

Islamic debt capital markets in Nigeria

Global debt capital markets have experienced significant growth in Islamic finance, reflecting a rising interest in sustainable and ethical investment products that align with Shariah principles. ADEOLA SUNMOLA and TOMISIN BHADMUS-LADI elaborate.



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This can be attributed to the various factors that have led to the increased awareness of the effects of environmental degradation, social injustice and the search for sustainable financial yields. Without doubt, the availability of Islamic finance products in debt capital markets has played a role in satisfying this demand.

Nigeria, with its large Muslim population and a growing market for Islamic financial products, has shown considerable progress in its Islamic debt capital markets over the past decade. According to a report released by Fitch Ratings on the 11th June 2023, Nigeria's Islamic finance sector was valued at approximately US\$3.8 billion by the end of 2023.

This market primarily comprises Sukuk, which accounts for 59.3% of the total industry value, followed by non-interest banks at 39.8%, and Islamic funds and Takaful, which together represent 0.9% of the market. As one of Africa's leading countries for Islamic finance, Nigeria holds an estimated 42% of the continent's Sukuk market, demonstrating its established and growing influence in Islamic debt capital markets across Africa.

A major driver of Nigeria's Islamic debt capital market has been Sukuk issuances by the Federal Government of Nigeria (FGN), aimed at funding critical infrastructure projects and road development across the country. The most recent issuance, a NGN350 billion (US\$212.88 million) sovereign Sukuk issued in 2023, saw strong demand from investors, with an oversubscription rate of 435%.



A program which the FGN commenced in 2017, the proceeds from these Sukuk issuances have been allocated to major infrastructure projects including the construction and upgrade of thousands of kilometers of highways across Nigeria. In addition to the FGN's Sukuk issuances, state governments are also beginning to explore Islamic finance as a viable source of funding infrastructure and other projects.

Lagos, for instance, successfully issued a NGN20 billion (US\$12.16 million) Sukuk in May 2023 to fund the rehabilitation and upgrade of roads within the state. This issuance also received strong support from the investment community, with a 15% oversubscription rate.

By diversifying funding sources and utilising Islamic finance products, both federal and state governments in Nigeria are demonstrating the potential of ethical finance as a sustainable funding model for infrastructure projects in Africa.

Beyond Sukuk, Nigeria's Islamic finance landscape has evolved to include non-interest commercial papers, providing a Shariah compliant option for corporate short-term financing. These instruments offer a non-interest-based solution for companies seeking liquidity for operational purposes, aligning with the

needs of corporates and investors seeking ethical alternatives.

The regulatory framework for non-interest commercial papers was introduced by the FMDQ Securities Exchange Limited in the amended Commercial Paper Registration and Quotation Rules, issued in October 2023. Building on this framework, the FMDQ approved the first Nigerian non-interest commercial paper program in September 2024, marking a significant milestone and advancement in the expansion of Islamic finance options in Nigeria.

Nigeria's Islamic financial market owes much of its growth to the supportive regulatory framework developed by the Central Bank of Nigeria (CBN) and the Securities and Exchange Commission (SEC). The CBN's capital requirements for Islamic banks are much lower than those for conventional banks, allowing these institutions to grow their service offerings more easily.

Additionally, the CBN's lower liquidity ratio requirement for Islamic banks helps maintain their capital adequacy, facilitating the expansion of non-interest banking services. This regulatory support has enabled Islamic banks to increase their service offerings and diversify their products within the Islamic finance sector.

The SEC has also supported the growth of Sukuk and non-interest commercial papers, reflecting Nigeria's commitment to diversify its financial market offerings. Additionally, the Nigerian government and regulatory bodies are actively promoting awareness of Islamic finance offerings to make these financial products more accessible to the public. These initiatives not only strengthen Nigeria's domestic Islamic finance sector but also increase its attractiveness to international investors, aligning with the country's broader economic goals.

In a recent move to strengthen investor awareness and collaboration within the sector, the Nigerian Exchange Limited partnered with the Islamic Development Bank Institute. This partnership aims to promote Islamic financial products and increase understanding of Islamic finance among investors, underscoring Nigeria's ambition to establish itself as an Islamic finance hub in Africa. Such initiatives demonstrate Nigeria's commitment to offer diversified funding sources and sustainable infrastructure financing options that support its long-term development objectives.

While the Nigerian Islamic debt capital market is expanding, there are still some challenges such as limited public awareness of Islamic finance products and a need for more robust distribution networks. There is also an expectation that more Nigerian states will consider Sukuk issuances to address financing needs and fund capital projects. The intricate nature of Sukuk and the shifting Shariah standards continue to pose challenges for African sub-sovereigns, potentially slowing their adoption rates. Nonetheless, efforts are on the way to improve public understanding of Islamic finance with initiatives from government agencies and industry players aimed at education, addressing misconceptions and making Shariah compliant products more accessible.

The future of Nigeria's Islamic finance market looks promising, with ample room for growth. As Nigeria continues to strengthen its regulatory environment and promote financial inclusion through Islamic finance, it is well-positioned to establish itself as a leader not only in Africa but also in the global Islamic finance landscape. (P)

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