

Meeting Africa Infrastructure Needs Islamic Banking as an Alternative Sources of Financing

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Good morning Ladies and Gentlemen.

I am delighted to be here once again to talk to you on opportunities in Africa for Islamic Banking and Finance.

A vast continent comprising 20 % of the earth's land mass and enjoying a growing population, which is currently 16 % of the world's population and endowed with vast unparalleled natural resources, Africa presents itself as a land of opportunity for the intrepid investor.

According to Program for Infrastructure Development in Africa (PIDA), African countries will grow at about 6 % per year over the next 30 years, which translates into Africa's GDP multiplying six fold over the period and the per capita income in Africa rising to USD 10,000 for all countries.

To keep pace with this expected growth,

- Power demand will rise from 590 terawatt hours in 2010 to 3,100 terawatt hours in 2040 and currently installed

capacity of 125 GW (comparable to the UK) will have to increase to 700 GW

- Transport volumes will increase and particularly for landlocked countries while port throughput will also rise.
- Water needs will put immense pressure on some of the river basins such as the Nile, Orange, Volta and Niger basins.
- Information and communications technology demand will increase extensively as Africa catches up with broadband.

In the last decade Africa's economies have been growing at a fast pace second only to Asia. This growth is expected to continue in the future. This will require additions to basic infrastructure in the continent, which has transformed itself from the hopeless continent to the hopeful continent in the past decade.

Basic infrastructure will include transport, power, water, sanitation, broadband and telephony and enhancing economic integration of all countries of the continent, particularly the many landlocked and small countries of the continent.

Infrastructure development in Africa will be key to Africa's future but financing this development is as challenging as the infrastructure itself. The gap in financing infrastructure in Africa is so high and estimated at some USD 50 billion and this cannot be met through the normal channels. This would require innovative ways to procure additional finance..

Development of the infrastructure will create jobs and offer opportunities for all players in the field be they African countries or financiers from within the continent and from without. It is obvious that African countries cannot provide education or health services to their growing populations without electricity, broadband and connectivity. Africa cannot assure of itself food security or agricultural development without an efficient and

reliable transport and it would be difficult to live in Africa's growing cities without sufficient clean water, efficient sanitation processes, affordable electricity and mass transportation.

The key factors driving the rapid growth of Africa are as follows:

1. **Africa's Diverse Natural Resources** – Africa is endowed with a wide range of natural resources including not only minerals but also vast cultivable lands. Exploitation of these requires large investments in infrastructure in terms of transportation, water, electricity and communications.
2. **Africa's Growing Intra-Africa Trade** – According to an African Development Bank Report in 2012 (*Development Effectiveness Review 2012*), Africa's intra-African trade doubled from USD 49 billion in 2005 to USD 108 billion in 2011, i.e. through a mere 8 year period and this is expected to grow further. This economic integration will require investment in transport infrastructure, trade corridors and logistics supply chains.
3. **Africa's Population Growth** – Africa's population has now passed the one billion mark and this is expected to grow to 2 billion over the next 50 years. This would require heavy investments in infrastructure. This population growth is linked to rapid urbanization. Currently the continent is 40 % urbanized and this is already putting pressure on existing infrastructure. Urbanization would require investments in mass-transit systems, water supply, electricity, waste management and related environment and health services.

The growing populations will require increase of food production and this would in turn require investments in

agro-infrastructure such as dams, irrigation systems, storage and warehousing and distribution networks.

The challenge of securing long term finance in Africa has always been a pain. Traditional long term finance in Africa was provided by bilateral and multi-lateral donors and international institutions. These traditional sources are reported to contribute some USD 50 billion per year but this is inadequate in terms of Africa's needs. The donor contributions are expected to decline in the foreseeable future as the donor countries themselves face difficult economic environments at home.

Africa, therefore, needs to tap new sources and much is said about Africa's domestic resources. While this is true and natural, we also believe that Islamic Banking can also play a role.

Africa has a large untapped potential of domestic sources but it also has a large migrant population that has not been tapped for Africa's infrastructure development. Finding ways to tap these resources will be one of the keys to developing Africa's infrastructure.

As reported in the Retail Banking Conference held in Johannesburg in South Africa annually, close to 80 % of Africa's adult population remain unbanked. This is over a 325 million population. Banking the unbanked will bring in five to ten times what is available today and Islamic Banking can play a significant role in this. Here in Djibouti, we have seen and practically lived through a surge in unbanked people coming into the banking system when the Islamic banks started to operate in the country.

As commercial conventional banks have failed over the past 100 years, the deposits collected through Islamic Banking can be tapped for private sector initiatives in the growth sectors of the

economies in the continent such as the fishing industry, agriculture and agricultural supply chains, telecommunications, mining, small scale industries and thus freeing the available current resources from donor countries for road, rail and other infrastructure developments.

Africa's private sector can play a major role in developing Africa's infrastructure. Recently in East Africa, a number of traders got fed up with the services of the Uganda-Kenya Railways and they expressed interested in investing in the company provided an improved quality was guaranteed. Islamic Banking as a collector and reservoir of the scattered private resources can be used as a sources of financing for Africa's infrastructure.

Similarly, Africa has also a large migrant population - some 30 million of which more than half are in high paying jobs. Tapping this resource through an efficient sukuk infrastructure would contribute substantial funds for development but only if Islamic banks were willing to take the initiative.

This would be good for Islamic Banking as well as for building Africa's infrastructure.

Thank you