PROSPECTS FOR A HARVEST

The seeds for a boom in Sharia-compliant investments and products in Africa are sown and pockets of strong growth are now emerging across the continent. **Lawrie Chandler**, managing director at **Edale group**, takes a look at the products, markets and providers that form part of this growing market

Africa is the second largest land mass in the world, three times larger than Europe and 24% larger than North America. This sheer scale is often quoted as an opportunity for many industries to grow in Africa. Africa is home to an under-banked and growing middle class where 53% of the population is Muslim, suggesting a huge market for Sharia-compliant wealth products.

Given national boundaries and demographics, the development of Sharia-compliant investments and wealth products has varied across Africa. Western Africa has a majority Muslim population with Nigeria, Senegal, Guinea, Mali and Niger the largest. Tanzania, Ethiopia and Kenya are the big prospective markets in the East, while on the Mediterranean coast, Egypt, Morocco and Algeria standout.

Islamic finance in Kenya

Kenya is east Africa's biggest economy and the Capital Market Authority (CMA) is putting the finishing touches to a broad 10-year strategy designed to boost capital markets and proposing a separate regulatory framework for Islamic financial institutions as part of this plan. Kenya has two fully fledged Islamic banks (Gulf African Bank and First Community Bank as well as the Islamic windows of several conventional banks), two Islamic collective investment schemes from Genghis Capital and FCB Capital as well as a Takaful operation (Takaful Insurance of Africa) which opened in 2011. Standard Chartered Saadiq, the Islamic banking arm of the group, opened its first Africa office and seventh Islamic banking centre in Kenya. Nowadays Kenya is a model of the breadth of Islamic wealth services that can be found in one market. Many of these firms are still young though the growing number of standalone Islamic providers shows commercial success can be achieved.

Gulf African Bank started operations as a commercial bank in January 2008, when the Central Bank of Kenya granted the country's first fully-fledged commercial banking licence as a dedicated Islamic bank. Abdia Adan Dabaso, corporate affairs and communication manager at Gulf African Bank, believes Islamic banking products are becoming increasingly popular across the Kenyan market, as both local and international banks begin to offer banking products that comply with the main tenets of the Islamic faith. Dabaso notes: "Islamic banking has proved over time that it is based on firm and sound economic principles and has a good potential for becoming an alternative system of banking, especially in view of the global financial crises. It is the fastest growing segment in the international financial system and its growth has generated considerable interest in the financial world in recent years. Sharia-compliant financial services providers will soon have a separate regulatory framework. Gulf African Bank plans to play a lead role in providing guidance." Douglas Wekhomba, CEO at Capitalmart Financial Advisory Service, agrees, saying: "It seems clear that the Islamic financial institutions will play an increasingly important role particularly in sub-Saharan Africa over the next decade."

Genghis Capital launched the first Kenyan Sharia-compliant fund in March 2013. A year on, the fund is now KSh29m ($0.34m) in size and invested across local market murabaha contracts and equities, with a 23% weighting to overseas assets. In designing the Iman Fund, Adnan Ganiwalla, unit trust manager at Genghis Capital, says: "Following screening the Sharia-compliant universe investable in Kenya was extremely narrow leading to a concentration risk that increased the products risk profile."

Genghis worked with the CMA, which granted the fund special exemption to the standard asset allocation rules. For example, the offshore cap is usually 10% and for the Iman Fund the cap was granted as high as 30%. Ganiwalla says: "Concentration risk is not something we wanted, being the first Sharia-compliant fund available in Kenya. The revised asset class limit has allowed us to construct a medium-risk portfolio, providing our clientele with a diversified portfolio." Such practical considerations show that the fortunes of Islamic wealth products are linked to the broader capital market framework in the country in which it operates.

Developments in Nigeria

On the western side of the continent, Nigeria's banking sector has been the fastest growing in Africa; it is also home to the largest Muslim population in sub-Saharan Africa, although it is one of the least developed for Islamic wealth and investment products. Jaiz Bank is the only fully fledged Islamic bank in Nigeria, opening with three branches in 2012 and currently having 10 branches. Stanbic IBTC, a subsidiary to South Africa's Standard Bank, operates an Islamic window. Lotus Capital is a full-service, ethical investment management boutique specialising in Sharia-compliant asset management, private wealth management and financial advice. The Nigeria opportunity is certainly one of the largest, though no clear practice has established to service the potential demand, but it will certainly be an interesting market to follow.

Sharia finance in South Africa

South Africa, with a low Muslim population but a sophisticated financial services sector, has one of the most developed Sharia-compliant mutual fund markets with a range of dedicated Sharia-compliant boutiques and mainstream offering investments to clients. Although the South Africa Muslim population makes up 1.5% of the total population, according to Pew Research Centre, it is often credited with involvement in 10% of South Africa's economic activity.

The asset management market in South Africa has over 10 unit trust and pension funds available locally from boutiques like Oasis Crescent Management, Element Investment Managers, Kagiso Asset Management and 27Four Investment Managers through to mainstream groups Old Mutual, Stanlib and Symmetry Multi-Manager. The independent adviser community is particularly active recommending Sharia funds to clients, while Al Baraka Bank, based in Durban, as the only fully fledged Islamic bank in South Africa offers its clients investment from the above groups.

The National Treasury in South Africa is looking to issue a Sukuk sometime before the end of 2014. A Sukuk is like an Islamic bond that is backed by an asset, such as property. The South Africa government is intending to issue a benchmark sized issue around $500m and the Islamic instrument will attract capital from the Middle East, helping to diversify their investor base. Over the next three years, South Africa has to refinance R154.9bn ($14bn) of debt so accessing new channels of capital will be important, especially as bond yields are expected to rise with US Federal Reserve's tapering and emerging market central banks raising interest rates to protect their currencies and tackle inflation. Sukuk issuance is likely from other African governments to help finance infrastructure projects.

Sukuk issuance is structurally beneficial for borrowers and also allows Africa investors to access a new Sharia-compliant asset. Adam Ebrahim, CEO of Oasis Crescent Management, a Cape Town based asset manager that offers Sharia-compliant investments, says that a South African government sukuk will be an important step in the development of the local Islamic investment industry. Sharia-compliant equity funds outnumber the availability of lower risk bond and income funds so a liquid Sukuk market would open the door to new wealth products to South African Muslim investors.

South Africa, Kenya and Nigeria all provide examples of Sharia-compliant investments and wealth products. Some of these groups have grown outside their local markets into international locations to continue their development. As wealth spreads across a wider demographic in Africa, the local market will experience big growth and more operators are likely to emerge. Additionally, we are now seeing international providers looking to Africa. Local, foreign and new firms will be looking to harvest this opportunity in the years to come. ■