ISLAMIC FINANCE: The Answer to Financial Inclusion In Nigeria

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The Lotus Capital Story

• Lotus Capital is the pioneer Islamic financial institution in Nigeria and registered with the Securities & Exchange Commission.

• Our mission ‘to provide alternative ethical investment solutions’

• Lotus Capital launched the 1st Shari'ah compliant mutual fund in Nigeria in February 2008 (The Lotus Capital Halal Fund).

• Lotus Capital Halal Fund was the best performing fund in Nigeria 2008 and year to date 2009.

• The Halal Fund is the 1st Shari’ah complaint fund approved for memorandum listing on the Nigerian Stock Exchange.
Nigerian Stock Exchange All-Share Index and Lotus Capital Halal Fund YTD 2009

Lotus Capital Halal Fund

NSE All Share Index

Lotus Capital

ETHICAL INVESTMENTS
The World Economy Today

- Conventional finance has exhibited weaknesses in recent times
- The global financial crisis has led to a re-evaluation of economic and financial models
- Islamic Financial Institutions have demonstrated resilience in the face of the global financial crisis relative to their conventional counterparts
- Islamic finance is considered a viable alternative to the conventional interest-based system
- Islamic Finance is no longer considered a Muslim only alternative
- Islamic Finance is the fastest growing financial sector in the world (15% per annum) - IMF
Why Islamic Finance in Nigeria?

• Nigeria has the largest population in Africa with estimated figure of 140m

• At least 50% (70m) of the total population in Nigeria are Muslims. Compare this with the Muslim populations of the UK (2m), the US (6-10m) and South Africa (1.5m).

• Surveys show that 30% of Muslims desire Shari’ah compliant financial products and another 50-60% will use them if they are price competitive (representing between 21-60 million people)

• The West African region and specifically Nigeria represents an exciting growth market that should not be ignored
Bases of Islamic Financial Contracts

- Sharing
- Sale
- Lease
Classical Contracts in Islamic finance

Debts
- Murabaha
- Ijarah

Equity
- Mudaraba
- Musharaka
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What are the Access to Finance Statistics?

- According to EFInA’s recent survey on Access to Financial Services in Nigeria (2008):
  - 74% (approximately 68 million people) of the adult population in Nigeria are unbanked
  - Only 21% (18 million people) are currently banked
  - 5% (4 million people) are previously banked, but have left the banking system
What are the Access to Finance Statistics?

Use of financial products in Nigeria

- Islamic Loan: 1%
- Islamic Financing Investment: 1%
- Vehicle finance: 2%
- An Overdraft: 2%
- Mortgage or Housing Loan: 2%
- Loan from a Bank: 3%
- Valu card: 7%
- Fixed Deposit Account: 11%
- Credit Card: 12%
- Debit Card: 16%
- Current Account: 37%
- ATM Card: 64%
- Savings Account: 92%

Source: Access to Financial Services in Nigeria; National Survey 2008 (EFInA)
Northern and Southern Nigeria population of financially excluded

Source: Access to Financial Services in Nigeria; National Survey 2008 (EFInA)
What is being DONE in Islamic Finance?

- Central Bank of Nigeria recently issued a draft framework for Islamic Banking which is currently being reviewed.
- Approximately 6 out of the 24 banks in Nigeria have applied to the Central Bank for Islamic Banking licenses (Islamic bank branches).
- A commercial bank in Nigeria has acquired Arab Gambian Islamic Bank.
- The Insurance Act in Nigeria is currently under review for the inclusion of Takaful and Re-takaful.
- Jaiz Bank is in formation.
- Lotus Capital is offering Islamic investment products.
The Islamic Finance Solutions to Access To Finance

- NON-INTEREST BANKING
- ISLAMIC MICROFINANCE
- TAKAFUL: Islamic Insurance
- ISLAMIC ASSET MANAGEMENT
- SUKUK: Islamic Bonds
Sukuk: The contracts mentioned can be used to structure Sukuks (Bonds) to finance developmental projects.

**Definition:**

- **Sukuk is representation of assets in negotiable securities - Islamic Bond.**

- "Certificates of equal value representing common shares in ownership of tangible assets, usufruct and services or (in the ownership of) the assets of a particular project or a specific investment activity”

AAOIFI
Benefits of Sukuk

- Islamic Bonds (Sukuk) can reduce the fiscal deficit even if revenue receipts decline and expenditures increase. The revenue generating Sukuks, such as Transportation, IPP etc can be financed without burden to Government.

- Financing by Sukuk is tied to real and permissible Assets/Projects, thus it increases development & economic activities

- Sukuks attract both local and Foreign Direct Investments, especially in the Arab/gulf region which is not ordinarily available to interest-based bonds.

- Increased marketability of the Sukuk relative to conventional bonds

- Sovereign Sukuks are succeeding where conventional bond auctions are failing

- Sukuks are required for the success of Islamic Financial institutions
Sukuk - Bond

Who can issue Sukusks

1. Government (Municipals/States/FG)
2. Corporate Organizations

Assets for Sukusks

1. Developmental Projects - Housing, Schools, Hospitals,
2. Revenue Projects - IPP, Toll Roads, Transport, Markets, etc
3. Services - Sewage collection, Postal, Tel etc
Federal Government Sukuk Case Study

Ijarah Sukuk for Power Plant

1. Federal Government Mandate for Sukuk
2. Arrange the Sukuk structure and get Shari’ah board certification
3. Sukuk certificates sold to investors (Local & Foreign)
4. From proceeds, Power Plant is constructed & delivered
5. Sukuk is listed on the NSE to provide liquidity
6. Sukuk holders are paid back from concession, revenue generated from the Plant and/or government revenue
7. Result is Federal Government delivered its project; the budget deficit is financed and investors get a profitable shari’ah compliant investment
Federal Government Sukuk Case Study

Structure of Ijarah Sukuk

For the Proceeds

1. Creation of SPV who will issue Sukuk for Subscription
2. Receive Subscription Proceeds for Sukuk Holders
3. SPV/Issuer Issues Sukuk Certificate to Sukuk Holders
4. Agency Agreement signed by Government and SPV
5. Agent (Government) construct (Make to Construct) the Assets
6. SPV Offers Asset to Government for usage
7. Government uses the asset.
1. Government (as agent) receives Rentals from usage of Usufructs, periodically
2. Government remit the rentals to the SPV
3. SPV pays Sukuk Holders, the rentals which comprise the portion of Principal and the Profit Margin until fully paid within tenure.
4. SPV Transfer the Asset to the Government as Beneficiary
Demonstrating the global investors’ appetite for Sukuk

- Emirates Airport Sukuk, Dubai
- Zam Zam Towers Sukuk in Mecca
- Chelsea Barracks, London, UK (£2.5 billion)

- First ever Sovereign Sukuk issued in Indonesia in April 2009
  - The initial offer size was **US$650 million**
  - The Sukuk was 723% subscribed (US$4.7 b)
  - Subscription to the Sukuk by region was:
    - Asia 32%  Middle East 30%
    - US 19%  Europe 11%
    - Domestic Indonesian investors 8%
  - This deal occurred in the same period that UK Treasury auctions were unsuccessful
Conclusion

- **Islamic Finance promotes economic growth** through its developmental & social benefit focus and more equitable contracts

- **Islamic Finance present an opportunity to harness the money held outside the financial system due to the avoidance of interest**

- **Islamic finance is a major factor required to bridge the access to finance gap in Nigeria**
Thank you for listening
Contact Us

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