

# Nigeria Islamic finance keeps getting better



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After the remarkable success of the country's sovereign Sukuk in 2017, there were high expectations of Nigeria's Islamic finance market at the turn of the new year. So far in 2018, the Nigerian market has delivered on these expectations, with improved investor awareness, increased regulatory development and advances in pipeline transactions.

## Review of 2018

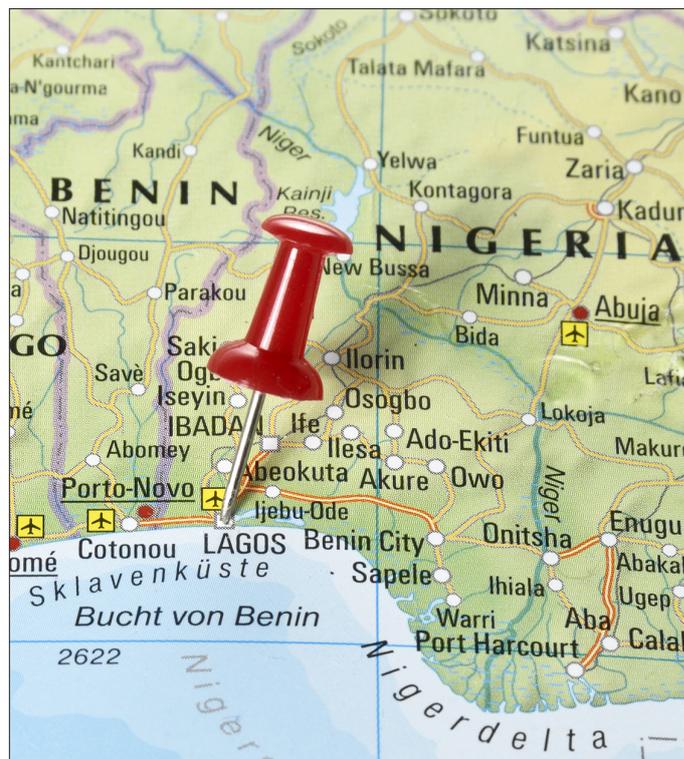
In the first quarter of 2018, the Central Bank of Nigeria (CBN) expanded its prominent Commercial Agriculture Credit Scheme (CACS) to accommodate Islamic banks, nine years after the scheme was first introduced. Under the new provisions, Nigeria's Islamic banks, through the intervention of the CBN, now provide agricultural enterprises and small-scale farmers with Shariah compliant credit facilities at concessionary rates.

Further in the first quarter, market tempo was elevated when the Islamic Corporation for the Development of the Private Sector (ICD) entered an agreement with three local institutions to provide Shariah compliant financing of US\$50 million to small and medium sized enterprises (SMEs) in the country. These developments expanded the scope and competitiveness of Islamic banks and led them off to a good start in the year.

The positive sentiment rolled into the second quarter, when in April, the Governor of Nigeria's largest sub national territory, Niger State, announced plans for a NGN21.5 billion (US\$59.5 million) Sukuk to construct hospitals, roads and other social infrastructure. Although the issuance was stalled by the State's legislature, it nevertheless served to confirm the growing appetite for Islamic finance instruments. Soon after in the second quarter, the appetite for Islamic finance instruments was further evidenced when the National Pension Commission implemented its long awaited "multi-fund" structure, allowing pension administrators more flexibility to manage pension assets in line with contributors' unique circumstances. The multi-fund structure is widely considered as a precursor to the eventual establishment of a Shariah compliant pension fund in the near term.

An equally eventful third quarter sustained the momentum in Nigeria's Islamic finance space when the CBN took a shot at global convergence of its Islamic banking guidelines. In September, the Central Bank of Nigeria (CBN) exposed draft guidelines for Islamic banks guided by IFSB standards and Basel II/III. The draft document prescribes guidelines for computing and determining capital adequacy, operating profit equalization reserves (PER) and investment risk reserve (IRR) for profit smoothing as well as disclosure requirements for contract-specific risks and Shariah governance in Islamic banks.

Following an eventful nine months, the final quarter of 2018 did not disappoint. In October, the Federal Government of Nigeria announced plans to issue its second sovereign Sukuk, which would be used to part fund its NGN1.95 trillion (circa US\$5.4 billion) budget deficit. Similar to the previous Sukuk, the Federal Government intends to raise a NGN100 billion (circa US\$274.71 million) Sukuk to finance road construction and rehabilitation across the country. The first sovereign Sukuk was well received by the Nigerian public largely due to the level of transparency in fund utilization and the



direct impact the funded roads had on improving travel safety and reducing travel time. Ahead of the general elections in 2019, the Federal Government is now pressed to complete several ongoing infrastructure projects and has therefore looked once again towards Sukuk issuance. With the proposed second issuance by the Federal Government, Sukuk will no longer be a novelty in Nigeria but an established means of infrastructure financing.

## Preview of 2019

Nigerians head to the polls in the first quarter of 2019 and the country is expected to continue its run of peaceful elections since returning to democracy two decades earlier. A peaceful close to the elections should usher in renewed consumer confidence and spur demand for Shariah compliant savings and investment products from domestic and foreign participants. Infrastructure investment by the government and private sector should create opportunities for Sukuk issuance particularly in the recovering real estate sector.

There are also strong prospects for the creation of commodity-linked Shariah compliant liquidity management products with the growth of the agriculture sector and recent advancements by local commodities exchanges. Industry participants are expected to increase their adoption of financial technology to improve product distribution particularly to the country's remote and rural population.

While this is more than enough for an exciting 2019, should the National Pension Commission approve the establishment of an exclusive Shariah compliant pension fund, that would drive compliant asset creation to new highs.

## Conclusion

In the last two years, Nigeria's Islamic finance momentum has quickened. With the recent increase in awareness, acceptance and operators' capacity, the industry's growth should become more pronounced as there is still significant scope for customer acquisition and product innovation. ☺