

ISLAMIC FINANCE GAINING MOMENTUM IN AFRICA

By Dr. Ashley Neese Bybee

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ZANZIBAR: A POWER SHARING SUCCESS STORY?

By Alexander Noyes

Power-sharing accords, or governments of national unity (GNUs), have been used in Africa to resolve a variety of civil conflicts, with more than [one-third](#) of the countries adopting some form of GNU. Most recently, both [South Sudan](#) and the [Central African Republic](#) have experimented with the approach over the past year and a half. Although popular among regional and international mediators, the mixed record of GNUs in Africa, such as the cases of Angola and Zimbabwe, have led many academics to be [critical](#) of power-sharing, citing its questionable effectiveness, [elite-driven](#) character, lack of accountability, and negative consequences for democratization. According to [two](#) recent [studies](#), Zanzibar's recent experience with a unity government may provide a more optimistic power-sharing story, suggesting that—under certain conditions—power-sharing can be effective, at least in the near term. [more...](#)



One of the supporters of ruling party Chama Cha Mapinduzi (CCM) wears a flag of Amani Karume, as Tanzanian President Benjamin Mkapa addresses them during his farewell visit to the island on October 28, 2005, during an election rally in Zanzibar. (Source: AP Photo/Karel Prinsloo.)

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Background

Sharia, Islamic religious law, prohibits the practice of collecting interest and stipulates that financial transactions must relate to a [tangible economic activity](#). This effectively prohibits investment in traditional bonds and other interest-bearing financial products. Sukuk securities, however, are Sharia-compliant financial certificates through which investors share in the profits of the asset or activity being financed. They are most often used by Muslim investors to finance infrastructure projects, which are clearly considered a tangible economic activity.

Historically, sukuk issuers have hailed from Southeast Asia ([Malaysia and Indonesia](#)) and some [Gulf States](#). Until very recently, only [Sudan, Gambia](#), and [Osun state in Nigeria](#) issued sukuk in Africa. As of the time of this writing, however, Senegal is about to conclude its [inaugural sukuk issuance](#). [South Africa](#) appears to be the next country likely to follow suit, having announced its plan to issue sukuk later this year. [Egypt, Kenya, Morocco, Tunisia, and Uganda](#) are in various phases of completing the necessary legal and regulatory frameworks and have stated their intention to issue sukuk in the near future.

Why Issue Sukuk?

Global Islamic financial assets are estimated to be approximately [\\$1.3 trillion](#), with a growth rate of at least 20 percent. Issuing sukuk would allow African nations to tap into this capital by attracting a new class of wealthy Middle Eastern investors whose faith dictates that they invest in only Sharia-compliant products. In issuing sukuk, African nations could provide one way to [fund](#) the approximately [\\$90 billion](#) per year of needed infrastructure improvements that currently exist throughout Africa. Sukuk could also help to offset fiscal and [current account deficits](#) that are [present](#) in many African countries. It would also allow Islamic banks and financial institutions to [improve their liquidity](#). In the case of [Morocco](#), the ruling Justice and Development Party—a moderate Islamist party that came to power in 2011 following the economic turmoil in Europe—has placed great emphasis on attracting Middle Eastern investors and plans to [issue sukuk](#) as one way to appeal to them. For investors, sukuk issuances in Africa provide a means to diversify their portfolios geographically while adhering to Sharia. It also increases the [range of credit exposure](#) that they might carry.

Challenges to Overcome

The experiences of countries with more mature Islamic financial markets offer some valuable lessons for African countries looking to do the same. First, if sukuk are to become a viable financing option for development projects in Africa, countries will need to ensure that they have [appropriate financial infrastructures](#) in place to handle the complexities and nuances associated with Islamic finance. Through its Banks and Other Financial Institutions Act, [Nigeria](#) has already established various rules and regulations relating to Islamic banking and set up a national Sharia advisory board to ensure all Islamic financial activity adheres to Sharia. Second, if prospective investors are to be attracted, it is essential to ensure sukuk receive the same treatment from tax and regulatory perspectives as traditional bonds. South Africa has [amended its Taxation Law](#) to ensure sukuk returns are taxed in a similar manner as equivalent interest-bearing financial products. Third, governments need to ensure that there are a sufficient number of qualified personnel with experience in Islamic finance to handle these transactions. The [central banks](#) of Nigeria, Tanzania, and Uganda have already sent personnel to the UAE and Malaysia to train and build expertise in the field of Islamic banking. Finally, to be most effective, Islamic financial products must be attractive to [all investors](#), not just

Muslims. In [Malaysia](#), where Islamic financial products account for one-quarter of banking assets and enjoy strong government support, the sector has attracted a significant pool of non-Muslim customers.

Looking Ahead

It is logical for Africa to become the new frontier for Islamic banking, given [projections](#) that its Muslim population, which currently stands at approximately 240 million, will grow by nearly 60 percent in the next 20 years. [Standard and Poors](#) has reported a favorable outlook for sukuk financing in the coming years, especially in [Africa](#), where huge infrastructure needs, coupled with the rise of moderate [Islamist parties](#) in North Africa, such as the [Justice and Development Party in Morocco](#) or [Ennahda in Tunisia](#), have put the development of Islamic finance on their governments' agendas.

If African capital markets are in their infancy, Islamic finance is only embryonic. It appears, however, that governments are recognizing the need to develop this financial alternative, including providing Sharia-compliant opportunities for wealthy Middle Eastern investors. Moreover, it is encouraging that Africans are responding to development needs and demographic shifts with innovative tools to accommodate both. Foreign partners ought to commend this initiative and assist with the legal, regulatory, and political challenges that lie ahead.

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One of the supporters of ruling party Chama Cha Mapinduzi (CCM) wears a flag of Amani Karume, as Tanzanian President Benjamin Mkapa addresses them during his farewell visit to the island on October 28, 2005, during an election rally in Zanzibar. (Source: AP Photo/Karel Prinsloo.)

Zanzibar is a semi-autonomous island region of Tanzania, consisting mainly of the two islands of Unguja and Pemba. Nearly two decades of political polarization between the ruling Chama Cha Mapinduzi (CCM) party and the Civic United Front (CUF), the main opposition party, followed the introduction of multiparty politics in [1992](#). Elections in 1995, 2000, and 2005 featured varying levels of violence, intimidation, and allegations of vote rigging levied by the opposition, along with several failed [attempts](#) at post-election power-sharing and reconciliation in 1999 and 2001. Building on a failed [third](#) attempt for a deal between the two parties in 2007–8, the leaders of CCM and CUF—Amani Abeid Karume and Seif Shariff Hamad—in November 2009 finally agreed in principle to form a power-sharing government, regardless of the outcome of upcoming elections.

A bill formalizing the accord was pushed through the House of Representatives by Karume and Hamad in January 2010, and a [referendum](#) on the deal passed with more than 66 percent of votes in July 2010, giving the power-sharing agreement popular legitimacy in the run-up to elections. After the referendum, a constitutional amendment was passed, [stipulating](#) that the second-place finisher would become first vice president and a cabinet (Revolutionary Council) would be formed on a proportional basis. After the first relatively free and fair [elections](#) in Zanzibar's history were held in October 2010, the two parties formed the unity government, with Hamad installed as first vice president and [nine](#) of the 19-member cabinet hailing from the CUF.

According to [two](#) recent [studies](#), which are buttressed by local [reports](#), it appears that overall, the power-sharing agreement has ushered in a new, relatively peaceful era in Zanzibar's politics, with the last three-plus years under the unity government characterized by strong cooperation between CCM and CUF and a notable decrease in political tensions. A 2014 study by scholars Aley Soud Nassor and Jim Jose [published](#) in the *Journal of Southern African Studies* claims that since the power-sharing accord, "there has been a considerable reduction in tension between the two parties and a degree of cooperation not present before 2010, along with a noticeable increase in transparency of political decision-making, freedom of expression, and political stability." A 2012 study by Archie Matheson [published](#) in the *Journal of Eastern African Studies* makes similar assertions, noting, "the political situation in Zanzibar has undergone a staggering transformation," and arguing that the GNU has "improved both democratic practices and community relations."

As evidence for these claims, both studies point to policy [changes](#) on the price of cloves, an important cash crop for Zanzibar's economy, and on oil and gas exploitation (previously contentious issues), as well as the strength of "[backbenchers](#)" in the legislature working across party lines. Despite high-level [disagreements](#) in the GNU sparked by Hamad's 2012 declaration in favor of increased sovereignty for Zanzibar, Hamad himself has given credence to the

optimistic findings of the two studies. In 2012, he [noted](#): “Unlike in other countries such as Kenya and Zimbabwe, here the top leadership is working very, very closely together. The President, myself, the Second Vice President, we always consult.” A 2013 local newspaper report in the Citizen also observed advancements under the GNU, [arguing](#) that “we are beginning to see the end of the precipitous and divisive plural politics.”

Some accounts of the GNU's success may be overly sanguine, as the unity government faces a number of enduring challenges that could derail progress, including a [politicized](#) civil service and security sector, [land disputes](#), high commodity prices, and the rise of a nascent radical Islamist [group](#), the Association for Islamic Mobilization and Propagation (UAMSHO). UAMSHO has gained traction over the contentious issue of independence from Tanzania and was blamed for acts of political violence that [broke](#) out in 2012. A further challenge to the current GNU could come from slumping popularity of the CUF, as some CUF supporters are [unhappy](#) with the party's decision to join the GNU and could defect to other [rising](#) opposition parties, such as Chama cha Demokrasia na Maendeleo (CHADEMA).

Despite such challenges, the GNU has undeniably improved Zanzibar's political landscape in the near term, reducing political tensions and lessening the risk of election-related violence in polls scheduled for 2015. It appears that broad popular support for a GNU and high levels of elite cooperation have played central roles in bringing about such progress. These developments suggest that under certain conditions—namely, where power-sharing is legitimized by a referendum and the major political parties stand to gain from, and are genuinely committed to, working together—power-sharing government can be effective in fostering political stability, at least in the near term.

That said, Zanzibar's more permanent form of power-sharing, as opposed to a transitional accord, is particularly vulnerable to a number of potentially harmful long-term costs, such as party strength, competition, and political accountability being [weakened](#), all factors that could undermine the democratization process in Zanzibar in the future. Reduced electoral accountability is a particular concern. With voters unable to distinguish between party preferences and performance, the GNU could diminish political accountability and the power of elections, with resulting negative consequences for Zanzibar's long-term democracy-building project. Another lesson from Zanzibar may therefore be that transitional, instead of permanent, GNUs could be more effective mechanisms, benefiting from the short-term gains outlined above, but avoiding some of the more harmful long-term costs.

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