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Operations and Contributions of Islamic Finance in Emerging Economies: Thematic Analysis

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Abstract

The emergence and operations of Islamic banking and finance (IBF)is being regarded as the contemporary new financial bride at the global stage.In this connection, the number of countries that adoptedIBF in the African continenthas continued to increase because of its positive impacts on the economies of host countries. Thus,this paper thematically examines the role and contributions of IBF to the economic growth and financial development of the Big Emerging Markets (BEMs) in Africa(i.e. Nigeria,South Africa and Egypt). Therefore, the methods adopted for this study are descriptive, comparative and analytical in nature. Essentially, the findings from this study reveal that the three sampledcountries are benefitting from the presence of IBF in terms of contributions to economic growth andreal sector participation, particularly for Egypt and South Africa. Also, they reap from foreign direct investments(FDI) and economic diversification among others. Thus, this study recommends that African leaders should integrate IBF as part and parcel of their economic and financial systems, in order to benefit optimally from this new economic

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phenomenon.

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1.0 Introduction

The introduction and operations of Islamic banking and finance (IBF) has become a global economic and financial phenomenon in the last few decades of its debut at the global stage. This is evident in the ever-growing popularity of the industryand the outstanding growth and performance recorded so far, which cuts across the Gulf Cooperation Council (GCC) and also spreading rapidly in various parts of the world. In this regard, it is estimated that the Islamic finance industry has the potentials and capacity to grow at 15-20 percent annually in view of the enabling environment being provided and its general acceptability. Hence, the number of Islamic financial institutions (IFIs) has generally increase worldwide from one institution in 1963 to over 435 full□fledged institutions with more than 191 windows being operated by conventional institutions (Islamic Finance News, 2014; Fatai, 2012; Sanusi, 2011). As a matter of fact, IBF has continued to impact positively on the economies of its host countries, especially the GCC region, Asian and Western countries as well as making a steady in-road into the sub-Saharan Africa (SSA).

In the same token, IBF has continued to grow at a more impressive rate in view of its universally oriented ethos and ideals.In view of itssterling global growth, the number of countries that adopted IBF in Africa has continued to increase as well,and as rightly noted by Ackerman and Jacobs (2008), "With so many players having recently entered the Islamic finance market, it is evident that Islamic banking is a very real alternative to Western ideologies with respect to banking" (p. 68). In this regard, Islamic finance now operates in many African countries like Egypt, Sudan, Algeria, Morocco, Ethiopia, Botswana, Tunisia, Kenya, Nigeria, South Africa, Mauritius and a host of others (see Appendix 1).

At the same time, countries like Uganda, Tanzania, Malawi, and Zambia among others are seriously committed to the developmental process and building of institutional infrastructures for its eventual enthronement in their countries (Islamic Finance News, 2011; Yekini, 2010).

Importantly, Imam and Kopdar (2010) note that the probability for Islamic banking to develop in a given country is positively related toincreases with the share of the Muslim population, income per capita and whether the country is a net exporter of oil. Also, trading with the Middle East and the economic stability of the country are determinants that could aid the spread of Islamic banking. Again, proximity to Malaysia and Bahrain, the two Islamic financial centres, are also major determinants. They also found that rising interest rates is an impedimenttowards the diffusion of Islamic banking. This is because they raise the opportunity cost for less devout individuals or non-Muslims to put their money with an Islamic bank as the case in Nigeria. In this connection, this paper examines the role and contributions of IBF in the economic growth and financial development process of the Big Emerging Markets (BEMs) or Big Emerging Economies (BEEs) in the African continent i.e. Nigeria, South Africa and Egypt. This has become more imperative as these countries strive to be counted among the 20 biggest economies of the world by the year 2020.

2.0 Literature Review

2.1 The Concept of Islamic Banking and Finance

Islamic banking and finance (IBF) is a specialized financial service that is based on the principles and ideals of the Shari'ah. IBF is regarded as an alternative form of financial intermediation that is fundamentally based on the profit and loss sharing motive, which is market driven. This financial intermediation of IBF has a moral dimension rooted in the Islamic value system like fairness, transparency, prudency, justice and accountability among others. It is opposed to the conventional method which is characterized by the institution of interest, speculation, exploitation and a host of others (Mustafa& Ibrahim, 2013; Sanusi, 2011). In simple terms, this new method of financing is based on the concept of sharing risks and profits, which is in line with the Islamic maxim of "no reward without pain".

In view of this, the fundamental aspects and elements of IBF according to Fatai (2012) and Sanusi (2011) include: (i) lending is not a business and as such, the golden rule of "no-interest" is at the core of any financial and business transaction and interaction. Thus, earning or paying interest on loan is prohibited in all ramifications; (ii) any form of investment must be morally and legally endorsed by the Shari'ah. This implies that all transactions, instruments and contracts must comply fully with the Islamic moral and legal filters in order to be Shari'ah-compliant. In this vein, business activities like gambling, dealing in pork, alcohol, pornography, prostitution, ammunitions and other similar products, goods and services are not permitted under IBF; and (iii) Financial transactions must be asset-based or linked to real economic activities for the income to be morally and legally acceptable i.e.the Islamic business model supports financial and economic transactions that would spur real sector of the economy. The real sector in terms of trade, projects and commercial activities are capable of generating income and wealth that would stimulate the economic growth and development process of the host countries, especially in the African continent. Essentially therefore, Islamic finance activities cover Islamic banking, Islamic capital market, Takaful (Islamic insurance), Microfinance and Sukuk (Islamic bonds).

In this regard, Islamic business and financial activities are based on the following principles: (i) All transactions must be free of interest (*riba)*; (ii) Goods and services that are illegal (*haram*) from Islamic perspective cannot be produced or consumed; (iii) Activities or transactions involving speculation (*gharar*) must be avoided; (iv) The major financial tools of Islamic banking shall be *Musharakah* (Equity financing/Profit-Loss sharing) and *Mudarabah* (Trust financing/Profit sharing); (v) *Zakah* (Religious compulsory tax) must be paid. Thus, Islamic banks face a dual constraint i.e. the payment of *Zakah* and the regular business income tax (Grais, 2012; Samad, Gardner and Cook, 2005; Usman, 2003).To this end, the financing modes and instruments include: *Mudarabah, Musharakah, Murabahah* (Cost-plus sale contract/mark-up), *Ijarah* (Leasing), *Bai-Salam* (Forward trade contract), *Istisna'* (Partnership in manufacturing), *Qard hassan* (Benevolent loan) *Wakalah* (Agency), *Sukuk*(Bond) and a host of others.

However, according to Abdul Ghafoor (1995) and Mustafa (2011), IBF adopts various modes of acquiring assets or financing projects that may be broadly categorized as follows: (a) Investment financing through *Musharakah* and *Mudarabah*, based on estimated rate of return or negotiable rate as the case may be; (b) Trade financing through mark-up, leasing, hire-purchase, sell and buy back as well as letter of credit; (c) Lending is conducted based on *Qard hassan* i.e. non-cost loan for needy people and overdraft; and (d) Services through money transfers, bill collections and trade in foreign currencies based on commissions or charges. However, one of the most veritable financial instrument of Islamic finance, which could particularly assist African countries to speed-up their development process is *Sukuk*, especially in the areas of infrastructural development and foreign direct investments augmentation.

2.2 Islamic Banking and Financeat the Global Stage

It has been noted that the Islamic financial assets are largely concentrated in the Gulf Cooperation Council (GCC) region, Iran and Malaysia. Thus, GCC region has been among the leading front liner or champion as far as the deepening and development of Islamic banking and finance is concerned, in terms of number and size of banks, size of *sukuk* issuance and more particularly, development of institutional infrastructures. According to Grais (2012), the commencement of Islamic banking in the GCC region started with a 1975 decree, which authorized the establishment of the Dubai Islamic Bank (DIB). Later, the creation of the Kuwait Finance House (KFH) in 1977 followed; while in Bahrain and Qatar, Islamic banks were established in 1979 and 1982 respectively. However, Saudi Arabia, which owns the Saudi El-Rajhi Bank (the GCC's largest Islamic bank) refrains from labelling its financial activities as "Islamic", even though itsIslamic banking activities predates others in the region.

In the same token, the Islamic financial institutions in the GCC have also led to the development of the industry in various countries notably through the establishment of local subsidiaries or acquisition of domestic ones as the case with Kuwait Finance House (KFH) in Malaysia, Albaraka Banks in Sudan and South Africa among others. The GCC region including Saudi Arabia has the largest value of Islamic financial assets ahead of Iran. Notwithstanding, the largest amount of worldwide Islamic assets in 2010 was held in Iran, which represented around one third of international holdings i.e. USD 406billion. Although, the Kingdom of Saudi Arabia and Malaysia had USD 177billion and USD 120billion Islamic assets respectively. This scenario of Islamic assets holdings represent the second and third largest domiciliation of Islamic finance in terms assets size. However, Malaysia and various parts of the world shared similar size of assets and for UK in 2010, it reached USD27billion, thus placing the country at the 8th position in terms of assets size (Islamic Finance News, 2013; Grais, 2012; Fatai, 2012).

Grais (2012) posits that it is worthy of note to acknowledge the tremendous growth of IBF in the non-OIC countries, especially the UK and the USA. In this vein, he posits, "In the USA the industry developed in response to two types of needs: i) local communities retail finance needs, notably for mortgages and ii) foreign investors' needs to invest in the US market in a *Shari'ah*compliant way" (p. 34). Interestingly therefore, the Islamic finance industry which evolved from a mere local idea from Mit Ghamr, Egypt in 1963 has grown significantly to become an essential part of the international financial system.

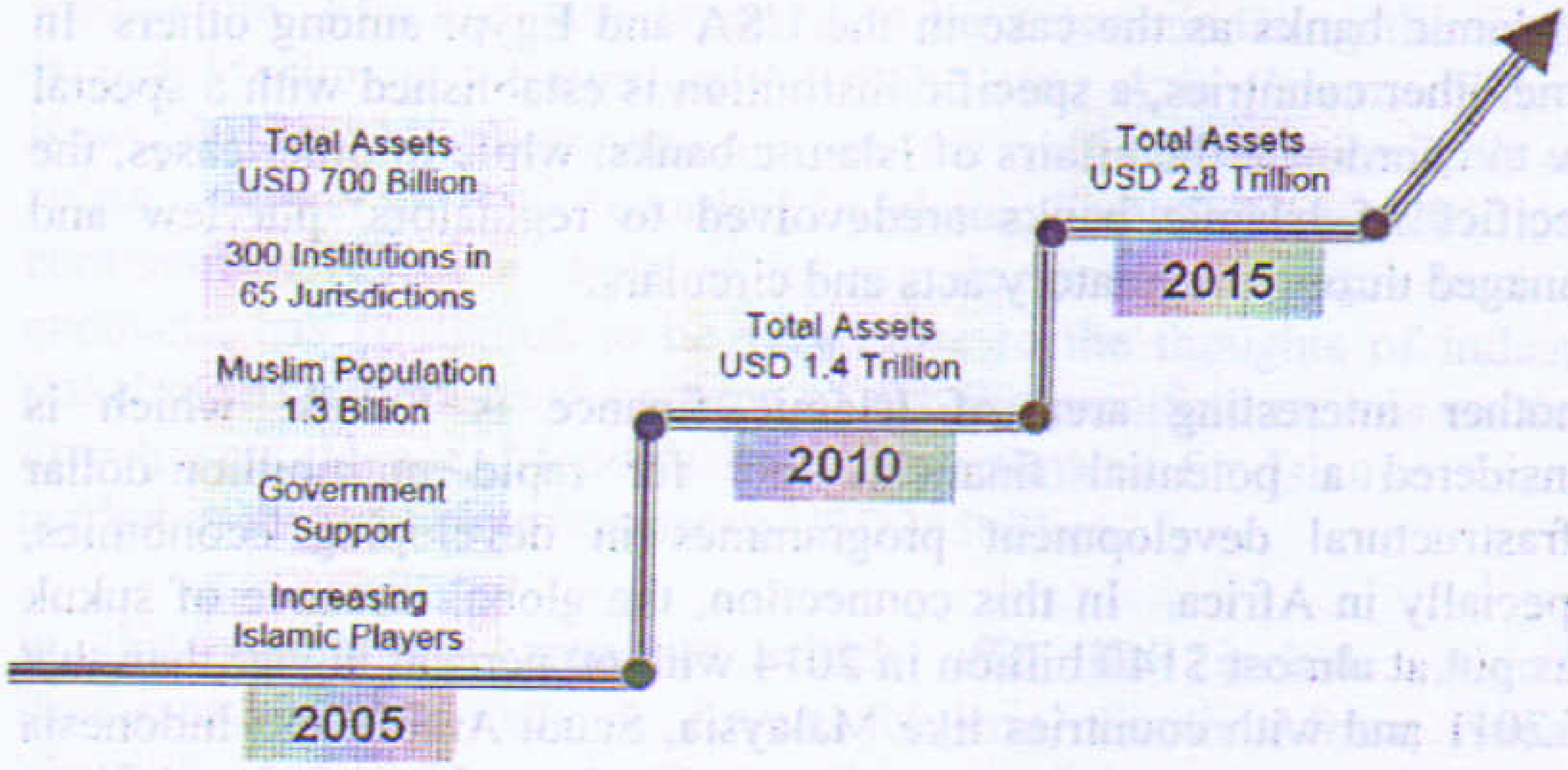

Figure 1: The Growth Projection for Global IBF

Source: Adopted from Hassan (2011).

Islamic finance industry witnesses tremendous growth and expansion in terms of assets size, geographical diffusion, diversification and the number of Islamic financial institutions. The industry has a compound average growth rate (CAGR) of 14.1percent in assets from USD 150billion in mid□1990s to around USD1.0trillion in 2009. The year 2013 even witnessed further growth of assets in the industry when it reached USD1.3trillion with a projection of USD2.8trillion by 2015 as presented in the diagram above. Essentially, this growth of the Islamic finance industry emanates from a business and finance model that completely rejects interest payments, shuns speculation and avoid heavy and unnecessary borrowing, which are the major lacunas of the conventional system (Sanusi, 2011; Pallec, 2012).

Similarly, Grais (2012) also submits that Islamic finance is generally enjoying supportive regulatory arrangements and institutional infrastructure, although more still need to be done, because it varies across countries and regions. For instance, some countries like Malaysia, Bahrain and Saudi Arabia among others have enacted separate Islamic banking laws. Others extend the general banking law to Islamic banks as the case in the USA and Egypt among others. In some other countries, a specific institution is established with a special law to coordinate the affairs of Islamic banks; while in other cases, the specifics of Islamic banks aredevolved to regulators' purview and managed through regulatory acts and circulars.

Another interesting area of Islamic finance is Sukuk, which is considered a potential financial tool for rapid multibillion-dollar infrastructural development programmes in developing economies, especially in Africa. In this connection, the global issuance of sukuk was put at almost $140 billion in 2014 with 60 percent higher than that of 2011 and with countries like Malaysia, Saudi Arabia and Indonesia remaining the largest issuers of sukuk. Countries in the African continent known for their regular issuance of sukuk are Gambia and Sudan; while Senegal, South Africa, Nigeria, Morocco, Algeria, Kenya and a host of others have equally joined the league (Islamic Finance News, 2014; Oladunjoye, 2014). All in all, the story of Islamic finance's growth in the last five decades has been that of tremendous progress at the global stage while in Africa, it holds potentials of a waiting market ready to be fully explored.

2.3 Islamic Banking and Finance in the African Continent: Landscape and Overview

Africa is consideredas the second largest continent on the surface of the earth with an area size of 11.5million square miles with over 15 percent of the world population i.e. 1.2billion. The continent is presently divided into 54 countries with collective GDP of approximately USD 10trillion. Africa is also regarded as rich in both natural endowments and raw material resources with a substantial Muslim population. Thus, the continent is witnessing its best economic growth success in the last decade. Notwithstanding, African banking penetration is reported to be among the worst in the world with over 65 percent unbanked population. As such, countries like Ethiopia, Namibia, Madagascar, Tanzania and Botswana among others,are considered as the worst hit. Meanwhile, Africa is also reported to be accommodating the second largest Muslim population on the globe after Asia (Islamic Finance News, 2014). This phenomenon places the continent as a veritable and suitable market for IBF. According to Islamic Finance News (2013), the continent of Africa in spite of its complexities and unique business conducts, has continued to be very close to the thoughts of industry stakeholders as a potential source of making manifold returns on their investments. Hence, Moody's investors estimates for Islamic finance market in the continent was put at USD235billion.

In this connection, countries which offer IBF include: Algeria, Botswana, Egypt, Tunisia, Kenya, Nigeria, South Africa, Sudan, Mauritius and a host of others; while countries in the process of adopting IBF include: Tanzania, Malawi, Uganda and Zambia among others.It is however on record that there are over 37 financial institutions in the continent operating IBF with Egypt and Sudan as the trailblazers. Among the non-Muslim African countries that are providing the enabling environment for IBF to thrive is Mauritius. Mauritius prides with 17 percent Muslim population. Thus, in June 2008, specific guidelines were issued for banks who wish to conduct window or full-fledged Islamic banks (IBs). The country is already a home to a number of global investments and Shari'ah-compliant funds with net asset value at USD 75billion. In Mauritius, amendments were brought to the Finance Act 2008 which obviate the levy of multiple payment of duties which would become payable under Islamic mode of financing land and property (Hassan, 2011).

Similarly, Kenya is another country with good record of promoting Islamic finance. Hence, two full-fledged Islamic banks with several conventional banks offering Islamic products are operational in the country. Gulf African Bank is the first, leading and fastest growing Islamic bank in the country. It was launched in 2006 but commenced operations in June 2008 and between the period and 2010, it achieved profit of Khs 74 million. The bank has assets of USD112million and also operates 14 branches spread in five cities with future plan to expand into Uganda and Tanzania(Islamic Finance News, 2013, 2014). Similar achievements being recorded in other African countries include that of Ethiopia with a population of 88million comprising 35 percent Muslims. The country has gone ahead to establish the first Islamic bank in the country named Zemzem Bank. Also, in Uganda, three Islamic banks have applied to the Central Bank of Uganda for license to operate; while the Central Bank is amending its banking regulations to allow for the establishment of IBs.

At this juncture, it can be stated that considering the presence of a large unbanked Muslim population, the rapid growth of interest by the Muslims for the industry and the enabling legal and regulatory environment being gradually created, the African continent offers tremendous potentials markets for the growth of Islamic finance, especially in the international Sukuk market. Thus, it has been noted by the World Bank that Africa requires around $93 billion to meet the continent's infrastructure needs until 2020 and according to Islamic Finance News (2013), Sukuk (i.e. Islamic bonds or Islamic financial certificates that represent undivided shares in the ownership of tangible assets) has been identified as a veritable and viable source of funding this infrastructure deficits of the continent. No wonder therefore, two African countries i.e. Gambia and Sudan are already tapping this opportunity; while Nigeria and South Africa are seriously working hard on the path to join the league. More interestingly, the issuance of the first state Sukuk by the OsunState of Nigeria has eventually placed Nigeria as the largest Sukuk issuer in the sub-Saharan Africa. Nonetheless, even with all these amiable and fascinating developments on IBF in the continent, it has been noted that Islamic finance is still at the infant stages of development. The general consensus however, is that a lot of opportunities abound for the future development of Islamic finance in the continent (Islamic Finance News, 2013).To this end, all hands must be on deck to ensure that Islamic finance secures its rightful position in the socio-economic and political landscape of Africa.

2.4 Development of Islamic Banking and Finance in the Emerging Economies

Emerging market/economy is a new economic concept that came to limelight in 1981 and it is often used to refer to countries or economies with low or middle per capita income. Countries in this category constitute approximately 80 percent of the global population, which represents about 20 percent of the world's economies. Although, the term is loosely defined but countries that fall into this category vary from very big to very small and as such, they are usually considered emerging because of their developments and reforms process. As a matter of fact, country like China, which is even the second largest economy in the world after the USA is lumped in the same category alongside much smaller economies like Tunisia. Both China and Tunisia belong to this category because both have embarked on economic development and reform programmes as well as begun to open-up their markets for international integration. Considering their importance to the world economy, the emerging markets are regarded as important testing grounds for existing models and concepts in international business, management, marketing, economics and finance. They are also identify as fertile grounds for developing new models and theories with different contextual origins (Heakal, 2009; Arnold & Quelch, 1998).

Hence, the concept of Big Emerging Markets (BEMs) refers to countries that have recently increased the portion of their national production and exports derived from industrial operations like China. Thus, in the 1980s, the US Department of Commerce classified Brazil, China, Egypt, India, Indonesia, Mexico, Philippines, Poland, Russia, South Africa, South Korea and Turkey as the Big Emerging Markets (BEMs) likely to significantly impact global commerce. In this vein, recent re-classification consider countries like South Africa, Nigeria and Egypt, which are the largest three economies in the African continent to fall in this category of BEMs. This study also refers to these countries as the BEEs i.e. the Big Emerging Economies. It is however important to state that one fundamental characteristic of the emerging markets/economies is an increase in both local and foreign investments (i.e. portfolio and direct). As such, growth in investment of a country suggests that the country has been able to build confidence in the local economy. Also, foreign investment is an indication that the world is conscious of the development and reforms process in that country. As a matter of fact, the injection of foreign currency due to international capital flows into an emerging market adds volume to the stock market, which in turn supports long-term investment; and this, is one of the areas IBF supports and promotes in host countries.

Therefore, the establishment and operations of IBF in these three countries are of varying nature, dimensions and degree. For instance, the case of South Africa seems to be very interesting with Albaraka Bank and ABSA Islamic Bank as the leading Islamic banks. The realization on the part of South African government on the potentials and promises Islamic finance holds for its economy, inspires and propels the government to provide the enabling environment for the establishment and operations of Islamic banks in that country. Thus, the South African National Treasury is making frantic efforts to position the country as the central hub for Islamic product development in the continent, inspite of its 2 percent Muslim population. Unfortunately, Egypt - a pioneer country (since 1963) with a Muslim population of 90 percent is yet to create the needed enabling environment for thorough operations of Islamic finance because the government is Islamophobic and non-supportive.

On the other hand, the giant of Africa – Nigeria after two decades of agitation and struggle (since early 1990s) for Islamic finance, the government has just come to the realization that Islamic finance is an instrument of financial strategy that could assist its transformation agenda of becoming one of the 20 biggest economies by the year 2020. Thus, the first Islamic bank i.e., Jaiz Bank, which was incorporated in 2004 and later commenced operations in 2012. Also, the introduction of Islamic windows by Standard Chartered Bank and Stanbic IBTC as well as the establishment of the International Institute of Islamic Banking and Finance (IIIBF) by BayeroUniversity, Kano (BUK), are indeed welcome developments for Islamic finance industry in the country. To this end, the succeeding sub-sections present country by country accounts with respect to the development and operations of IBF in the African BEEs.

2.4.1Nigeria

Nigeria is a Western African country and the most populous black nation on the globe. According to the Central Intelligence Agency-CIA(2013), the Nigerian population was put at 158.3 million people with 50 percent constituting the Muslim populace. Importantly, the country's economic and development profile according to the Central Intelligence Agency - CIA (2011) and African Development Bank Group (2014) rank Nigeria as the largest economy in the African continent and the 26th biggest economy in the world with approximately GDP of USD510 billion, per capita income of USD 2,800 and growth rate of 6.3 percent. However, according to Sanusi (2011), 39.2 million which stands for 46.3 percent of the populace are financially excluded due to low level bank penetration in the country while only 25.4 million, which represents 30 percent adults are banked. He therefore argues for financial inclusion and equity, in order to provide empowerment for potential investors both big and small in the country. Herein lies the relevance of Islamic finance industry to the economic growth and financial development of Nigeria. In this vein, the idea of modern Islamic banking and finance in the country started in the early 1990s through the efforts of various Muslim organizations, activists, professionals and elites.

According to Sanusi (2011),Mobolaji (2012) and Mustafa and Ibrahim (2013), the evolution of modern Islamic banking in Nigeria dates back to the 1990s with the enactment of the Banks and Other Financial Institutions Act (BOFIA) 1991 (as amended), which recognize banks based on profit and loss sharing-PLS. Thus, Islamic banks are regarded as a form of non□interest banks according to the decrees and as such, the designation of non□interest banks as specialized banks in 2010 was actually based on them. Furthermore, between 1993 and 1995, investors who applied for license to operate IBs failed due to non□compliance with the requirements of the Central Bank of Nigeria (CBN). However, Former Habib Bank Plc. became a trailblazer by commencing Islamic window in 1996, which eventually collapsed. Notwithstanding, Jaiz International Plc. secured license to commence the operation of a full-fledged non-interest bank (i.e. Jaiz Bank) in 2004, but it did not materialize due to sudden policy change on recapitalizationfrom the part of the CBN.Nevertheless, an Approval in-Principle (AIP) was granted for the establishment of Jaiz Bank upon meeting the mandatory capital requirements of the CBN and thus, heralding the first Islamic bank in the country. Thus, at the end of 2012, additional two conventional banks were granted licenses to provide Islamic financial services i.e. Stanbic IBTC Bank and Sterling Bank.

It is important to state that in 2005, Nigeria launched what is referred to as "The Financial System Strategy (FSS) 20:2020". The significance of the blueprint is to serve as catalyst towards engineering the country's evolution to become Africa's major International Financial Centre (IFC) and also to assist the country to transform into one of the 20 biggest economies in the world by 2020 (Sanusi, 2011). Hence, among the initiatives regarding the Money Market that where put in place are: (i) to create institutions to attract the huge un□banked informal sector; and (ii) to create non□interest banking instruments to capture huge unbanked segments of the society. Since, Nigeria is actually suffering from financial exclusion, especially in the northern part of the country. Fortunately, the arrival of Islamic banking readily fits into this strategy.

Furthermore, the year 2008 witnessed the formation of the Islamic Finance Working Group, which brought together the main stakeholders like the NDIC, NAICOM, PENCOM, DMO, market operators interested in offering Islamic finance products and a representative of the Central Bank as an observer. Again, in January 2009, the CBN joined the Islamic Financial Services Board (IFSB) as a full□council member. This membership paved way for the presentation for comments and suggestions on first draft framework for the regulation and supervision of non□interest banks in Nigeria in 2009. Consequently, the CBN released a new banking model in August 2010, which designated non□interest banks among specialized banks. Eventually, in January 2011, the Framework for the regulation and supervision of Non-interest banking as well as two other guidelines were released by the CBN (CBN, 2011; Sanusi, 2011). The diagram below presents the new structure of all the various banks in Nigeria as recognized by the CBN.

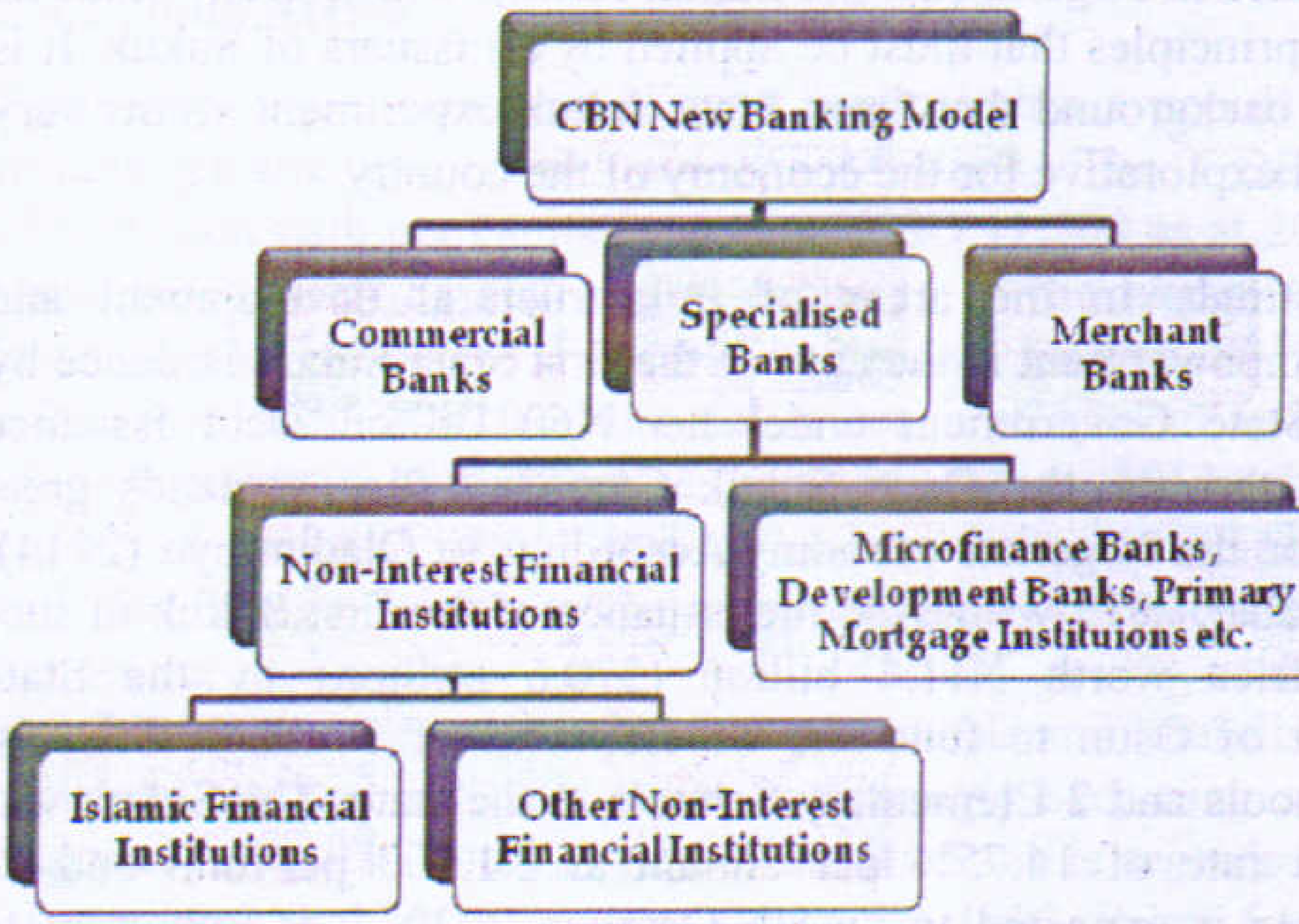

Figure 2: The Nigerian New Banking Models
Source: Adapted from CBN (2011).

Furthermore, in October 2010, the CBN with 11 other Central Banks and two multilateral organizations combined forces together to form the International Islamic Liquidity Management Corporation (IILM) with headquarters in Malaysia. The significant aim of the corporation is to provide treasury instruments that are Shari'ah- compliant for the purpose of addressing the liquidity management issue of Ibs, and to serve as instruments for open market operations involving IFIs. As a matter of fact, Nigeria even though, a latecomer to the adoption of Islamic finance has an operational Islamic bank (commenced banking activities in 2012), an Islamic capital market i.e. Lotus capital and a framework for Takaful (Islamic insurance) operation through the NDIC. Another interesting development of IBF in the country is the Sukuk, which holds enormous potentials for economic growth and development of the Nigerian economy. Thus, on the 28th February, 2013, the Securities and Exchange Commission (SEC) approved Rules on Sukuk Issuance in Nigeria (i.e. the Sukuk Rules), which detail Shari'ah rulings and principles that must be applied by all issuers of Sukuk. It is against this background that Osun State Sukuk experiment seems very exciting and explorative for the economy of the country.

Moreinterestingly in the areas of infrastructural development and economic empowerment is the case of the first State Sukuk issuance by the Osun State Government under her N60 Billion Debt Issuance Programme through the Osun Sukuk Company Plc., portends great prospects for the Nigerian economy.According to Oladunjoye (2014), the 8th October, 2013 witnessed the issuance of the first Sukuk in sub-Saharan Africa worth N11.4 billion ($70.6 million) by the State government of Osun to fund the development of 20 High Schools, Middle Schools and 2 Elementary Schools in the state. The Sukuk was issued at a rate of 14.75% per annum at ₦1,000 per unit and its maturity date is expected to be 8th October, 2020. It is important to state that the issue was rated "A" by Agusto & Co and it was successfully subscribed to by domestic investors. The price was also set through a book building process, which lasted for 10 days and the Sukuk was structured as an Al-Ijarah (i.e. Sukuk Ijarah- Lease contract) with the issuance of Sukuk certificates to the investors.

It is in line with these interesting and promising developments and the conducive atmosphere being created for IBF to thrive in Nigeria that the submission of Sanusi (2011) becomes very apt. He posits that given the enormous market prospects, Nigeria has the potential and capacity to become Africa's hub on Islamic banking and finance. Basically, these potentials would eventually translate to multiple benefits for the country in view of the salutary impacts on the economy. These benefits would include: increase in foreign direct investments (FDI), infrastructure development, financial inclusion, increase in employment and development of the real sector of the economy as the cases in countries like Malaysia, Bahrain and Pakistan among others confirm. Thus, the prospects of IBF to the Nigerian economy remain enormous.

2.4.2 South Africa

South Africa is a Southern African country with a population of 48.4 million people and 2 percent are Muslims. The GDP was USD 595.7billion with per capita income of USD 11,500 as at 2013 and this ranks the country as 26th largest economy in the world.Going by the latest World Economic Forum Competitive Survey 2012/13, South Africa was rated third for financial sector development and second out of 144 countries for effective banking. As at 2013, there are 17 registered banks, 2 mutual banks, 12 local branches of foreign banks and 41 foreign banks with approved local representative offices. According toKumbirai and Webb (2010, p. 9), "the political transformation, relaxation of exchange controls and liberalisation of the economy resulted in South Africa increasingly becoming an important financial centre."In South Africa, Albaraka Bank is regarded as the first Islamic bank and has been operating since 1989. It has four corporate offices and six retail branches. There is also the ABSA Islamic Bank which is advised and guided by the independent Shari'ah Supervisory Board and as well offers a variety of Islamic products in strict compliance with Shari'ah law. Such products include Islamic Value Bundle, Islamic Vehicle and Asset Finance using the concept of *ijaarah; takaful* Motor, Household and Business Insurance which involves Personal *Takaful* that covers the private residences, content portable electronic equipment, and your private motor vehicles.

Similarly, there is also Commercial *Takaful* which covers valuable business assets, equipment, buildings and commercial motor vehicle, as well as *takaful* for mosque building against any damage caused by storms, fire or floods. In addition, the bank provides financial products that are Shari'ah compliant for her customers traveling overseas under its Western Union Money Transfer Services approved by the Shari'ah Supervisory Board of the bank. In addition, it has Islamic Youth Account which is an innovative combination of a transactional and saving account. The bank equally engages in *Mudarabah* products through which customers participate in profit and loss businesses in such products as the Islamic Savings Account, Islamic Target Save Account, Islamic Youth Account and Islamic Term Deposit Account. It embarks on Shari'ah compliant investment activities and shares profit in accordance with the ratios defined in the terms and conditions of each product (Young, 2013;Kumbirai and Webb, 2010).

The first National Bank also offers Islamic banking options in South Africa while Oasis, Momentum, Element, Futuregrowth, Symmetry, Stanlib and Kagiso also offer Shari'ah compliant investment products and services.HBZ Bank was launched in South Africa in 1995 with an initial capital investment of R50 million. It has a division specializing in Islamic Banking. Under its Islamic Lensing Products, the bank offers *Murabaha* (cost-plus) where goods are purchased at a price which includes a profit margin agreed upon by the Bank and the customer. This product is used to purchase raw and finished goods and trade finance facility for importers and exporters. There is also the *Ijarah* product which normally takes three to five years. Here the bank purchases an asset or goods from a vendor and then leases them at an agreed rental over a period of time. In view of the governmental supports for the Islamic banking and finance industry, the country has introduced tax neutrality laws for *Mudarabah, Murabahah* and Diminishing *Musharakah*.

Another important area of Islamic finance landmark development in South Africa is Sukuk issuance. The National Treasury of South Africa has played a key role in the Sukuk issuance of the country when it made the announcement in 2012 for a planned US dollar denominated five-year sovereign Sukuk between US$500-700 million. In order to facilitate its success, an amendment of the Income Tax Act 58 of 1962 was done and by 1st January, 2013, the Taxation Laws Amendment Act 24 of 2011 came into operation (Islamic Finance News, 2013). As a matter of fact, by September, 2014, South Africa launched its first sovereign Sukuk of over $500m, which was more than four times oversubscribed with an order book of over $2.2 billion with 51 percent of investors from the Middle East and Asia. In view of this development, it places South Africa as the first non-Muslim country in the African continent to issue sukuk and the third country in the world behind Britain and Honk Kong. With this outstanding development, it has placed South Africa as a serious contender alongside Nigeria, Senegal and some North African countries like Egypt-the pioneer of Islamic finance.

2.4.3 Egypt

Egypt is a Northern African country with approximately 84.5 million people consisting of 90 percent Muslim population. The GDP of the country as at 2011 was USD501, 752billion, per capita income of USD 5,940 and annual average growth of 5.1 percent (CIA, 2013). Importantly, idea of modern Islamic banking emanated from the shore of Egypt in 1963, which eventually collapsed due to weak regulation and supervision according to Grais (2012). Egypt, which is an early mover and pioneer of the industry is certainly lagging behind Malaysia, Bahrain and GCC countries. Thus, the country's Islamic financial assets are estimated around 5 percent of the total financial system. This is because IBF has not received the desire boost in Egypt, largely due to lack of governmental supports and promotion to create the enabling environment for the industry to grow. No wonder, there is no general law for Islamic banking and finance in the country but through tailor made legislation under the general banking law. Nevertheless, Egypt has made significant progress in deepening and developing its financial legal and regulatory framework for Islamic finance in the country. The Law number 48 of 1977 of the Banking Law, which serves as the legal framework for the establishment of Islamic banking does not, however, provide for its peculiarities. Similarly, the latest version of the Banking Law i.e. law number 88 of 2003 contains no provision on Islamic banking (African Development Bank, 2011). Unfortunately, the efforts of the ousted Morsi's regime to provide the enabling environment and supports did not see the light of the day. In this direction, Khan and Bhatti (2006) submit that lack of government support and guidance was among the reasons responsible for the failure of Islamic finance in Pakistan, inspite of being an Islamic republic.

4.1.2Factors Leading to the Emergence and Enthronement of IBF

The literature on Islamic finance is replete with numerous factors responsible for the emergence of Islamic finance in various countries. Generally, there is the bandwagon effects of Islamic finance in view of its tremendous growth and popularity, thus serious nations like South Africa considers the economic and political impacts on its economy. No wonder therefore, the South Africa National Treasury is committed to ensure that the country becomes the gateway of Africa as far as Islamic banking and finance is concerned. In the case of Nigeria, the government considers it as a tool of financial strategy to assist in the transformation process of becoming one of the 20 biggest economies by 2020 and perhaps, a political strategy to appease the unbanked populace who are substantially the Muslims in the country.While for Egypt, the government regards the emergence and enthronement of IBF not from the economic and political perspectives but from a religious and ideological point of view i.e. as a process of Islamizing the country. As such, the unbanked group who are largely Muslims have been financially excluded (i.e. 56 percent adult population) because of the Islamophobic posture of the government.

4.1.3Contributions of IBF to the Economies of BEEs

The emergence and operations of Islamic finance in these countries should assist in the deepening of their financial system, more financial inclusion for the unbanked group, provides employment opportunities, increase foreign direct investments, infrastructure development and a host of others. For instance, Absa Islamic Bank, which in 2013 was declared as the best Islamic bank in South Africa, controls assets worth USD 75.98 billion with 10.9 million customers and over 33,000 employees as at December, 2012 (Islamic Finance News, 2014). On the other hand, Grais (2012) commends the significant progress made by Egypt in terms of development and deepening of its financial system. He was however quick to observe that more still needed to be done, especially in the areas of increasing the depth, diversification of services, regulatory and supervisory arrangements and more so, the financial inclusion remains limited. This could be due to the stifling and suffocation of Islamic finance in the country due to lack of governmental supports. He posits that Islamic finance, if given the required impetus would contribute to all these areas because evidences of these exist in countries like Bahrain, Malaysia and Saudi Arabia among others. Interestingly, Nigeria even though a latecomer to the adoption of Islamic financeis already reaping from foreign direct investment through the foreign investors who contributed to the recapitalization process of N25 billion for Jaiz Bank. In this same vein, the bank has successfully employed the services of previously unemployed graduates to man its growing office and branches.

Also, the enthusiasm shown by the unbanked group in patronizing the bank is an indication of its prospects and acceptability by Muslims in Nigeria and more so, on the parts of non-Muslims who consider it as an open and viable business venture. It is in this light that Sanusi (2011) submits that Nigeria has the potential and capacity of becoming Africa's hub on Islamic banking and finance given the enormous market prospects of the industry in the country. Certainly, this would translate to multiple benefits (like financial inclusion, infrastructure development, employment creation and a host of others) for the country in view of the salutary impacts on the economy. In this vein, it has been noted that since the introduction of Islamic finance in Nigeria, the activities of SMEs have been boosted with accessible and affordable credit facilities. Also, several individuals are now having access to credit facilities from the industry.

5.0 Conclusion and Recommendations

This paper has brought to the fore, the significant role and contributions of Islamic finance industry in the economic growth and financial development process of the African continent with particular focus on the Big Emerging Economies in the continent i.e. South Africa, Nigeria and Egypt. It is noted that the prospects of the industry seems very promising in the continent and especially, in South Africa and Nigeria, while same cannot be categorically stated for Egypt. This is due to the long years of unfavorable political and governmental supports and patronage; and even now, because of the political logjam in the country,the industry seems gloomy or at a crossroad in Egypt. Against this background, the various governments in Africa, particularly in Egypt, should seek to understand and consider Islamic finance as a veritable finance strategy and also,as an alternative financial intermediation that can contribute to the economic growth and financial development process in their countries. Most especially in the areas of infrastructure development, financial inclusion, employment creation, economic diversification, foreign direct investments, poverty alleviation, human capital development and a host of others.To this end, this study therefore recommends that African leaders should integrate IBF as part and parcel of their economic and financial systems, in order to benefit optimally from this new economic and financial phenomenon that is cutting across religious affiliations, cultural differences and geographical boundaries.

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Appendix 1
List of Some Islamic Banking and Halal Financial Products Institutions in the African Big Emerging Markets (Bems)

Country	Names of Banks and Financial Institutions
Egypt	1) Faisal Islamic Bank 2) Albaraka Islamic Bank 3) Abu Dhabi Islamic Bank (ADIB) 4) Egyptian Gulf Bank 5) Arab Investment Bank (Islamic Banking Operations) 6) National Bank for Development 7) Bank Misr (Islamic Branches) 8) General Investment Company 9) Islamic International Bank for Investment and Development 10) Islamic Investment and Development Company 11) Egyptian-Saudi Finance Bank 12) Nasir Social Bank
South Africa	1) Albaraka Islamic Bank 2) ABSA Islamic Bank 3) Liechtenstein Arinco Arab Investment Company 4) Islamic Banking System Finance 5) Luxembourg Islamic Finance House 6) Universal Holding South Africa JAAME Ltd.
Nigeria	1) Jaiz Bank 2) Standard Chartered Bank (Islamic window) 3) Stanbic IBTC Bank (Islamic window)

Source: Adapted from: The Muslim World Portal, Awqaf London (201) and Global Banking and Finance Review (2013).