

# AFRICA UNITE

South Africa and the Arab northern region has had some limited interest from investors and economists globally, but everything in between has been seen as a basket-case and lost to the world. Is there any change in sight? **Michael Gassner** looks at what is happening on the continent in terms of Islamic finance

Africa was long seen as a forgotten continent, more or less without any economic or geopolitical relevance. The growth story of Brazil, Russia, India and China has been immortalised by

Goldman Sachs into the snappy acronym, BRICs and has been the watchword for the economic performance of developing nations on the lips of analysts for the last five years.

More and more media coverage is given to the relationship between China and Africa. China is resource-hungry and Africa has raw materials to offer; this includes substantial oil reserves in Nigeria and Sudan. The growing appetite of China for oil and the whole panoply of raw materials that Africa has beneath its soil has led to an increase in trade relationships, project financing and closer political ties.

The whole geopolitical scene has changed recently as the world's only superpower has taken a strategic interest in the continent and set up Africom, a special military command to underline the importance of the continent; especially in days where the US is increasingly involved in Africa's neighbour, the Middle East, and is vying for control of the source of finite resources.

If we look into the developments of Islamic finance in Africa, we initially need an indication of the number of Muslims in the continent: As usual

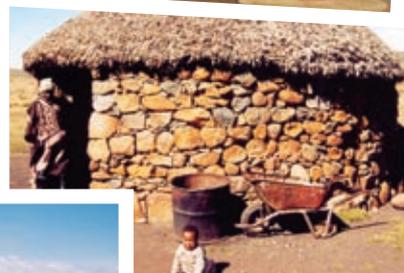
religious statistics are incomplete but estimates show that about 45 per cent of the continent is Muslim. In effect, of the total 885 million inhabitants of Africa,

around 400 million are Muslim. Even if the income and wealth situation is not always attractive to foreign banks, the pure numbers should at least encourage Islamic bankers to explore the depths of this unknown market. As awareness of Islamic banking grows, and the industry matures, Africa, through sheer weight of numbers and economic significance will grow to become an increasingly important part of the Islamic banking tapestry. But where are we now? A whistle-stop tour of Africa, stopping at a few of the more significant countries, might make the picture clearer.

Egypt was home to one of the first outposts of the entire global Islamic finance movement in the 1960s, with the MIT Ghamr project. In 1968 the MIT Ghamr project ended and with its demise, Islamic finance has no real share in the country's banking system today, with

the country's most prominent player being Faisal Islamic Bank of Egypt. Despite this, however, things are moving again in Egypt. Amlak of the UAE is planning to offer Islamic mortgage products in Egypt soon and it is hoped that this will go some way to revitalising the image of Islamic finance, tarnished by losses of the Islamic investment companies in the 1980s. If we

look at the Maghreb region, we are beginning to see some Islamic investors from the Gulf planning real estate projects in Morocco. Islamic financial



institutions are not on the agenda at the moment, but this might be about to change as the central bank of Morocco has for the first time allowed the use of Islamic finance models including Murabaha and Ijarah for banks. It is very likely that North Africa will form a stronger bloc in the Islamic finance industry in future.

Going from the top to the tip of the continent, South Africa is the largest economy in Africa but has a Muslim minority of less than 10 per cent. Despite this, South Africa is, astonishingly, very active in terms of Islamic finance.

Oasis is managing Islamic investment funds and has expanded from South Africa to Dubai and also sells into Malaysia. The First National Bank is operating an Islamic window in South Africa and in Botswana, a mostly Muslim-free country. On the retail side, Absa was a first mover to offer Islamic banking to local Muslims and has plans to expand out of South Africa. There are more banks in South Africa working on developing Islamic services and some of these banks are even sending their staff to Malaysia to learn about the industry.

West Africa is showing strongly with Nigeria a virile prospect for Islamic finance with a population of 65 million Muslims. Jaiz International Bank (JIB) has popped up in the press several times, and aims to open an Islamic bank in Nigeria in early 2008. Some delays have been caused by a tightening of regulation for all banking activities in Nigeria with regards to minimum capital requirements, which has led to an overall market consolidation in Nigeria. Beside JIB, there are also small projects happening in Nigeria, an example being Lotus Capital which is providing microfinance in Nigeria. Interestingly the German Technical Co-op recently set up an Islamic microfinance institution in Mali to cater to different ethnicities that had previously been in conflict; thereby Islamic finance is supporting peaceful cooperation in this war-torn continent, allowing different peoples to bridge their differences. It becomes so much harder to kill someone when

you are financially tied in with them.

Down the east coast, Kenya, which has a small but significant population of Muslims, sees the Gulf African Bank (GAB) planning to start operations in Kenya soon, and Istithmar recently announced that it was going to create a new bank in Kenya. GAB has amongst its shareholders the IFC, the private sector of the World Bank, which holds 10 per cent of the bank.

In Sudan, the state has mandated Islamic finance in the north. Sudan has a number of Islamic banks operating throughout the country, but these are backed by other foreign Islamic financial institutions. An example of such a partnership is the Emirates and Sudan bank, which is backed by Dubai Islamic Bank, Sharjah Islamic Bank

and Abu Dhabi Islamic Bank with a capital of \$200 million. Al Khartoum Bank is now 60 per cent owned by Dubai Islamic bank. The Lebanese Fransabank and the Aref Investment Group from Kuwait are backing Capital Bank. Last but not least, Qatar Islamic Bank is planning to set up a commercial and investment bank in Sudan with a capitalisation of \$1 billion pending on the results of a feasibility study.

Summarising the latest trends, there is great momentum to be seen in Africa, and not just in the north and south, but also the east and west. Africa offers many untapped markets for Islamic business. The business destination Africa will become increasingly recognised and more important on the world stage. We are seeing leading

Arab investors, such as Prince Alwaleed of Saudi Arabia, scouring the continent, for opportunities. But there is much more to do, and much more to come. The next step is energetically to support Islamic finance's development in Africa, country by country.

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