

On Sovereign Sukuk Debt: Think Senegal and Nigeria Not South Africa

The intellectual and ideological interest in **South Africa**'s potential to become 'the first non-Muslim country to issue a sovereign **Islamic**-finance *sukuk* bond'

(<http://www.bloomberg.com/news/2011-12-06/south-africa-seeks-banks-to-advise-it-on-structuring-sale-of-sukuk-bonds.html> and <http://blogs.ft.com/beyond-brics/2011/12/06/s-africa-the-first-sovereign-sukuk-outside-the-muslim-world/>) is understandable and not unworthy of

attention. However the future of *sukuk* will not be found in a 'Muslim-minority' country. The greatest utility, impact and profitability of *sukuk* in Africa awaits a successful issuance in the Muslim countries of **West Africa** – specifically **Senegal** where its potential to close a budgetary gap is real and in **Nigeria**, poised to apply the proceeds of a long anticipated *sukuk* issuance to infrastructure finance as we noted in **APB July 27, 2011, "Nigeria Post-MPC Meeting: Infrastructure Or Inflation?"**

Senegal's courting of both Western international banks like **Citibank** and the **Islamic Development Bank's Islamic Corp for the Development of the Private Sector (ICD)**

(www.bloomberg.com/news/2011-11-22/senegal-to-meet-investors-for-sukuk-sale-icd-s-al-aboodi-says.html) and Nigeria's cautious but progressive steps toward Islamic banking are the pivotal

developments to watch over the next 6-18 months. The lure of Islamic finance and the enormous untapped funding source of the over *\$1 trillion* it represents in a world where increased sovereign risk and plateaued corporate growth in the West are providing incentive for capital to consider frontier markets, we think will prove to be irresistible and is poised to have a break out year in 2012. In terms of institutions to watch- no one matters more than the triple-A rated

(http://www.isdb.org/irj/portal/anonymous/idb_news_en) **Islamic Development Bank**, in a world where money and capital is seen increasingly in terms of *scarcity* and *morality* - something not lost on **Dr. Ahmad Mohamed Ali, President of the Islamic Development Bank Group** who touched on the dynamic when addressing the "Islamic Finance in the 21st Century" conference in **Madrid, Spain**, on Wednesday

(<http://www.isdb.org/irj/servlet/prt/portal/prtroot/NewsAppEU.NewsPrint>). His words are further supported by the efforts of **European** nations introducing legislation facilitating *sukuk* around tax neutrality structures

(<http://arabnews.com/economy/islamicfinance/article539485.ece?service=print>).

In July we argued that no country matters more in Africa (and possibly the world) than Nigeria on the *sukuk* front outlining:

“...the enormous Islamic population in Nigeria – often cited as a source of tension or barrier to national unity – may actually be an *asset* in solving the infrastructure problem due to the role that Islamic finance has played in addressing infrastructure problems in numerous nations. Nigeria’s Infrastructure Concession and Regulatory Commission is now actively exploring this avenue (<http://www.icrc.gov.ng/wp-content/uploads/2011/07/ICRC-Press-Statement-Meeting-with-CBN-and-DMO.pdf>). Here, we can foresee the largely Muslim northern Nigeria – in dire need of development – as fertile ground for this approach. The ICRC’s 2011 53-page “Addressing Infrastructure Deficit In Northern Nigeria” lays out a vision and sober grasp of the challenges which seems equal to the reality of the problem (http://www.icrc.gov.ng/wp-content/uploads/2011/03/Northern_Economic_Summit_ICRC_March11.pdf). As another external source of capital for infrastructure finance, the implications are clear, the **West African Institute for Financial and Economic Management (WAIFEM)** says Nigeria stands to benefit from over \$1.4trillion worth of assets being controlled by approximately 500 Islamic banks all over the world (<http://www.vanguardngr.com/2011/07/islamic-banking-nigeria-to-benefit-from-1-4trn-assets/>). Both momentum and resistance (along religious lines) are increasing after 1) new guidelines for non-interest banking were issued by the CBN on June 21 (<http://www.cenbank.org/Out/2011/pressrelease/gvd/CBN%20ISSUES%20NEW%20GUIDELINES.pdf>) and which include the careful diplomatic provision, “*The new guidelines clarify the contextual definition of Non-interest banking which is not restricted to Islamic banking, but also include other form of non-interest banking not based on Islamic principle...*” 2) after it became known that **Jaiz International** is pending final approval to become Nigeria’s first Islamic bank - with the **Islamic Development Bank (IDB)** as major investor (\$20 million) - (<http://jaizinternationalplc.com/www.jaizinternationalplc.com/agmpublication.htm>) and 3) after it became known that the Nigeria’s **Debt Management Office (DMO)** is contemplating issuing its first sovereign *sukuk* (<http://www.investopedia.com/terms/s/sukuk.asp>) within 1 to 2 years – sparked by an interview CBN head **Sanusi Lamido Sanusi** gave *Reuters* in June (<http://af.reuters.com/article/investingNews/idAFJJOE75J0DA20110620>).”

Since that time, Nigeria’s path toward *sukuk* has continued to be a challenging one as the recent controversy over the CBN’s relationship with **Islamic Liquidity Management Corporation (IILM)** has made clear (<http://www.businessdayonline.com/NG/index.php/news/76-hot-topic/30532-cbn-role-in-islamic-liquidity-management-corporation-under-scrutiny>) but we don’t think anything short of a civil war can slow its momentum. The reference to such a doomsday scenario is not hyperbole – a *majority Muslim nation* (like Nigeria) that can show Islam to be a source of wealth and revenue generation capable of serving an entire populace, regardless of creed or class may do more to strengthen confidence in a central authority (and in the process Nigeria’s decades-long struggle with federalism) than anything other than direct distribution of oil revenues.

That’s longer-term stuff, however as an interesting study in the *International Journal of Business & Social Science*, 2011, Vol. 2 Issue 10, by **Ibrahim Mohd Yussof** and **Mustafa Daud** on the perceptions of Nigerian youth, living in **Malaysia** – a leading Islamic banking nation – makes manifest.

In the short-term our eyes are on Senegal’s efforts elsewhere in Africa, connected with the **Central Bank of West Africa** (in French: *Banque Centrale des États de l’Afrique de l’Ouest, BCEAO*) on developing a regulatory and legal framework to facilitate *sukuk* issuance for the 8 nations of **BCEAO: Benin, Burkina Faso, Cote d’Ivoire, Guinea Bissau, Mali, Niger, Senegal, Togo**. If

the Senegalese issuance takes place in the first half of 2010, and successfully, it will change the world of finance.

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