



BANK OF MAURITIUS

Islamic Finance in Africa

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Islamic Finance in Africa

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The Global Islamic Finance Industry

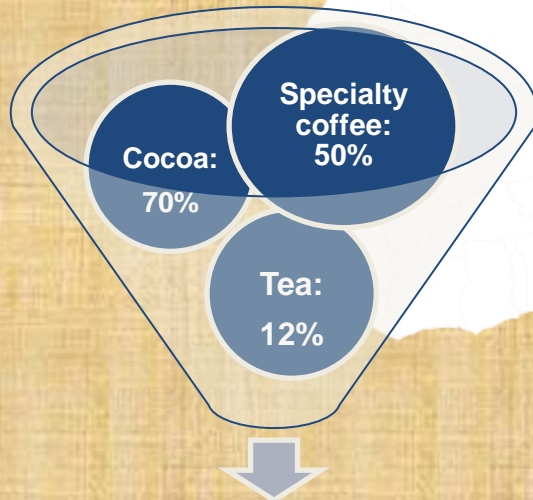
- Islamic Institutions growing at twice the rate of conventional banking businesses
- Assets estimated at over 1 trillion US dollars
- Issuers and investors looking for a new model
- Sharia-compliant products - a new asset class

The seal of the Bank of Mauritius is a large, faint, circular emblem in the background. It features a central figure, possibly a bird or a crest, surrounded by horizontal lines. The words "BANK OF MAURITIUS" are inscribed around the top inner edge of the seal, and a decorative ribbon or scrollwork is at the bottom.

Africa – Land of Contrasts & Paradoxes

WEALTH OF AFRICA

% OF WORLD PRODUCTION



GLOBAL MARKETS

MARINE PRODUCTS

DEMOGRAPHICS

**>500 Mn people
of working age
(15-64)**

% OF WORLD RESERVES

Platinum:	88%
Manganese:	85%
Phosphate:	85%
Chromium:	84%
Cobalt :	49%
Bauxite:	40%
Diamonds:	60%
Gold:	40%
Crude:	10%
Natural Gas:	~8%
Copper	5%

AFRICA / BRIC COUNTRIES: TREMENDOUS POTENTIAL

BRASIL

Market Capitalisation

2009: USD 1,17 Tn
2010: USD 1,44 Tn

GDP current prices

2009: USD 1.57 Tn
2010: USD 2.02 Tn

Real GDP growth

2009: -0.2%
2010: 7.5% (est)

Inflation Rate

2009: 4.9%
2010: 5.91% (est)



AFRICA

Market Capitalisation

2009: USD 0.97 Tn
2010: USD 0.82 Tn

GDP current prices

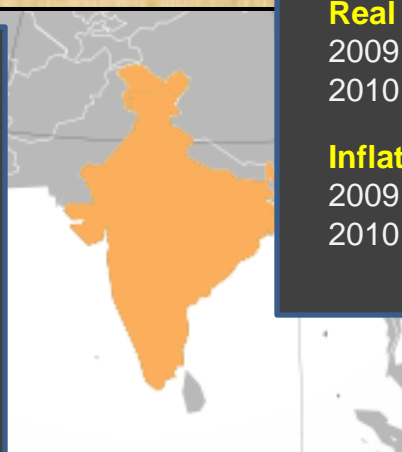
2009: USD 1.44 Tn
2010: USD 1.51 Tn

Real GDP growth

2009: 2.5 %
2010: 4.5% (est)

Inflation Rate

2009: 6.7 %
2010: 6.7% (est)



RUSSIA

Market Capitalisation

2009: USD 0.86 Tn
2010: USD 1.03 Tn

GDP current prices

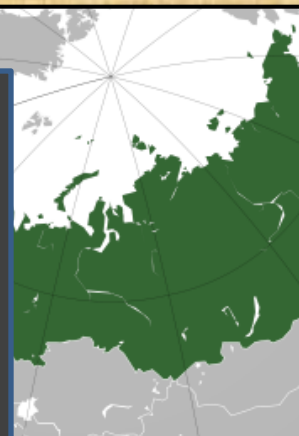
2009: USD 1.23 Tn
2010: USD 1.48 Tn

Real GDP growth

2009: -7.9 %
2010: 2.7% (est)

Inflation Rate

2009: 11.7%
2010: 8.7% (est)



INDIA

Market Capitalisation

2009: USD 1,18 Tn
2010: USD 1,44 Tn

GDP current prices

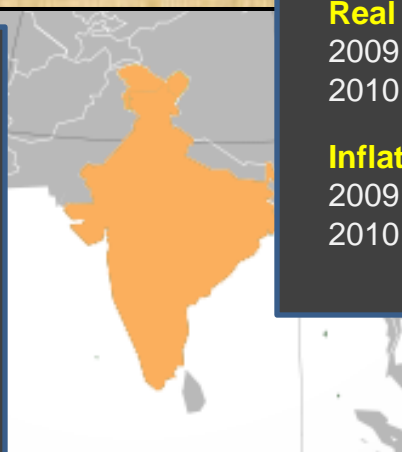
2009: USD 1.31 Tn
2010: USD 1.43 Tn

Real GDP growth

2009: 5.7%
2010: 9.7% (est)

Inflation Rate

2009: 10.9%
2010: 8.33% (est)



CHINA

Market Capitalisation

2009: USD 5.01 Tn
2010: USD 5.18 Tn

GDP current prices

2009: USD 4.99 Tn
2010: USD 5.75 Tn

Real GDP growth

2009: 9.1%
2010: 10.5% (est)

Inflation Rate

2009: -0.7%
2010: 5.1% (est)



AFRICA: ECONOMIC DRIVE FROM THE NEW EASTERN POWERS



Africa - Land of Contrasts & Paradoxes

- **The World's Worst Performer**
 - Failed and dysfunctional states
 - Worst in terms of poverty
 - Largely unbanked - close to 80 per cent of adult population
 - Inefficient financial markets
 - Poor institutions
 - Education
 - Health

Africa - Land of Contrasts & Paradoxes

- **The Potential of Africa**

- Collective GDP estimated at USD 2.6 trillion in 2020
- Growth rate higher than advanced economies
- Some countries doing well e.g. Egypt, Ghana, Botswana, Kenya, Nigeria, Mauritius
- South Africa has joined BRICS and the G20
- Africa's young and growing population is one of the continent's biggest competitive advantages
- World Bank Estimates: Africa needs investment in infrastructure, power, roads of nearly USD95 billion per year, of which only two-thirds is funded. There is a gap of USD35 billion to be funded

Islamic Finance in Africa

- **Traditional Islamic Finance**
 - Has existed for a long time in Africa
- **Modern Islamic Finance**
- **North Africa**
 - Egypt, Sudan, Maghreb countries
- **Sub-Saharan Africa**
 - South Africa, Kenya, Tanzania, Botswana, Nigeria
 - Ghana, Uganda, Ivory Coast, Somalia, Malawi, Zambia

Islamic Finance in Africa

Three pillars of Growth

- 50 per cent Muslim population
- Non-Muslim population
- Growth and Development Agenda of Africa

Islamic Finance in Africa

- **First Pillar - 50 per cent Muslim population**
 - Close to 80 per cent adult population unbanked
 - Promoting financial inclusion
- **Second Pillar – Non-Muslim population**
 - Alternative mode of finance
- **Third Pillar – Growth & Development**
 - Long-term funding of infrastructure projects

What does it require for Islamic Finance to really take off in Africa?

- IF fares better where conventional banking is well established
- Major hurdle
 - Underdeveloped state of Africa's financial markets
 - Africa largely underserved by conventional banking
 - Only three African banks rank in the Top 200 banks of The Banker
- Reforms needed on several fronts
 - Financial sector and other policy reforms
 - Harnessing new technology to increase outreach e.g. mobile banking
 - Bank the unbanked; Meet unbanked needs

What does it require for Islamic Finance to really take off in Africa?

- Challenges specific to Islamic Finance
 - Standardised approach to Sharia-compliance
 - Dearth of knowledge, skills & technical capacity
 - Absence of robust regulatory & legal framework
- How did Mauritius address these issues?

The Mauritian Experience



Mauritius at a Glance

- No natural resources
- Country barely a dot on World Map
- Biggest Assets
 - Our people
 - Our strong democratic values
 - Our well-established & developed financial sector
 - Our diversified economy

Mauritius at a Glance

The Top Performer in Africa

- IMF Country Report May 2011 - Mauritius is viewed as a top performer in Africa
- The Heritage Foundation – in its World by Economic Freedom 2011 - ranks Mauritius 12th out of 179 countries, with high scores on investment, business, fiscal and government freedom
- The World Economic Forum *Global Competitiveness Report 2010 11* – places Mauritius in the top half of its rankings, at the 54th position, in terms of competitiveness, while Sub-Saharan Africa as a whole lags behind the rest of the world
- The World Bank in its *“Ease of Doing Business 2011* - ranks Mauritius *first* in Africa, and 20th globally, out of 183 economies
- The Mo Ibrahim Foundation – In its 2010 Ibrahim Index of African Governance – ranks Mauritius *first* in Africa, for the second consecutive year, out of 53 countries

Mauritius at a Glance

A Sound and Dynamic Financial Sector

- Total banking assets hovering around 285 per cent of GDP over the past four years
- Highly profitable banks
- 20 commercial banks operating a total of 215 branches with 416 ATMs
- An estimated 6,000 inhabitants per bank branch. One branch for every 3.4 square mile
- 3,100 inhabitants per ATM. One ATM for every 1.7 square mile
- The *Global Competitiveness Report 2010-11* ranks Mauritius 16th out of 139 economies in terms of the soundness of its banks

Not the kind of performance one usually associates with the African continent

Mauritian Financial Sector - A Snapshot

- As at 1st July 2011, the population stood at 1, 286,340
- Consolidated Banking Sector - Basic Indicators as at 30 June 2011
 - Total Assets = USD29 billion
 - ATMs = 416
 - Branches = 215
 - Total Deposits = USD 21billion
 - Advances = USD 17 billion
 - Non-Performing Loans = 2.5 per cent
 - Capital Adequacy Ratio = 16.3 per cent
(Basel Standards Minimum is 8 per cent)

Milestones in Islamic Finance

- **June 2006:** Establishment of the Joint Steering Committee on BOM/Banking Sector/State Law Office on Islamic Financial Services
- June 2007: Report received
- Amendments to Legislative Framework in 2007-2008
 - i. The Banking Act 2004
 - Banks to operate either as full-fledged Islamic banks or through a window.
 - Non-bank deposit taking institutions may accept Islamic deposits
 - Removal of restrictions on purchase and sale of immovable properties, and on investment in undertakings or joint venture

Milestones in Islamic Finance (continued)

ii. Registration Duty Act & Stamp Duty Act

- Removal of levy of multiple payment of duties payable under the Islamic mode of financing land and property

iii. Income Tax Act

- Equate interest with effective return of Islamic financing arrangement

iv. The Finance ACT 2009

- The scope of Government Securities enlarged to include issue of Sovereign *Sukuks*

Regulatory Framework & Market Development

- June 2008: Guideline for Institutions Conducting Islamic Banking Business
- August 2008: Approval in principle granted to an International Commercial Bank
- April 2009: Launch of Islamic window by HSBC Amanah
- May 2009: International Seminar on Islamic Capital Markets organised jointly by IFSB, Bank of Mauritius and the Financial Services Commission
- October 2009: Islamic banking licence granted to Century Banking Corporation Ltd
- Offer of Islamic financial products namely *Takaful* since 2008 and *Ijarah* since 2009

Policy Initiatives

- Development of an Islamic Interbank money market to provide a platform for interbank dealings and facilitate liquidity management for Islamic banking institutions
- **November 2007:** Adherence of the Bank as Associate Member to IFSB. Graduated to Full Membership in October 2008
- Participation in Working Groups organised by IFSB
- **October 2010:** Signing of Agreement for the establishment of International Islamic Liquidity Management Corporation (IILM). The Bank becomes founding member of IILM

Mauritius: A Different Approach

- Level Playing Field between conventional banks and Islamic banks
- Sharia Advisory Board (SAB) - Approval of SAB or Sharia Advisor either in Mauritius or abroad
- Islamic Interbank Money Market - Initiatives taken for the development of an IIMM
- Issuance of Sovereign Sukuks presently under discussions by Joint Committee of Ministry of Finance and Economic Development and Bank of Mauritius
- Bank of Mauritius - Founder Member of IILM

What does Mauritius have to offer as an Islamic hub to Potential Investors?

- Stable political and economic environment
- Strong commitment of authorities to promulgate Islamic Finance in Mauritius
- Well-established conventional financial sector. Pool of professionals in the field of accounting, law and finance
- Mauritius already a financial hub. We are the largest investor into India – around 45 per cent of FDI into India is routed through Mauritius

What does Mauritius have to offer as an Islamic hub to Potential Investors?

- Tax Regime: Corporate Tax at flat rate of 15% and Investment funds via Global Business Licence holders at a maximum of 3%
- Gateway to Africa & Asia:
 - DTA Arrangements with 36 countries, including India.
 - Economic partnership agreement Mauritius/Singapore/Cameroun
- Dividends are tax exempt and no taxes on capital gains other than on sale of real estate assets
- Extensive network of international banks for Private Banking and Management of Funds for High Net Worth Individuals

Conclusion

- Islamic Business & Finance Awards 2010
 - Two-thirds of Awards to Gulf-based Institutions & Individuals
- Africa stands poised to capitalise on the vast potential of IF to support the development of the Continent
- Returns on investment in Africa highest in the world
- Sustainable global prosperity cannot be pursued without the inclusion of the African Cause