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ISLAMIC FINANCE

SUKUK FOR SENEGAL

With a 95% Muslim population, political stability and growing links with the Gulf States, the country has high hopes of becoming a continental hub for Islamic banking

SHARIA-COMPLIANT LENDING COULD ATTRACT BILLIONS MORE IN INVESTMENT TO BUILD UP SENEGAL'S INFRASTRUCTURE

When Senegal issued a 100bn CFA franc ($168m) sovereign Islamic bond in June 2014, it beat economic giants Nigeria and South Africa to market and began a race to create a hub for Islamic finance in Africa. Following Senegal's Islamic bond, or *sukuk*, Nigeria, Niger and Côte d'Ivoire have also expressed interest in developing a sharia-compliant sector of the market in a bid to attract investment from the Gulf states.

Senegalese officials are optimistic about the country's prospects. "We have a dynamic financial centre in Dakar," says Alioune N'Diaye, the finance ministry's director for money and credit. "We have an Islamic bank in Senegal, the *Banque Islamique du Sénégal*, we have the advantage of a good relationship with the Islamic Development Bank (IDB) and we are the first country to explore these opportunities in the region. We have a population of 95% Muslim people as well. It has been a long time in planning, but we think that we can be a hub for Islamic finance in Africa."

Traditionally, Senegal has looked towards the West for loans, borrowing from lenders such as the World Bank, the International Monetary Fund and France. In 2011, Senegal issued a $500m eurobond, marking a change of course in its borrowing patterns. But with a gradual readjustment of tax and other laws to be able to accommodate sharia-compliant financial instruments and growing ties with Gulf states such as Saudi Arabia, Kuwait and the United Arab Emirates, Senegal could become a prime destination for Arab investors who are looking for higher returns on their money.

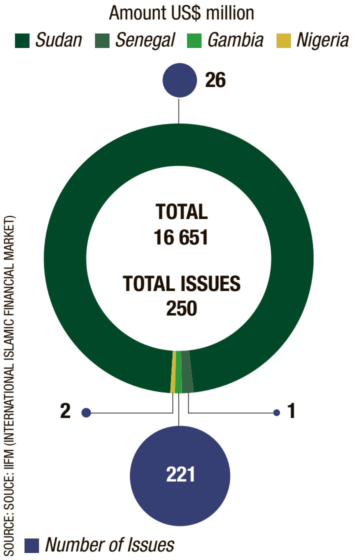
RESILIENCE

"We saw that the Gulf countries had an excess that they wanted to invest but in a sharia-compliant way," says N'Diaye. "To attract this investment, we set up sharia-compliant instruments. With the debt crisis in Europe, we saw that Islamic finance was more resilient. The 2008 financial crisis was due to speculation, so we can see that Islamic finance is more attractive."

Islamic financial instruments take into account basic investment principles set out in Islamic law, or sharia. These include not charging interest, not investing in sectors forbidden by Islam, investing in a tangible asset and the sharing of profit and loss between the lender and borrower. In Senegal's case, the 2014 *sukuk* used the finance ministry's administrative building as the asset in which to invest.

Senegal's stability is what makes it an attractive investment opportunity for Arab countries, says Mouhamadou Lamine Mbacké, the managing director of the Dakar-based *Institut Africain de la Finance Islamique*, an advisory and training organisation that has worked with the government on developing Senegal as a centre for Islamic finance. "West Africa is a natural destination for Islamic finance. And in West ●●●

SEEKING SUKUK



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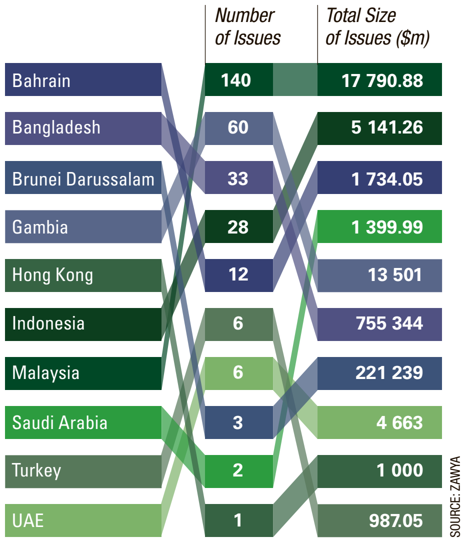

●●● Africa, Senegal is probably the most stable country. I think we can attract a lot of direct investments."

Mbacké argues that there is a cultural shift happening in the region, with countries such as Senegal throwing off their traditional connections and turning instead to countries with whom they share ideological principles. The launch of the *sukuk* gave Senegal a huge amount of publicity in the Gulf and has opened the doors for investors in other areas of Islamic finance.

"I don't think that Senegal is very well known as far as investors in Islamic finance are concerned, because it is more the English-speaking countries [that are known]," says Mbacké. "But the *sukuk* gave a lot of attention to Senegal. I think from the issuance of the *sukuk*, many Islamic finance investors are now coming to Senegal."

ENTHUSIASTIC LENDERS

According to the government, which in 2014 launched its five-year *Plan Sénégal Emergent* (PSE) to grow Senegal's economy significantly by 2018, Arab investors are now one of the main lending groups in the country. At the PSE meeting in Paris in 2014, at which donors pledged 3.7trn CFA francs of new money to help Senegal with infrastructure development, 38% of the money promised was from Arab investors. "The IDB pledged 550bn CFA," says Moustapha Ba, the director general in charge of finance at the ministry of finance, "and after one year we have received 182bn CFA francs of that money. The IDB is now the main lender in Senegal. There is a very strong trend towards non-traditional Arab lenders."

But while Senegal seeks to position itself as sub-Saharan Africa's first choice for Arab investors on the continent, obstacles still remain. "You need a regulatory framework for Islamic finance to take place so that investors are not disadvantaged from a taxation standpoint," says Samira Mensah, a financial services analyst specialising in Islamic finance at Standard & Poor's. "Senegal used the existing conventional regulation of the *Union Economique et Monétaire Ouest Africaine* as well as regulation specifically introduced by the ministry of finance to be able to issue the sovereign *sukuk*. Senegal hasn't yet met the conditions to become an Islamic finance hub. They need time to develop Islamic finance alongside conventional finance and to deepen the offer of Islamic instruments, otherwise investors won't buy into it."

However, Mensah says, Islamic financial instruments such as *sukuk* are suited to the Senegalese economy. "The idea of issuing the *sukuk* was to develop infrastructure projects, so this is a very good fit. Africa in general is a good fit for Islamic finance. To develop infrastructure you need long-term funding and to diversify your funding base, and to provide investors with investment opportunities. To issue *sukuk*, you need real estate assets, and Senegal has plenty of land which is not yet developed. It is a perfect match."

Mbacké agrees: "Investing in [sub-Saharan Africa] is more profitable than investing in the Western world because the cost is lower, the return is higher and everything has yet to be done in Senegal." Mbacké's organisation has its sights set on opening an Islamic bank in Senegal and will begin by starting an Islamic microfinance institution later this year to provide small businesses with sharia-compliant loans. "Microfinance is a big industry," he says, "but interest rates are going over 30%. We think that Islamic finance is the solution because there are no interest rates and also because we finance assets, not money. We think that Islamic finance will keep the advantage of the conventional microfinance and that it will take away the bad parts, which is the interest rates." If, after two years, he says, the microfinance institution is going well, they will look for investors to start a bank.

MORE BONDS TO COME

One Senegalese microfinance institution has already had some success. *Le Millénium Compagnie Islamique du Sénégal* started off under another name in 2002 and had 14 outlets and about 7,000 customers by 2011.

According to Standard & Poor's, worldwide *sukuk* issuance could reach $115bn in 2015, with Malaysia and Saudi Arabia leading the market. In March, Senegal's President Macky Sall said the government would sell $500m of standard bonds in the international market and could issue more Islamic bonds to help finance the budget. In April, the government voted in a law to allow *waqf*, or funds that distribute resources for social projects. The Senegalese government is also in the process of launching a project with the IDB to modernise the country's *daaras*, or Koranic schools.

> The *sukuk* is a perfect match for Senegal, which needs long-term funding and has tangible assets

"We are thinking about complementary ways of diversifying our economy," says money and credit director Alioune N'Diaye. "Conventional finance has its place and will keep that place, but we will also have the opportunity to use Islamic finance. Islamic finance is a really dynamic force today, which we hope will bring results." ●

Rose Skelton in Dakar