

# Islamic Finance *news*

Exclusive Supplement

## *Supplements*

## **Nigeria: Striving to be Africa's Islamic finance hub**

**An exclusive interview with Shuaib Ahmed, Nigeria's ambassador to Qatar**

By IFN Correspondent, Dawud Abdus-Saboor



## Nigeria: Striving to be Africa's Islamic finance hub

**Nigeria has taken a number of steps to position itself as a frontrunner to become the Islamic finance hub for Africa, joining the ranks of Tunisia, Morocco, Kenya and South Africa in pushing forward legislation for Islamic finance and Takaful, and becoming one of the few African nations to issue Sukuk with the launch of the Osun State Sukuk last year. IFN Correspondent DAWUD ABDUS-SABOOR held an exclusive interview this month with SHUAIB ADAMU AHMED, the Nigerian ambassador to Qatar, to discuss his personal experience, and opinions on the nation's Islamic finance ambitions.**

**Congratulations on your 2013 appointment as Nigeria's first ambassador to Qatar. I know you were personally involved in establishing the first Islamic bank in Nigeria, Jaiz Bank. Could you tell our readers briefly about your background and involvement?**

Thank you very much for giving me this opportunity. I'm a chartered accountant by profession, a Fellow of the Institute of Chartered Accountants of Nigeria (FCA), and also a Fellow of the Association of Chartered Certified Accountants (FCCA). I have a Master's Degree in Business Administration and also I'm an alumnus of the Kennedy School of Government, Harvard

University. I began my working career with Akintola Williams & Co Chartered Accountants in 1986 in Nigeria. Around 15 years ago together with a couple of friends, we formed an accountancy and audit practice called Ahmed Zakari & Co which today is one of the biggest indigenous auditing and accountancy practices in Nigeria. I had a brief stint in the public sector with the Bauchi State Government in Nigeria. I was the commissioner for budget and economic planning for the state for about seven years, between 1999-2006; and was appointed secretary to the state government in December 2006. In August 2012 the president of the Federal Republic of Nigeria nominated me to

be Nigeria's first resident ambassador to the state of Qatar. I resumed duties in April 2013 in Doha, which is what I've been doing from that time until today.

As mentioned, I was a party to the setting up of Jaiz Bank and this was the very first Shariah compliant bank in Nigeria. Our firm, Ahmed Zakari & Co, decided in 2000 to begin conducting a series of international conferences and seminars to enlighten the public on the global trends in Islamic finance. We held our first conference in 2000 and in 2001 we had a follow-up international conference on 'Establishing a Truly Islamic Financial System in Nigeria – Setting the Agenda'. At the end of this second conference the participants unanimously said: "Why don't we do something to actualize this opportunity we're all talking about?" So it was resolved there and then to set up a committee that would work to actualize the creation of the first Islamic finance institution in Nigeria. I was made the secretary of that committee and the mandate was to try to bring together the different investor groups working separately to form Islamic banks in Nigeria at that time. There was a group trying to set up a bank called Halal Bank and there was another trying to set up another Islamic bank. So we were able to bring the two groups to the table to say: "Look, instead of dissipating energy and separately pursuing the goal, why don't we come together and pool all of our resources in one place and see whether we can actualize at least one bank immediately?" And so we were able to conceptualize the idea of Jaiz Bank.

First we set up a company called Jaiz International which we wanted to use as the umbrella for establishing Islamic financial institutions, whether Islamic banks or Takaful or asset management companies, as the case may be. We brought people together like Alhaji Umaru Abdul Mutallab, who is the current chairman of Jaiz Bank; we also made him the chairman of Jaiz International, and a couple of other reputable persons. I was on the board of Jaiz International and it was then that we started bringing together investors in the mission of applying for a license for Jaiz Bank.

At that time the minimum capital requirement for a banking license in Nigeria was just NGN2 billion (US\$12 million). While we were able to gather that sum of money for the application of the banking license for Jaiz to commence, suddenly the federal government of Nigeria decided to raise the minimum capital requirement to NGN25 billion (US\$150 million), more than 10 times the previous requirement. All banks, including the existing conventional ones, were forced to make up that minimum capital requirement.

So the whole scenario changed and it took us a couple of years working to marshal the needed resources to meet up with the minimum capital requirement. Luckily for us, in 2010 or so, the new Central Bank of Nigeria (CBN) governor, Sanusi Lamido Sanusi, as part of the reform of the banking system, decided that there should be some kind of differential between conventional banks and Islamic banks in terms of the minimum capital requirement. The Islamic banks are equity-based institutions and not debt-based as conventional banks are. So why should Islamic banks be asked to capitalize to the same level as the conventional banks. There was merit in the argument and the CBN subsequently reduced the minimum capital requirement

for Islamic or non-interest banks from NGN25 billion to NGN10 billion (US\$60 million) for a national license covering the whole country. A provision was also made by the CBN for a regional license at NGN5 billion (US\$30 million). That was what helped Jaiz Bank come on board, because we were able to muster the NGN5 billion to apply for a regional banking license to commence operations.

#### **So Jaiz Bank is in fully-fledged operations now – what is its current status?**

Jaiz is fully in operation. They started first with three branches, but towards the end of last year I think they added seven more and they're working towards getting a national license up from their current regional license so that they can operate in the 36 states of the Federal Republic of Nigeria.

#### **Nigeria's population is estimated at 170 million, of which 50-55% are Muslim. The Muslim population of Africa is expected to reach 400 million by 2030. This suggests a huge market potential for Islamic finance in Nigeria. From the standpoint of demographics could you discuss the opportunities for Islamic finance in light of some of the more significant challenges such as the current state of an under-developed infrastructure?**

We have the largest population in Africa at over 170 million currently and almost 90 million of those are Muslims. We have a very high population growth rate of almost 2.4% per annum. So it's been projected that by 2050 we'll have a population of about 287 million people and we'll probably be the sixth-largest country in the world. So in terms of population and demand for Islamic financial services Nigeria, has what it takes – we have the demand for those types of services. One of the challenges that the Nigerian economy is facing right now is that of infrastructure deficit. It has been projected that the infrastructure deficit is in the region of almost US\$320 billion and this cuts across all sectors of the economy. If you look at power, for example, we're generating currently just about 4,000 megawatts for a population of over 170 million, which translates to about 22.8 watts per capita, compared to South Africa that has about 1,000 watts per capita. Almost 40% of Nigerians are living without electricity, so there is huge demand for funding for the power sector.

If you look at the railways, the Nigerian railway system is quite obsolete. For example, in 2012 the Nigerian railway system carried only 0.5% freight compared to the global average of 46%. Similar statistics go for passenger traffic. So there is a huge unmet gap in the provision of rail services. The rail tracks also need modernization; so there is huge demand for investment finance in that sector. If you also look at roads, again we have just about 193,000 km of road network for a huge country with a large population, compared to South Africa that has about 360,000 km.

So there is also a huge demand for investment finance in the road sector. If you look at air transportation we have the same problem. We have just about 25 or 26 airports for a population of 170 million people compared to about 500 airports in South Africa for a population of 52 million. So we need to have more airports constructed. The operating airlines also need funding to acquire new aircraft as most of the aircraft flying the Nigerian



airspace are old. We have a housing deficit of around 17 million housing. So there is huge demand for funding in this sector also.

This is all for new infrastructure. We then need to also consider that a lot of the existing infrastructure that we have are old and therefore need upgrading/rehabilitation – existing water treatment plants, power generating stations, airports etc. – all need upgrading and renewal.

And then we also need to look at the huge infrastructure demand as a result of urbanization. Nigeria has one of the highest rates of urbanization in the world, at about 5% per annum. So there is continuous demand for expanding infrastructure in major cities. All these factors coupled with the fact that the current leadership in Nigeria is working hard to surmount them through the federal government's 'Transformation Agenda' indicates that there are huge opportunities for Islamic finance because the existing conventional banking system cannot measure up. In fact the nature of the conventional banking system in Nigeria is that they only lend short-term and you cannot use short-term funds to finance infrastructure – you need long-term funds. So that is why Islamic finance will be very handy for the Nigerian economy.

**Investment in infrastructure lends itself to talking about Sukuk. In the past few years, in addition to Nigeria, South Africa, Senegal, and Mauritania have all announced their intention to come to the market with Islamic bonds. We know that the Osun State in Nigeria recently floated the**

**country's first Sukuk and even though relatively small at US\$62 million, globally speaking, this signaled the start of a trend. Are you aware of plans for other states in Nigeria to follow this trend with sovereign or quasi-sovereign Sukuk issuance?**

The Nigerian government has been trying to see to it that the Nigerian capital market is made internationally competitive further deepened with a variety of equity and debt products and they've identified Sukuk as one of the instruments needed to do that. To that effect, about two years ago the federal government set up the Joint Committee on Alternative Finance comprising representatives of the CBN, the Securities and Exchange Commission, the Debt Management Office, the Infrastructure Concession Regulatory Commission (ICRC), and the Federal Ministry of Justice. They also had one of the private sector players in Islamic finance, Lotus Capital, as part of the team. Coincidentally, Ahmed Zakari & Co was the local consultant to that committee and I participated quite a lot in the work of that committee. That committee still exists. We undertook study tours to Dubai and Malaysia to go and actually see a lot of projects that were financed by Sukuk finance and to hold discussions with some of the transaction advisors like HSBC, CIMB Malaysia, Standard Chartered Bank (Saadiq), legal consultants etc., just to further understand the benefits of Sukuk and how we could go about issuing, whether sovereign or quasi-sovereign Sukuk, and how we could develop the appropriate regulatory framework for issuing Sukuk.

The committee's report was submitted to the federal government last year and one of the key recommendations of

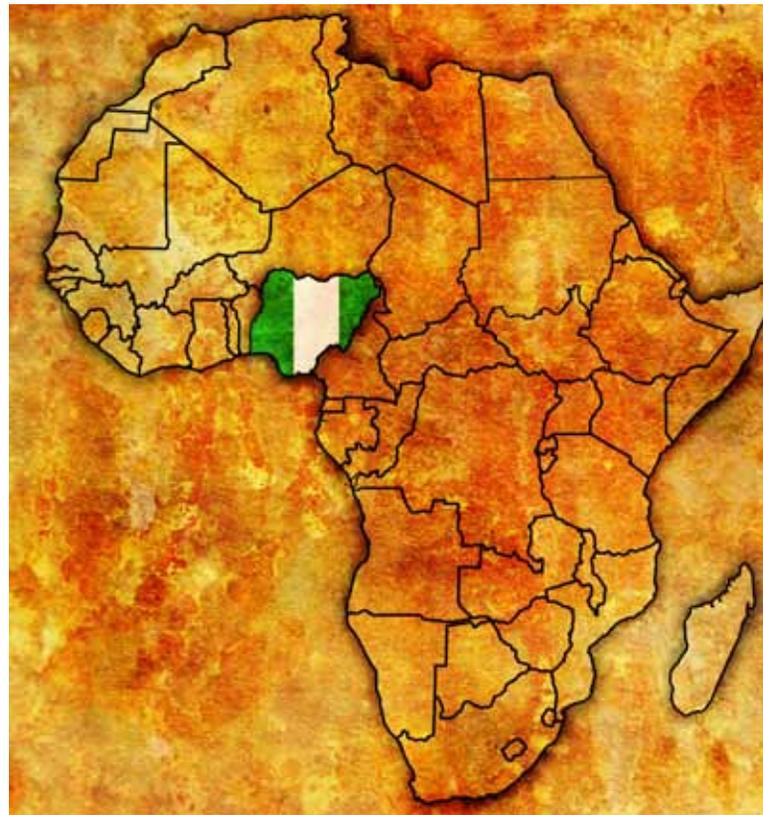
the committee was the need for Nigeria, as a country, to issue its first sovereign Sukuk. A number of projects were identified as potentials for being financed from Sukuk proceeds. Even the Sukuk structures to be used were designed and recommended by the committee. The committee has also been working to encourage state governments to raise their infrastructure funding requirements from Sukuk issues. Actually the Sukuk that the Osun state recently issued which you mentioned earlier came about as a result of the work of this committee. The committee is also trying to encourage other state governments to follow suit, and I believe that Lagos State is considering the possibility and so also is Ogun State. Northern states like Kano are also looking at the possibilities. The committee is also encouraging some corporate players to explore the possibility of issuing Sukuk. So I believe hopefully during 2014 we should see more Sukuk issuances being made by either the sovereign itself or quasi-sovereign or sovereign related entities. Corporate institutions might also come up with some Sukuk issues in 2014.

“ **It’s very, very important before Islamic financial institutions come on stream that the regulatory framework is put in place. It’s very, very important for both the investors as well as the customers to know what are the rules, what are the guiding principles** ”

**Is Islamic finance only for Muslims? What’s your take on this?**

The committee was not only chaired by a Christian, but quite a number of persons in that committee were also Christians, including the secretary, just to show you the way that the Nigerian community perceives it. It’s not just a Muslim affair. We feel that it has potential benefits for the economy and we should not only look at it from the religious perspective. I can also tell you that a large segment of customers of Jaiz Bank are Christians – not Muslims. The Christians, who are patronizing Jaiz Bank, if you know Nigeria, are the LBO (Leveraged Buyout) traders. So I think that the bottom line is that we should just look at Islamic finance or non-interest finance from the perspective of the benefits for the individual and the economy as a whole. And I think that is the way it has so far played out.

Just to add, in the regulatory guidelines you don’t find terms like ‘Islamic banking’. Instead ‘non-interest banking’ was used because we try to avoid the words ‘Islam’ and ‘Shariah’ as much as possible. In the final analysis what matters is the substance, and not the terminologies.



**Let’s talk a bit more about regulatory framework. We salute Nigeria for its pro-active stance in developing the regulatory framework for Islamic finance. Three developments are noteworthy of mention: (1) The Guidelines for the Regulation and Supervision of Institutions Offering Non-Interest Financial Services [which includes Islamic financial institutions] published by the CBN; (2) The Operational Guidelines 2013 Takaful-Insurance Operators published by the National Insurance Commission; and (3) The Central Bank of Nigeria is part of a diverse group of founding shareholders of the Malaysia-based IILM which is comprised of central banks, monetary agencies, and a multilateral institution – the IDB. Politics aside, what advice can you offer other African jurisdictions, especially those vying to become centers of Islamic finance, towards enhancing their regulatory frameworks in support of the industry?**

First of all, I must stress that it’s very, very important before Islamic financial institutions come on stream that the regulatory framework is put in place. It’s very, very important for both the investors as well as the customers to know what are the rules, what are the guiding principles. Secondly, it’s also important to look around and learn from the experiences of other countries. It’s pointless trying to reinvent the wheel! There are countries that have gone very far in terms of Islamic finance practices – Malaysia, for example, and even in the non-Muslim societies such as the UK. The UAE is another example where they’ve put a regulatory framework in place.

Learn from what they’ve done. Learn from their mistakes, and then try to adopt or design for yourself what best suits your own peculiarities. That is why I mentioned that the Nigerian

Joint Committee on Alternative Finance undertook study tours to Dubai and Malaysia to not only see the projects funded from Sukuk, but also to see the kind of framework they've put in place and discuss with them to hear the challenges they've faced, what mistakes they've made, and how they've solved those mistakes.

Another important thing is for those jurisdictions to try and bring all the stakeholders to the table. Not just the central bank going to one side and quietly coming up with the framework then just releasing it to the system. It's important for them to bring to the table both conventional bankers, Shariah scholars, customers, other regulatory agencies like the Securities and Exchange Commission etc.

Another important thing is that there are some international institutions that are there to assist, such as the IILM, the IFSB, AAOFI, etc. I think that these international bodies can help jurisdictions in developing their own regulatory frameworks.

**“ Islamic finance is just growing by the day, by the hour. So Nigeria cannot be an exception – it's bound to happen. The opportunities are there for the taking because people are becoming more and more aware of the benefits of Islamic finance ”**

**In many countries, and we include Nigeria in this assessment, the level of awareness and understanding of Shariah compliant products is significantly low. Some suggest that the onus for educating the public lies with the financial institutions, while others suggest that the burden lies with Shariah scholars, and we've recently heard it stated that the CBN is deploying the mass media to enlighten the public. How do you view this problem and what initiatives would you suggest to improve the level of awareness?**

There is a need for mass awareness for members of the public, both on the benefits of the institutions that are coming on board and the products they are bringing to the market. It has to be a collective effort. It's not something that should be left to one entity or one institution to do. The regulatory authorities have a role to play in educating the public and other players in the industry. The scholars (both in the mosques and in the schools) have a role to play. I think also that the professional firms have a role to play and also players in the industry like Jaiz Bank. The more they educate the public, the more the awareness is made and the more customers they get – both in terms of deposits and lending. So I think it's crucial for them to embark

on such mass awareness campaigns. In the case of Nigeria, all of these things are taking place. The players are engaged heavily in mass enlightenment; the regulatory authorities are always organizing conferences and seminars to educate the public. The bottom line is that it's a collective effort and everybody has a role to play.

Today's technology of smartphone applications and social media also helps with new ways to reach consumers. I've received text messages from Jaiz Bank. Nigeria is one of the biggest telecoms markets in Africa with over 120 million subscribers. You can do wonders with the phone in terms of public enlightenment.

**How do you approach the problem of the gap in skills? Do you think enacting new standards would be a good idea for countries such as Nigeria where the future seems to indicate that Islamic finance will evolve from being just a niche offering into being part of the mainstream financial service landscape?**

This is one of the biggest challenges that the Islamic finance industry in Nigeria is facing, and like you've mentioned it is virtually global. Islamic finance is relatively new so there is a shortage of qualified personnel. It would be easy for us to merely impose minimum qualification standards for employees of these Islamic finance institutions, but I don't subscribe to this in the short-run. In the long-run I do, but I feel strongly that there's a need for more Islamic financial institutions to come on-stream, so we need to do with whatever is available in terms of staff and as much as possible continuously train these staff.

In the beginning, before newly recruited staff get to start work I've seen institutions take them on a three-month orientation program to put them through the basics of Islamic finance and the products they will be marketing. Also, one important thing that the regulatory authorities in Nigeria have done is to insist that both an Islamic banks and Takaful companies must have an overseas technical partner who is a practitioner in that field. This is because the regulatory authorities have recognized that there are no practitioners in Nigeria – we're only just starting Islamic finance. The best thing is to get people who are already in practice overseas who have been there for the last five, 10, 20 years and take them in as your technical partners.

For example, Jaiz Bank has as its technical partner the Islami Bank Bangladesh (IBBL). The CEO of Jaiz Bank is from IBBL. His other supporting staff, like the executive directors, are Nigerians. This allows them to learn over a few years the 'nitty-gritty' of the practical implementation of Islamic finance before they can then take over the role of CEO etc., as the case may be.

I have also recently seen some of the universities in Nigeria, like Bayero University in Kano and Ahmadu Bello University in Zaria, introducing courses in Islamic banking and finance into their curriculum. So in the next two to three years they'll start having graduates or diploma holders in Islamic banking and finance who'll be available for the industry. Then of course there are a lot of short courses overseas – two-day seminars – and I have seen a lot of the Nigerian institutions sending their staff to some of these overseas seminars and at times they organize some of these locally. So you see this is something

that is continuous. At the moment I don't think that it is time for us to impose any minimum qualification criteria for staff working in Islamic financial institutions especially in countries just starting like Nigeria.

**What do you see as the future of Islamic finance in Nigeria?**

The future of Islamic finance in Nigeria is extremely bright. As we said earlier, the prospects and potentials are there. We have a huge population which is growing by the year, which means that the demand side has been taken care of. Secondly, the infrastructure deficit that we spoke of earlier shows that there is a huge financing need – by the sovereign, quasi-sovereign, and by the corporate institutions – there is a huge demand for funds to finance all of these needs.

So I believe Sukuk, for example, has tremendous potential. And then there are certain policies that the government has adopted that have further opened up the opportunities for Islamic finance in Nigeria. For example, take the group life insurance coverage, where the federal government said that every employee must be insured – compulsory coverage. A large chunk of these employees are Muslims who are already saying to their employers that they want Takaful. So the market is opening up for Takaful business in Nigeria.

Also the federal government in Nigeria recently introduced a number of reforms in the financial system such as pension reforms. With these taking shape, the pension fund administrators have huge amounts of money in their hands – at last count they had about NGN3 trillion (US\$18 billion) in pension funds and they are looking for investment opportunities. Because pensions are long-term they're looking for long-term investment areas to put this money to work. So Islamic finance instruments like Sukuk are definitely something that will be a welcome idea for them.

And of course globally, Islamic finance is just growing by the day, by the hour. So Nigeria cannot be an exception – it's bound to happen. The opportunities are there for the taking because people are becoming more and more aware of the benefits of Islamic finance, both Muslims and non-Muslims. They are literally asking for these Islamic finance products. The potential is huge, the opportunities are there and I don't have any doubt that Nigeria will become the hub of Islamic finance in Africa. 😊

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