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## Business National

### Islam and finance: the African challenge

As far as finance is concerned, Africa appears to be a forgotten continent. Closer observations show, however, that the picture is changing and that prospects are promising. Several factors have influenced the slow development of the Islamic financial markets throughout the African continent thus far.

First of all, there is the well-known, low average per capita gross domestic product (GDP), at \$1,137 in 2007. At first sight, this would seem to encourage efforts for micro-finance, but the level of such Islamic-compliant financing is relatively low and forms an area that should be further explored.

The relative unavailability of financial services also hinders faster expansion. The bank branches are widely dispersed and computers, Internet and Internet banking are often not available. Only 20 percent of the African population has a bank account. Thirdly, there is the level of illiteracy. It is rather difficult to persuade a barely schooled person to deposit his hard-earned cash in some bank account in return for a piece of paper that he cannot read and make him believe that the paper can be swapped for money again at any time in the future.

The lack of schooling not only plays a role at the customer level, but also makes it difficult for the financial institutions to find suitable, qualified personnel. The human resources problem that is well known throughout the fast expanding Islamic finance world is even more dominant in Africa.

Mostly because of the instability of the local economies, financial savings are generally allocated to immediate productive investment and easily tradable commodities (live stock, gold, etc.).

There also is a reluctance to entrust savings to financial institutions that in the past have proven to be non-stable or not trustworthy and fraud sensitive. To overcome this bias, even strong international market players will face serious obstacles.

Most insiders know that the physical roots of today's Islamic finance can be traced to the 1960s in Egypt (Mit Ghamr Savings Bank). However, the finance market of Africa has discovered the Islamic alternative only during the last decade or so.

This may sound surprising, since the absolute size of the economic production of Africa's 412 million Muslim inhabitants reached \$469 billion last year. To put this into perspective: this is on par with the combined GDP of Saudi Arabia and the United Arab Emirates, two of the most dominant economies of the Muslim world.

Assuming a banking penetration of 50 percent on overall GDP, there would be a potential market of \$235 billion for Islamic finance.

Today, around 37 Islamic financial institutions are operating throughout the African continent. The actual depth of their services was only \$18 billion as of the end of 2007, a market share of less than 8 percent of its potential size.

All over Africa, Albaraka Banking Group (ABG) has the most prominent presence, with total assets there estimated to be close to \$3 billion, mostly concentrated in Egypt. In comparison, Albaraka Türk has total assets of over \$8.6 billion.

Given the location of the Muslim population mostly in North Africa, the so-called Maghreb countries not surprisingly are frontrunners.

Egypt and to lesser extent Tunisia and Algeria are included in this group of countries. In 2007, Al Maghreb -- the central Bank of Morocco -- allowed conventional banks to offer leasing (ijara), mark up sales (murabahah) and partnership financing (musharakah). Morocco also became a member of the International Financial Services Board (IFSB) and thus confirmed its will to develop Islamic banking further.

Introduction of Islamic banking appears to have weakened there by the influence of the much contested Al-Azhar fatwa of 2005 that allowed banks to collect interest as long as it was not "excessive" or "usurious." Furthermore, political and regulatory authorities that were reluctant to import the more stringent Mashreq model (eastern part of Arab world), considering it too heavily weighted by political and symbolical values, hinder faster deployment.

The so-called Sub-Saharan countries (Gambia, Senegal, Niger, etc.) have less reluctant political and regulatory supervision and recently saw the establishment of several Islamic financial institutions, though still in a pilot phase.

The north part of Sudan heads the Islamic finance market with more than half of its assets, standing at almost \$14 billion. Egypt ranks second with only one-fifth of that volume.

In 2007, Sudan was the first African country to issue a sukuk (Islamic bond) for \$130 million, in order to finance a cement project on the River Nile.

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South Africa will probably prove to be one of the leading countries in developing Islamic products. The conventional banks are eager to introduce Islam compliant products for the local Muslim population, which stands between 700,000 and 1,000,000 people, and they would be interested in taking part in the worldwide growing sukuk market.

All in all, the Islamic finance world in Africa -- though still in its infancy -- is progressing in a steady and sustainable way. Globalization together with growing wealth and development offer bright prospects.

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### Key Islamic Economic and Financial Statistics Across Regions\*

Region	Shari'ah compliant financial assets (billion dollars as of year-end 2007)**	Islamic Assets per Muslim capita (in dollars as of year-end 2007 estimates)	GDP per capita (dollars year-end 2007 estimates)
GCC (Gulf)	178	5,235	17,639
Non GCC Middle East (exclusing North Africa)	173	812	4,095
Africa, of which	18	43	1,137
North Africa	6	38	2,334
South Africa	12	46	883
Asia Pacific	119	153	3,056
Rest of World	21	500	21,917
Total	509	344	7,634

\* Source: HASSOUNE, Anouar and SATEL, Adel; Islamic Finance Explores New Horizons in Africa; in Moody's Global Banking, Special Comment; March 2008

\*\*Includes banking and takaful assets, but excludes investment and mutual funds

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