, managed by Wafa Gestion. Previously, there had been two smaller equity funds domiciled in Morocco and managed by local fund managers. Shariah-compliant funds have not yet been covered by financial regulation in Morocco, however, regulatory focus will likely come about once key sectors of Participative banking, Sukuk and Takaful become more developed. Having well-established Participative financial institutions and an existing foreign investor base will create more demand for Shariah-compliant funds and prompt further development of this sector.

The new Islamic finance gateway to Africa

With high untapped demand and given that Morocco has one of the most advanced ecosystems in Africa, Morocco is well positioned to become a regional hub for the Islamic finance industry. Morocco is taking steps towards developing the appropriate ecosystem and infrastructure to facilitate Participative banking flows from the GCC and the ASEAN regions. According to the Morocco Islamic Finance Report, once the industry is established, Morocco can attract over $ 7 billion in Participative banking flows from the GCC and Malaysia and develop a revenue pool in excess of $70 million.

In 2016, Casablanca passed Johannesburg and Mauritius to become Africa's leading financial center in the Global Financial Centers Index (GFCI) rankings. Casablanca Finance City can be an asset to the development of Participative finance in Morocco and beyond in Africa, especially in the French speaking countries of the region. By leveraging the country's attractiveness for foreign investments, CFC presents itself as a gateway to Africa for international financial institutions and investors especially from Africa and the MENA region. Since its launch, CFC has attracted more than 150 multinationals including financial institutions, regional headquarters of multinational companies, service providers and holding companies, choosing Casablanca as a platform for developing their operations in Africa.

1 2015 valuation, based on last reported Lipper data.

Recommendations and key takeaways

Recommendations

Challenges	Solutions	Phase
Education & Awareness	**Capacity Development & Knowledge Resources** • Develop human capacity for servicing Islamic finance transactions • Develop full spectrum Arabic/French/English language knowledge resources to support understanding	1
Impact: build local expertise & awareness in Islamic Finance		
Investment Intelligence	**Market & Investment Research** • Develop market research capabilities for the African continent	1
Impact: attract Islamic Finance investments		
Standardisation	**Standardised Sharia & Legal Framework** • Develop Standardised Sharia Framework • Develop Standardised Documentation Platform	1
Impact : enhance investment flow		
Professional Connectivity	**Community Facilitation & Support Infrastructure** • Develop connectivity for professional community • Develop advisory support for institutions wishing to gain access to Islamic finance transactions	2
Impact : facilitate transactions		
Social & Global Relevance	**Innovative Branding Approach** • Develop an inclusive ethical and participation based branding vision for Islamic finance in Africa.	3
Impact : increase accessibility to Islamic Finance		

Source : Morocco Islamic Finance 2014: Unlocking the Kingdom's Potential

Key Takeaways

1. Africa is home to 25% of the world's Muslim population, yet the total Islamic finance assets on the continent represents roughly 1% of the global Islamic finance industry total assets valued at $ 2.2 trillion

2. South Africa holds the lion's share of Islamic finance assets $2.6 billion as of 2016, and also issued Africa's largest sukuk worth $500 million in 2014.

3. Ivory Coast, the second fastest growing economy in Africa according to the IMF, had the second largest sukuk issuance worth $244 Million after South Africa's $500 million sukuk issuance.

4. Morocco the leading financial center in Africa, currently has five full-fledged Participative banks and 3 windows in operations since 2017.

5. Morocco's government can tap new into Islamic debt markets and attract financing to fund its budget deficit and development projects via sukuk issuances. This can aid in the expansion of Morocco's renewable energy sector as part of the kingdom's vision to source 52% of its energy through renewable sources by 2030.

IFDI background

The Islamic finance industry operates within a wider financial environment that is always evolving. For the industry to prosper it therefore will need to constantly advance and innovate, not merely to maintain the strength of the core industry but to stay ahead of the curve. In the aftermath of the global financial crisis, Islamic financial institutions, market players, regulators and other authorities have made more determined efforts to seek one another out in order to improve industry cooperation and alignment. Reliable information and data are essential to the success of these efforts.

The Islamic Finance Development Indicator is the definitive barometer of the state of the industry across its fundamentals. It introduces a new way of measuring development by combining data on different elements of the industry into a single, composite indicator. The index assesses the performance of each of the industry's key areas in line with its inherent faith-based objectives, with data for their national and industry-level components.

Priority areas identified to provide a theoretical framework for the industry's development include:

1. Development and growth of Islamic financial institutions and markets ('Quantitative Development')
2. The industry's social contribution in line with Islamic principles ('Corporate Social Responsibility')
3. The quality of governing structures to ensure compliance with Shariah standards ('Shariah Governance')
4. The quality of governance and risk management measures to protect stakeholders ('Corporate Governance')
5. The availability of training and degree courses to ensure industry professionals are well versed in Islamic finance ('Education')
6. The output of research papers contributing to greater knowledge within the industry and its continued development ('Research')
7. The output of news reports and staging of seminars and conferences that raise awareness of the industry ('Awareness')
8. Development of an enabling and supportive regulatory infrastructure for Islamic banking, Sukuk, Takaful and Islamic funds ('Regulation')

The data employed in the Islamic Finance Development Indicator (when aggregating data and computing indicator values) are based only on publicly disclosed information. This ensures both reliability and consistency in the results.

Key objectives

The Islamic Finance Development Indicator provides a single, holistic assessment of the Islamic finance industry across all of its sectors. It is a product of a number of key indicators and sub-indicators measuring particular aspects of the industry. Breaking down the data into these different areas reveals the disparities and movements that are less visible in the wider-ranging, aggregated numbers.

The different components that make up the Indicator – Quantitative Development, Governance, Corporate Social Responsibility, Knowledge and Awareness – are of fundamental importance to the development of a global industry. The optimal level of development in any of the indicators or sub-indicators is pegged to a maximum value of 300.

Global Indicator Level	Country Indicator Level	Specific Indicator Level
• Present one single indicator to show the pulse of the global Islamic finance industry's overall health • Provide an indicator that is reliable and unbiased • Inform Islamic finance stakeholders and investors about the industry's performance • Gauge future industry growth	• Assess the current state and growth potential of Islamic finance within each country • Highlight the performance of Islamic finance institutions in particular markets • Track progress and provide comparisons across different countries and regions	• Measure growth within different key areas of the industry • Enhance Islamic finance market transparency and efficiency • Identify issues that are preventing growth within the industry • Help market players formulate practical solutions to face current obstacles • Assist in setting new targets, goals, standards for Islamic finance institutions and regulators

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