

PART B

NON-INTEREST CAPITAL MARKET PRODUCTS MASTER PLAN

2015 - 2025

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EXECUTIVE SUMMARY

This report charts the future strategic direction of the Non-interest segment of the Nigerian capital market for the next 10 years (2015 – 2025). The master plan is intended to boost the development of the Non-interest capital market (NICM) by providing clarity of vision and set objectives that can positively impact on market capitalization. It is also aimed at ensuring that the market is well positioned to support Nigeria's economic development by providing alternative sources of long term financing.

In view of the increased funding needs of a fast growing Nigerian economy, it is obvious that there are limited supply of sufficiently diversified capital market products and services amid increasing appetite for investments especially from foreign investors. Besides, domestic investor participation in the capital market remains low, partly attributable to investor apathy from a section of the populace. To this end, it is clear that the Non-interest Capital Market segment faces a number of challenges which are pointers to the need for a comprehensive yet systematic approach towards the future development of the Non-interest capital market with a strategic focus. The formulation of a Non-Interest Capital Market Products Master Plan (NICMPs) is therefore of crucial importance.

The NICMPs Committee, inaugurated on 9th September, 2013 was headed by Mrs. Hajara Adeola of Lotus Capital Ltd to appraise the current state of NICM and make recommendations to set out clear and specified direction for the next decade.

Terms of reference

1. Review the current legal/regulatory framework for Non-interest Capital Market products to align with international best practice.
2. Review and recommend an appropriate structure of over-sight bodies e.g. (Shari'ah Advisory Council) for Non-interest Capital Market Products where necessary.
3. Identify ways of using such Non-interest capital market products e.g. (Sukuk) as a tool for financing infrastructure in Nigeria having considered the experience of other notable jurisdictions (Malaysia, Dubai etc.)
4. Identify the tax issues and other incentives that will attract participants toward Non-interest capital market products e.g. tax neutrality incentives for interest expense to develop an appropriate market structure for such products.
5. Identify and examine any other factors that might affect the development of a robust basket of Non-interest capital market products and make appropriate recommendations.
6. Design/recommend appropriate capacity building programmes for both regulators and market operators that would encourage financial inclusion.

Modalities

The Committee carried out a comprehensive review of the Non-interest capital market to assess existing structural deficiencies and impediments under four working groups - Products, Legal and Regulatory, Structure of oversight bodies (Shari'ah Advisory Board), Tax and other related Issues. A process of consultation subsequently took place involving a wide range of parties including government institutions. This report is the outcome of the intensive work carried out by the Committee towards the achievement of its mandate.

Vision

The overall goal of the NICMPs master plan is to contribute at least 25% of the overall capital market capitalization in the next 10 years. In order to achieve this vision, four (4) key objectives have been identified to form the basis for the Master Plan's main strategic initiatives and specific recommendations as listed below in Box:

Box: Strategic objectives and initiatives

Strategic Objectives	Strategic Initiatives
To build a strong regulatory foundation for NICM	<ul style="list-style-type: none"> Strengthen the institutional capacity of SEC Strengthen coordination among regulatory authorities within the financial sector Continuous review/creation of new rules on NICMPs
To encourage the development of NICM market stakeholders	<ul style="list-style-type: none"> Regulatory authorities to engage stakeholders on a continuous basis on issues relating to NICM Conduct robust public awareness and education programmes on the NICMPs Build capacity of stakeholders through tailored courses/programmes/seminars/workshops e.t.c. Ensure easy entry of market participants into the NICM
To encourage the development of NICM products	<ul style="list-style-type: none"> Ensure availability of NICMPs that meets the regulatory requirement of banks, takaful companies, PFAs, assets managers and other fund/portfolio managers Ensure availability of NICMPs that attract retail investors to achieve financial inclusion Regulatory authorities to engage stakeholders to address tax issues related to new products
To create a regional NICM hub	<ul style="list-style-type: none"> Promote and enhance cross listing of NICMPs Promote and enhance multi-currency listing Rationalize cost of listing/issuance process of NICMP Ensure active promotion of NICM in the sub-region Enhance the liquidity of the NICMPs in the secondary market

Recommendations

The committee's recommendations which are critical for a vibrant Non-interest capital market and for its enhanced global prestige include:

1. To Build a Strong Regulatory Foundation for NICM

Prime Recommendations

PENCOM

- To fast-track the release of guidelines on multi-fund structure for Retirement Savings Account (RSA) Funds which contain a non-interest funds

CBN

- To fast-track the release of guidelines on liquidity status on NICMPs similar to the existing guidelines on conventional products

SEC

- To issue guidelines on approach for regulating Shari'ah governance/model of Shari'ah advisory council.

CAPITAL MARKET STAKEHOLDERS

- To jointly enlighten policy makers on the need to amend BOFIA to accommodate the use of CBN assets to create non-interest liquidity instruments

2. To encourage the development of NICM market stakeholders

Prime Recommendations

SEC

- To establish a Programme Management Office to train and build internal capacity on NICM
- To spearhead initiatives to enhance the awareness of the market at domestic and international levels
- To engage Federal Mortgage Bank of Nigeria and Nigeria Mortgage Refinancing Company to issue sukuk to fund Primary Mortgage Banks. Other potential issuers should also be contacted and encouraged by SEC to issue NICMPs
- To spearhead efforts to organize structured training for stakeholders FMBN & NMRC
- To encourage PMBs to offer non-interest products

3. To encourage the development of NICM products

Prime Recommendations

CBN

- To issue non-interest T-Bills and short term notes

CMO

- To promote a wider range of NICMPs to create opportunities to tap investible funds from investors that are averse to conventional products.

SEC

- To encourage the setting up of a 'functional' and standardized commodity exchange(s) with varieties of non-interest instruments.

4. To create a regional NICM hub

Prime Recommendations

DMO

- To issue sovereign sukuk to establish a benchmark yield curve for Nigeria as there are no impediments in its Act

SEC

- To work actively with other relevant regulators and the industry to initiate further measures to improve the incentives for NICM e.g. floatation cost, 50% discount, waiver of 50% on regulatory fees for the next years and shorten turnaround time for issuance of NICMPs
- To pursue synergistic relationships with other major Non-interest capital markets such as UK and Malaysia

The rest of this report is structured as follows:

- Chapter 1 provides an overview of the background and vision underpinning the development of the Masterplan and the approach taken in its formulation.
- Chapter 2 examines the current state and challenges of the market
- Chapter 3 discusses the strategic objectives and strategies for developing the market
- Chapter 4 outlines recommendations
- Chapter 5 presents the implementation roadmap for formulation of the master plan

Comments by Committee Sponsor, Rt. Hon. Zakawanu I. Garuba

The SEC in its effort towards actualizing its mandate of developing a fair, efficient, transparent, and world class capital market, set up a 10- year Master plan committee for the non-interest capital market (NICM) segment.

The NICM Master Plan sets out the roadmap for a 10-year period ending in 2025. It provides a crucial guide in our journey to realize our vision to develop NICM that can contribute significantly towards national development. The overall goal of the Master Plan is to contribute at least 25% of the overall capital market capitalization in the next 10 years.

The prime goal of developing NICM can only be achieved in an effective manner if its implementation is carried out in sequence through realistic and focused strategies and work plans as highlighted in the report.

The launch of the NICM Master plan represents an important landmark in the history of the Nigeria capital market. It marks the first comprehensive plan, developed in partnership with stakeholders to map out the development of the NICM for the next 10 years.

Against the background of the constraints in accessing long term financing coupled with the need for financial inclusion, the master plan provides clear strategies to position the NICM to play an effective role in supporting national growth and development to enhance global competitiveness of the Nigerian capital market.

In the light of the above, I have the mandate to sponsor the master plan aimed at charting the strategic positioning and development of the NICM. The master plan seeks to give direction to market stakeholders given that it contains descriptions of future development initiatives. This allows them to position themselves for the future.

I would like to commend the committee members and other stakeholders who have offered their valuable support and input into the master plan. With the strong commitment of all stakeholders in implementing the initiatives, I am confident of the success of the master plan in actualizing a NICM that will contribute significantly to national economic growth and development.

Comments by Committee Chairperson, Mrs. Hajara Adeola

The NICM is a segment of the capital market that should play a pivotal role in any economy, both as an alternative source of finance and as an investment outlet.

Over the last decade, the Nigerian NICM has recorded a limited amount of growth. There are currently very limited amount of funds raised and little range of products and services available within the market. However, following the growing interest, it is projected that the market will play a significant role within the overall financial sector.

Going forward, it is clear that the non-interest capital market segment faces a number of challenges if it is to continue to fulfill its role within the domestic economy and effectively compete within the global space. The market must continuously be able to meet the evolving needs of investors and issuers.

To achieve this, it is crucial that the regulatory framework continues to provide all stakeholders with a high degree of confidence. The NICMPs must be robust to expand investment and funding options for investors and issuers.

Against this background, it is imperative to pursue a structured approach to development of NICM which necessitates the evolution of a master plan that provides clarity of the vision and objectives. The master plan is working guidelines that contain objectives, initiatives and work plans that must be implemented within a period of 10 years. The strategic roadmap focuses on charting the strategic positioning and future direction for the NICM. It envisions that Nigeria can establish a NICM that is internationally competitive, provide a reliable channel for the mobilisation and allocation of funds and guarantees financial inclusion.

The realisation of the vision through a number of recommendations contained in the Master plan is underpinned by four objectives and various strategic initiatives. The master plan is intended to provide guidance and direction to market stakeholders. It is important to mention that the Master plan is a dynamic document which will be subject to periodic review to ensure that it remains relevant.

In formulating the NICM master plan's strategic initiatives and recommendations, the current, immediate, and long term issues and challenges were taken into consideration. The Committee held extensive series of discussions and consultations with foreign experts and stakeholders. I am pleased to say that the Committee received significant input through all these channels and that the Master plan is the outcome of the effort.

On behalf of the Committee, I would like to thank the SEC Management for the opportunity to serve on the committee, the sponsor for his guidance and support over the course of preparation of the Master plan. I will also extend my thanks to all those who shared their views. You have made valuable contribution towards the formulation of significant policies that will drive the development of the NICM going forward. I am especially grateful to the members of the Committee, which I had the honour of chairing. Finally, I would like to express my gratitude to Omar Shaikh of International Finance Council, UK for his contributions in reviewing and providing guidance and input to the Master Plan report.

Since the inauguration of this NICM committee, the UK Prime Minister made a pledge to issue the first UK Sovereign sukuk, which has since been issued with 10 times oversubscription. This underscores the attractiveness of the NICM and what is possible with the strength of conviction. We expect that the momentum created by this process will gain traction and ensure the realisation of the master plan's vision for a fully inclusive Nigerian capital market.

CHAPTER 1

INTRODUCTION

1.1 BACKGROUND

Globally, capital markets are evolving to meet new funding and investment needs. Traditionally, countries have relied on conventional means to finance infrastructural needs. However, post-2008, the global economic crises made fund raising activities through conventional means challenging as witnessed by the Eurozone countries. These difficulties highlighted the relative attractiveness of alternative sources of finance. The evolution of alternative financing models taps into today's appetite for ethical finance and has been providing a complementary source of financing around the globe.

Financial markets are progressively focusing on niche market segments in order to diversify their market base and generally enhance the value of products and services by promoting areas in which they have comparative and competitive advantage.

The emergence of NICMPs as a viable and efficient channel for resource mobilization and optimal allocation is increasingly gaining prominence across the world. The market complements the funding and investment role of the conventional segment of the capital market by providing long-term funding necessary to achieve national development goals in line with ethical/Shari'ah principles.

" NICMPs are fast gaining momentum as major financing and investment vehicles

The NICM in Nigeria is a niche market which holds significant potential for growth. The challenges facing Nigeria from the fast changing domestic and international environment have highlighted the need for leveraging a fair, efficient and robust NICM. Consequently, the need to provide a clear blueprint for the NICM that would enhance its pivotal role in the domestic economy and within Africa cannot be overemphasized. Further justifications for development of NICM are detailed in the box below.

BOX 1: The Need for Non-Interest Capital Market Products in Nigeria

Some justifications for NICMPs in Nigeria include:

Promotes Financial Inclusion

- By issuing NICMPs, the public and private sector can access a previously untapped investor base. The market will capture local investors seeking non-interest/ethical investments and opportunities thereby ensuring financial inclusion. Investors are also able to buy NICMPs products in addition to existing conventional products.

Product Diversification

- NICMPs such as Sukuk are tradable instruments and in some jurisdictions have outperformed their conventional counterparts due to lower volatility hence their appeal amongst investors. NICMPs provide the opportunity for fund seekers (public and private) to diversify their sources of capital and thereby encourage more capital market debt. The availability of NICMPs as an asset class enables investors to diversify their investment options especially conventional investors. Effective demand for NICMPs is strong in Nigeria.

Attracting Foreign Direct Investment

- By issuing NICMPs, the public and private sector can attract foreign capital into Nigeria and enhance the value recognition of the country as a NICM hub. Further, Nigeria can attract capital from foreign investors who are predisposed towards NICMPs.
- The growth of NICM in Nigeria will be fast-tracked as non-interest finance is fast growing across the world. With the slowing growth in the developed world, it has become critical to diversify our sources of investment capital. A key factor influencing optimism and the prospect for this diversification is the concentrated wealth in the rising Asian Tigers and the GCC zone (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, UAE). Some of the wealthiest countries and individuals in the world are seeking Shari'ah compliant investments in Africa.

Enhances Employment Generation

- By issuing NICMPs, the public and private sector can raise funds for development projects with attendant positive effects on employment.

Linking Financing with Real Economy

- NICMPs promote financial stability by linking the financial sector with the real sector of the economy.

Promotes Good Corporate Governance

- The asset-based feature of NICMPs promotes transparency and accountability and consequently good corporate governance.

"NICMPS ARE ASSET-BASED AND PROMOTE TRANSPARENCY, ACCOUNTABILITY AND CONSEQUENTLY GOOD CORPORATE GOVERNANCE

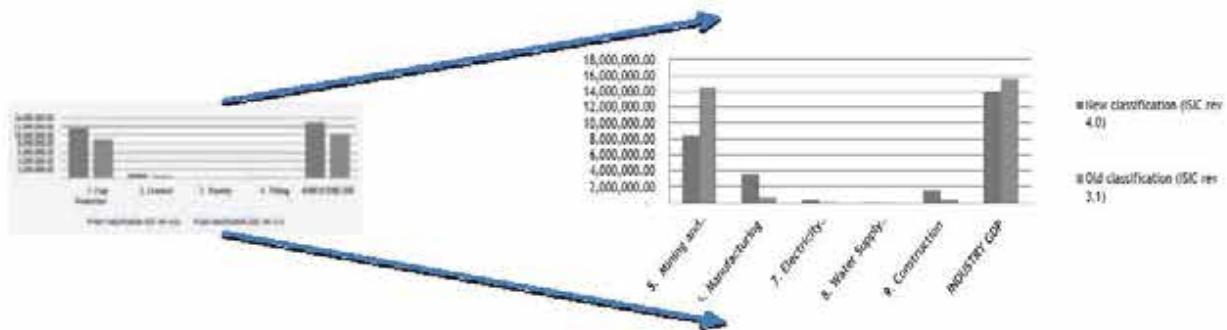
1.2 The Vision

To take advantage of its strengths going forward, it is envisaged that Nigeria will develop a robust, vibrant and dynamic NICM that is internationally competitive.

Nigeria has significant potential to develop a NICM that can contribute 25% of the overall market capitalization.

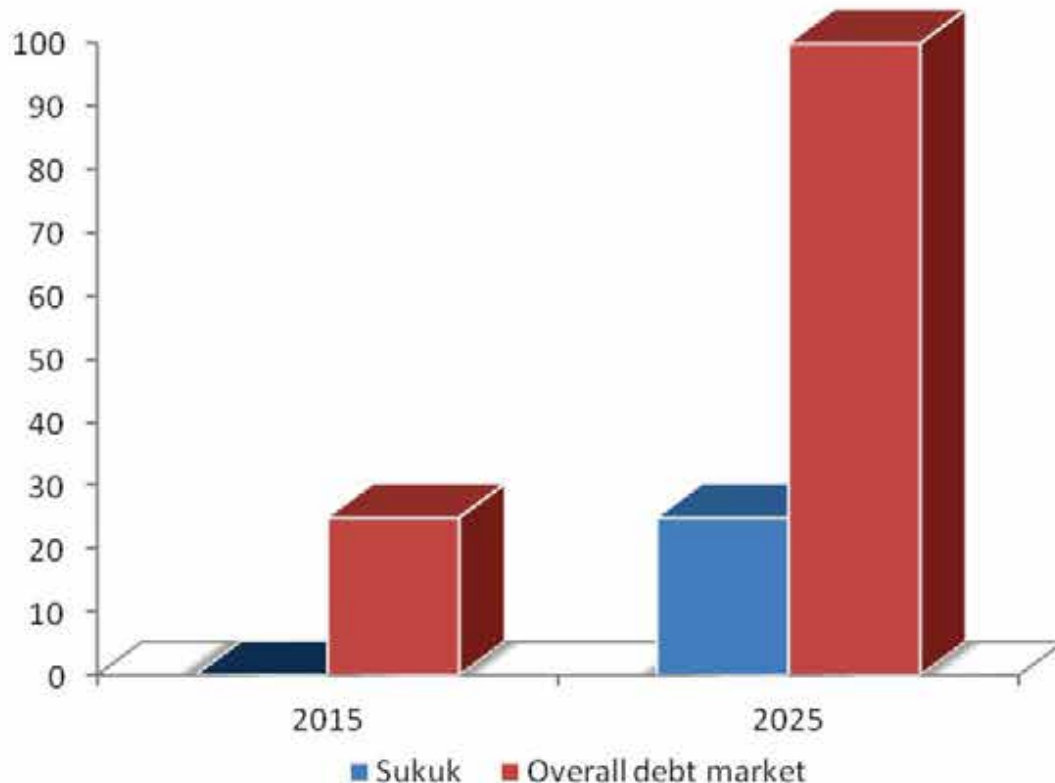
This vision indicates an overarching goal that will serve as a pivot to the sustainable development and strategic positioning of a vibrant and competitive NICM. The success of the NICM will contribute to the overall strength of the Nigerian economy.

Figure 1: Graphical representation of vision of the Nigerian NICM (1)



The NICM to contribute 25% of the overall market capitalization and sukuk is expected to contribute 15% of the overall debt market.

Figure 2: Graphical representation of vision of the Nigerian NICM (2)



“The vision is for the NICM to contribute 25% of the overall market capitalization and sukuk is expected to contribute 15% of the overall debt market

1.2.1 The Mandate

The SEC seeks to strategically transform the structure and fundamentals of Nigeria's NICM to achieve three broad goals as follows:

- Improve the product offerings to attract both conventional and non-interest investors thereby ensuring financial inclusion;
- Improve the relevance to domestic needs and contribution to national and regional economic growth and development; thereby making Nigeria the hub for NICM in Africa to enhance our global competitiveness.
- The Commission, on 9th of September, 2013, set up a committee for the NICMPs Master plan comprising stakeholders with the mandate of formulating a 10 year Master plan.

The plan is intended to firmly establish the NICM segment of Nigeria's capital market and to provide its strategic direction over the next 10 years by articulating the vision, objectives and strategic initiatives to be implemented going forward. It also seeks to address prevailing gaps in the NICM and to position it to play an effective role in financial intermediation.

“NICMPMP is to build a NICM that would be competitive in meeting the country's funding and investment needs and contribute to the long-term national development

The terms of reference for the committee are specified as follows:

1. Review the current legal/regulatory framework for Non-interest Capital Market products to align with international best practice.
2. Review and recommend an appropriate structure of over-sight bodies e.g. (Shari'ah Advisory Council) for Non-interest Capital Market Products where necessary.
3. Identify ways of using such Non-interest capital market products e.g. (Sukuk) as a tool for financing infrastructure in Nigeria having considered the experience of other notable jurisdictions (Malaysia, Dubai etc.)
4. Identify the tax issues and other incentives that will attract participants toward Non-interest capital market products e.g. tax neutrality incentives for interest expense to develop an appropriate market structure for such products.
5. Identify and examine any other factors that might affect the development of a robust basket of Non-interest capital market products and make appropriate recommendations.

6. Design/recommend appropriate capacity building programmes for both regulators and market operators that would encourage financial inclusion.

These terms of reference were formulated to ensure that the NICM is efficient, competitive and dynamic.

1.3 Methodology for Developing the Master plan

The Committee adopted the following approaches to develop the Master plan:

- Four working groups were created to work on various work streams as follows - Products, Legal and Regulatory, Structure of oversight bodies (Shari'ah Advisory Board), Tax and other related Issues. Each working group carried out an extensive review of all key issues and challenges and made recommendations
- Conducted secondary research to obtain data/information from various sources
- Collated and reviewed information/data provided by SEC members
- Reviewed literature containing experiences of other jurisdictions
- Reviewed capital market master plans of selected jurisdictions
- Organized sessions facilitated by an external consultant to review the draft master plan and to obtain stakeholder's input on relevant issues concerning the strategic positioning and future direction of the Nigerian NICM.
- Some stakeholders such as PENCOM and CBN were visited to obtain their perspectives.
- A broad-based consultative approach was adopted in formulating the NICMPMP

Some of the key documents reviewed include:

1. Existing regulatory framework:
 - i. SEC rules on Sukuk and Islamic Fund Management
 - ii. CBN guidelines on Non-interest banking
 - iii. NAICOM guidelines on Takaful
 - iv. PENCOM guidelines on investment by PFAs
 - v. FIRS guidelines and regulation on tax neutrality
2. Malaysia and Indonesia's capital Market Master Plan
3. Report of Joint Committee on Alternative Finance (JCAF) in Nigeria

These formed the basis for the development of the blueprint for the effective development and continued competitiveness of the Nigerian NICM.

CHAPTER 2

WHERE WE ARE

2.1 The Current State

The introduction of NICMPs in Nigeria has been a relatively recent development, in comparison with the more established conventional products. The first Islamic Fund (Halal Investment Fund) was launched in February 2008 by the pioneer Islamic fund manager (Lotus Capital Ltd). Subsequent to that, in 2010, the SEC came up with rules on Islamic fund management. To further strengthen the legal and regulatory framework, rules on sukuk issuance were issued in 2013. This effort has led to the landmark issuance of sukuk in Nigeria initiated by the Osun State Government with the issuance of Sukuk worth N11.4 billion naira (approximately US\$73 million) yielding 14.75 percent in 2013. This first Sukuk, floated for the development of schools in sub-Saharan Africa and is based on an ijara structure. In July 2012, the Nigeria Stock Exchange launched the NSE Lotus Islamic Index to track select shari'ah compliant equities in Nigeria. As at end June 2014, there were 5 shari'ah/ethical unit trust schemes available in the market, with a total NAV of N35.8 billion, amounting to 19.6% of the total NAV of the unit trust industry as shown in table 3 below.

Similarly, the CBN, in 2011, issued clear guidelines for the supervision and regulation of institutions offering Islamic financial services (IIFS) in Nigeria. This led to the licensing of the first non-interest bank (Jaiz Bank Plc) in Nigeria in the same year. In 2013, the CBN inaugurated the Financial Regulatory Advisory Council of Experts (FRACE) to provide advice on Shari'ah compliance matters. By end June 2014, the CBN had issued 2 licenses for non-interest bank windows to Stanbic IBTC and Sterling Bank.

Despite these efforts, there is still a paucity of non-interest products and services. Key products such as non-interest t-bills, shari'ah compliant REITs and ETFs are non-existent. The potential of the NICM segment as a driving force for the Nigerian economy is yet to be unleashed. The market however offers attractive prospects for the country's industrialization, infrastructure development, business growth and economic development in general. The fund-raising capacity of the market has not been optimised. Only one sub-national sukuk issuance has been recorded in Nigeria. Albeit the first in sub-Saharan Africa.

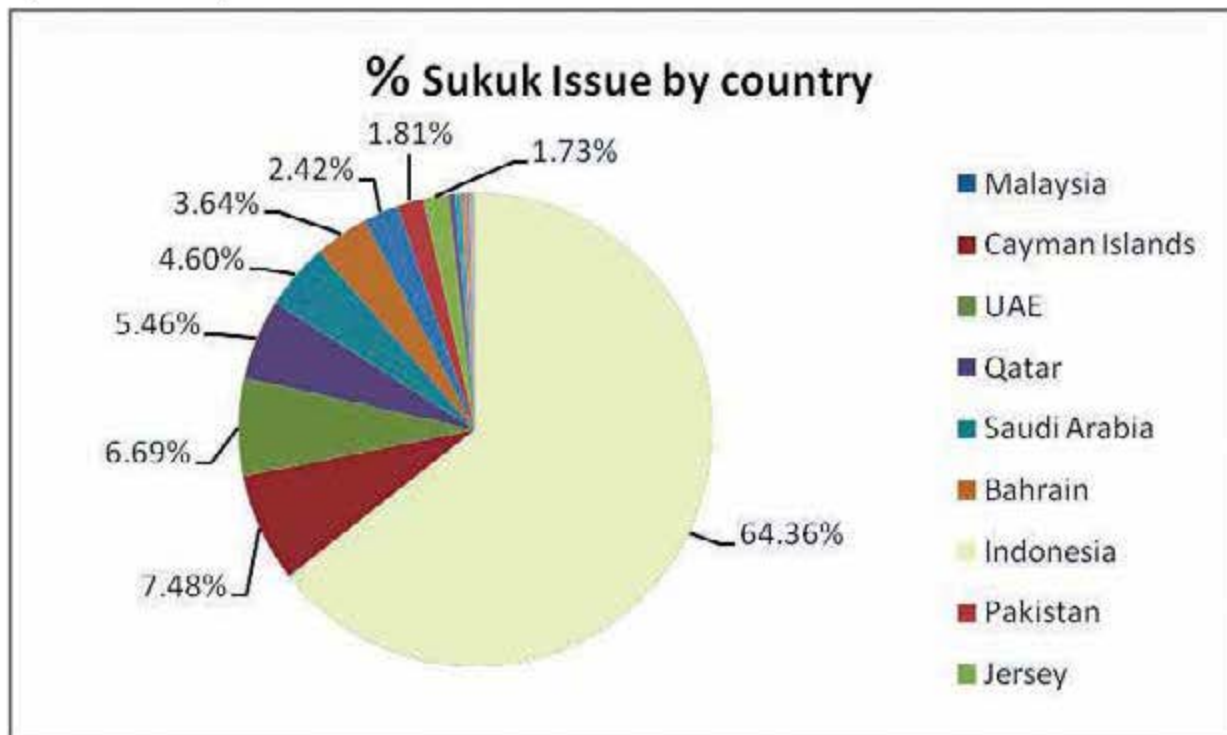
In terms of services, the Nigeria NICM offers non-interest product structuring, project financing and management services. As the market is undeveloped, so too is the scope, quality and penetration of intermediation services offered by securities brokers and issuing houses.

The Nigeria NICM is at a nascent stage. The market is neither deep nor broad-based. Naturally, the size of the NICMPs is relatively small when compared to conventional financial products.

“The Nigeria NICM is currently at a nascent stage

The graph below shows the size of sukuk issuance by countries (2000 – 2011).

Figure 3: Percentage of countries' sukuk issuance



Source: Report of the Technical Committee on Alternative Finance (Sukuk) in Nigeria

Table 1: Sovereign, Quasi Sovereign & Corporate Issue (All currencies),
1st January 2001 – 31st December 2010

	Country	Name Used for the Security	Sovereign	Sub-sovereign & Sovereign Related	Corporate	Domestic	International
1	Malaysia	Sukuk		✓	✓	✓	✓
2	UAE	Sukuk	✓	✓	✓	✓	✓
3	Saudi Arabia	Sukuk		✓	✓	✓	
4	Sudan	Sukuk	✓	✓		✓	
5	Bahrain	Sukuk	✓			✓	✓
6	Indonesia	Sukuk	✓	✓	✓	✓	✓
7	Pakistan	Sukuk	✓			✓	
8	Qatar	Sukuk	✓			✓	
9	Kuwait	Sukuk	✓		✓	✓	✓
10	Brunei Darussalam	Sukuk	✓			✓	
11	USA	Sukuk			✓	✓	
12	UK	AFIB			✓	✓	
13	Singapore	Sukuk	✓			✓	
14	Germany	Bond		✓			✓
15	Turkey	Sukuk			✓		
16	Japan	Islamic Bond			✓		
17	Gambia	Sukuk	✓			✓	✓
18	Iran	Sukuk	✓		✓	✓	
19	Ras Al Khaimah	Sukuk	✓				✓

Source: Report of the Technical Committee on Alternative Finance (Sukuk) in Nigeria

Africa constitutes about 0.46% of the global sukuk market to date, with only 354 sukuk issuance worth \$3.17bn. Out of the 55 countries in the region, only four have issued sukuk so far while another six countries are in the process to tap the market.

Figure 4: Sukuk issuance by Africa countries

Products	Malaysia	UK	Bahrain	Egypt	Nigeria
Sukuk	.	✓	✓	✓	✓
Equities	✓	✓	✓	✓	
REITs	✓		✓		
Unit Trust	✓			✓	✓
Index	✓	✓			✓
Venture capital	✓				

Source: Islamic Finance Information Service (IFIS) 2014

Table 2 provides an indication of the shades of NICMPs available in selected jurisdictions.

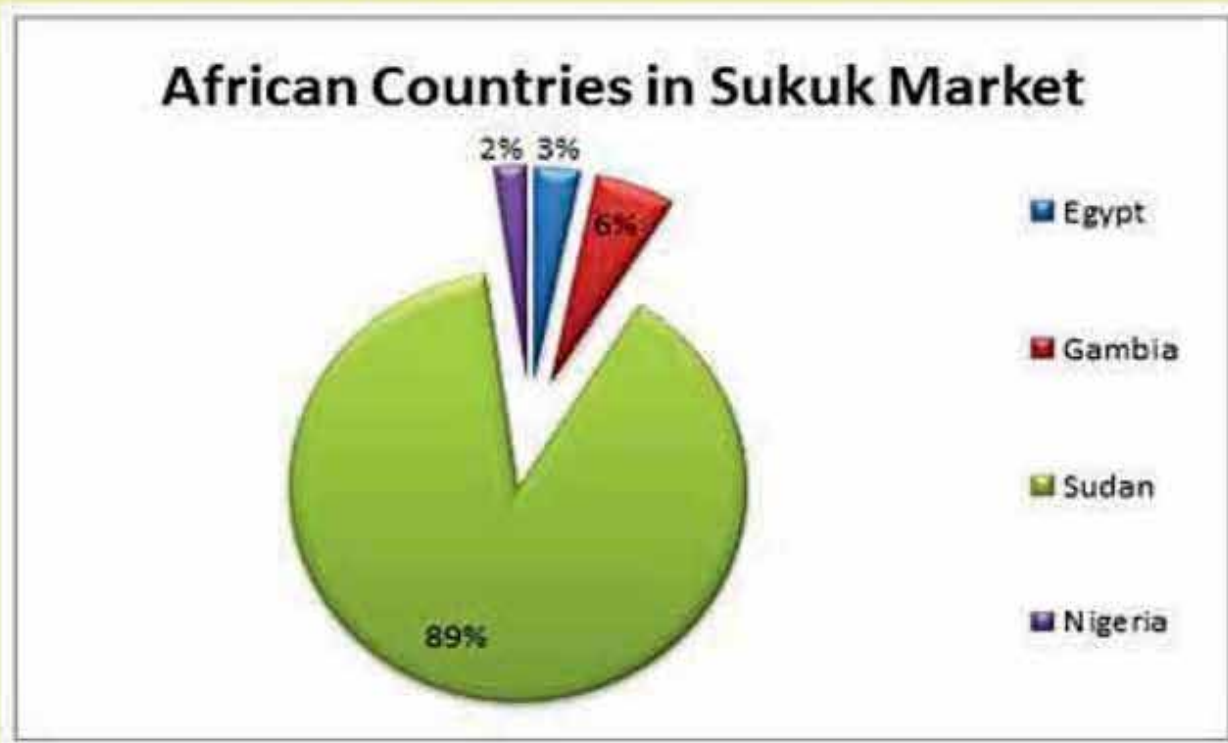


Table 3: Registered Ethical/Shari'ah-Based Fund in Nigeria as at 31st June, 2014

S/N	NAME OF FUND	FUND MANAGER	NET ASSET VALUE (N)
1	Zenith Ethical Fund	Zenith Bank Plc	893591047.14
2	Lotus Halal Investment Fund	Lotus Capital Limited	2,154,854,675.90
3	Stanbic IBTC Ethical Fund	Stanbic IBTC Asset Mgt. Co. Limited	3,224,472,849.91
4	ARM Ethical Fund	Asset & Resources Mgt. Limited	314105898
5	Stanbic IBTC Iman Fund	Stanbic IBTC Asset Mgt. Co. Limited	188511090.87
Total			6,775,535,562

Please note that the "ethical" funds are not shari'ah compliant.

2.2 Growth Potentials of the Market

The Nigerian economy is currently one of the strongest economies in Sub-Saharan Africa and rich in natural resources. The economy is the largest in Africa and has been growing at a steady pace of over 6% per annum for the past five years. Nigeria has a fast diversifying economy and is a leading destination for investment flows in Africa. It can achieve stronger GDP growth with ongoing economic reforms. Growth has been broadly based across all the major sectors of the economy: agriculture, oil & gas, retail/wholesale, real estate, construction and financial services.

“The potentials of NICM are immense but the market remains underutilized

Nigeria has a large infrastructure deficit. According to the AfDB 2013 report, Nigeria has an infrastructure deficit of \$360 billion. The country is urbanizing at one of the fastest rates in the world. Due to growth of the population in urban centres, large urban infrastructure projects (roads, power, water facilities, educational, health etc) will continue to be developed for many years to come. Demand is being fuelled by the need to renew and modernize aging infrastructure such as the road networks, water systems, power generation, transmission and distribution facilities. Construction growth in Nigeria will be the fastest of all markets, according to the latest 10-year forecast from Global Construction Perspectives and Oxford Economics (www.globalconstruction2020.com). To address this challenge, substantial capital through reliable funding sources is required.

“Nigeria has a substantial infrastructure deficit

Today, there is demand from the Asian and GCC countries looking for investment in growing emerging markets. Nigeria qualifies as such an investment destination hence the need to develop a vibrant NICM.

The demand for socially responsible investment (shari’ah compliant) domestically coupled with the need for financial inclusion represent cogent reasons in favour of the NICM. The strong local investor appetite was reflected in the oversubscription of the only sub-sovereign sukuk issuance in Nigeria. There are a sizeable number of entities that are yet to tap the NICM for funding purposes.

Taking these factors into consideration, Nigeria has strong potential to develop NICM. With the Non-interest finance markets increasingly becoming a significant component of global capital markets, it is important for Nigeria to adopt the approach of developing both the conventional and NICMs.

The potentials for the NICM are attractive but this market segment remains underutilized. To maximize its potentials, various strategic initiatives will be systematically implemented as discussed in chapter 3.

2.3: Challenges Faced by the Market

The Nigeria NICM is encumbered by some factors which are inhibiting the realization of its full potential. These challenges, which need to be addressed, are as follows:

1. Awareness gap
2. Knowledge gap
3. Limited legal and regulatory framework
4. Dearth of market players
5. Product deficit
6. Lack of secondary market

2.3.1 Awareness Gap

The level of awareness about the NICM is shallow. Consequently, most entities are not aware of the existence of NICMPs rather they rely on the conventional capital market instruments.

The low level of awareness is attributable to the negative perception and sentiments regarding the operation of NICM in Nigeria which has led to investor apathy. In spite of this, the appetite for investing in NICMPs is strong as mentioned earlier. This can be observed from the subscription level achieved on the first ever sub-national sukuk issue in Nigeria as indicated in box 2 below. It is important to note that that 80% subscription of the sukuk is from conventional investors.

Box 2 The Perception Deception: Conventional Investors Subscription to Sukuk Issues

- US\$166mil East Cameroon Gas sukuk - first US-based company to issue sukuk; majority conventional investors
- US\$3.5bil Dubai Ports sukuk – generated US\$11.4bn of orders with over 50% placed with conventional investors
- €100mil German State of Saxony-Anhalt sukuk issue – majority conventional investors
- US\$600mil Malaysian Sovereign sukuk : 51% of the investors from the Middle East, 30% from Asia, 15% from Europe and 4% from the US
- US\$700mil Qatar Global Sukuk: 48% conventional investors
- US\$500mil IDB Sukuk: 70% conventional investors
- US\$ 73 mil Osun Sukuk: 80% conventional investors

Source: Dr. Md Nurdin Ngadimon, SC Malaysia and Lotus Capital Ltd

2.3.2 Knowledge Gap

A large number of Nigerian investors lack knowledge about the concept, benefits and operations of NICMPs and this makes some Nigerians wary of patronizing same. This has led to paucity of skilled/qualified manpower in the field of NICM, which is critical to the success of the industry. This also accounts for the small size of the market.

The growth and development of the market is dependent on increasing public knowledge and awareness on the NICMPs which will eventually stimulate more issuances thereby deepening the market. Synergy among financial regulators is imperative in this regard.

2.3.3 Limited Legal and Regulatory Framework

Nigeria NICM is under-developed and so is the legal and regulatory framework. Even though the legal and regulatory framework for the NICMPs, Islamic banking and takaful (Insurance) appear to be robust for the development of NICM, there is still need for continuous improvement in rules especially relating to Islamic securitization, commodity murabaha e.t.c.

Another observed regulatory impediment is the non-permissibility of PFAs to invest in non-interest capital market instruments. This limits the growth of the NICM. Further, there is misunderstanding on the classification in terms of listing of capital market products.

2.3.4 Dearth of Skilled Market Players

As a result of misperception relating to operation of the NICM and limited knowledge of the area, there are very few players and this has consequently hindered the growth of the market. The skilled practitioners are very few hence there is urgent need to encourage more market players into the market. Experiences from some jurisdictions such as Malaysia and Dubai revealed that securities regulators usually assist the market operators in capacity building on NICMPs.

2.3.5 Paucity of Products

There are very few NICMPs in the Nigerian NICM today. There are only 3 shari'ah compliant funds and only one sukuk issue in the market. The paucity of products is attributed to the lack of awareness, understanding and appreciation of the products by issuers. Thus, efforts need to be intensified to create awareness that will stimulate the market.

2.3.6 Lack of Secondary Market

The few available NICMPs especially sukuk are very illiquid due to demand-supply gap. This is a global

phenomenon whereby the insufficient issuance relative to demand (evidenced by high oversubscription levels) results in investors adopting a buy and hold strategy. Further, there is lack of knowledge about the instrument that could create secondary market demand. To address this challenge, there is the need for extensive awareness campaigns, the introduction of new NICM products in sufficient volumes and market makers on the NICMPs.

CHAPTER 3

WHERE WE WANT TO BE

3.1: Strategic Objectives and Initiatives

Nigeria's NICM has witnessed some development over the years. As much as this progress has helped in the overall capital market growth to date, it is clear that significant initiatives are now needed to complement the actualization of the overall objective of making the Nigerian capital market a fund raising and investment destination in order to contribute to the nation's growth. A cogent and coordinated strategy to address existing identified gaps and lay the foundation for the NICM's future development is imperative.

In order to achieve the vision of the master plan, four key objectives have been identified that form the basis for the master plan's main strategic initiatives and specific recommendations. These strategies are fashioned to broaden the role of the NICM in enhancing the growth and development of the Nigerian economy through facilitative financing models.

These objectives and initiatives are stated as follows:

Strategic Objectives	Strategic Initiatives
To build a strong regulatory foundation for NICM	<ul style="list-style-type: none"> Strengthen the institutional capacity of SEC Strengthen coordination among regulatory authorities within the financial sector Continuous review/creation of new rules on NICMPs
To encourage the development of NICM market stakeholders	<ul style="list-style-type: none"> Regulatory authorities to engage stakeholders on a continuous basis on issues relating to NICM Conduct robust public awareness and education programmes on the NICMPs Build capacity of stakeholders through tailored courses/programmes/seminars/workshops etc. Ensure easy entry of market participants into the NICM
To encourage the development of NICM products	<ul style="list-style-type: none"> Ensure availability of NICMPs that meet the regulatory requirement of banks, takaful companies, PFAs, assets managers and other fund/portfolio managers Ensure availability of NICMPs that attract retail investors to achieve financial inclusion Regulatory authorities to engage stakeholders to address tax issues related to new products
To create a regional NICM hub	<ul style="list-style-type: none"> Promote and enhance cross listing of NICMPs Promote and enhance multi-currency listing Rationalize cost of listing/issuance process of NICMP Ensure active promotion of NICM in the sub-region Enhance the liquidity of the NICMPs in the secondary market

The NICM is an industry that is relatively new. The strategic initiatives are expected to place the NICM on an equal footing with the conventional capital market to allow the NICM to develop and achieve the strategic objectives. It is believed that this move will foster a balanced and healthy complementary environment for NICMPs and conventional products.

3.1.1 Building a Strong Regulatory Foundation

The legal and regulatory framework governing the NICM is one of the foundations upon which the NICM operates and develops. The regulatory regime must be able to adapt and respond speedily and appropriately to development in the Non-Interest Finance landscape.

To facilitate the development of an efficient and internationally competitive NICM that is capable of effectively serving the needs of the Nigerian economy, it is imperative that the NICM is characterised by a strong and facilitative regulatory framework with strong market confidence and protection to investors that enables the NICM to perform its basic economic role of fund mobilisation and allocation effectively.

Whilst significant efforts have been made in improving the regulatory framework, it is important for continuous efforts and appropriate initiatives to be directed towards strengthening and enhancing the regulatory framework in alignment with the NICM's overall objective.

Specifically, existing regulations will be refined and new regulations will be developed in line with developments in the NICM. This will be complemented by strong supervision and effective enforcement to ensure compliance. Efforts will also be directed at further improving the standards of business conduct of market participants. Full disclosure and accountability by regulated industry players will be enhanced. These are important for ensuring that public confidence in the integrity of the market is preserved at all times.

Good Corporate Governance (GCG) is one of the requirements for creating a healthy NICM. The regulatory framework that promotes the principles of GCG needs to be enhanced to build a strong foundation for developing a vibrant NICM that has the ability of sustaining confidence of participants.

Regulatory framework and guidelines of financial sector regulators are expected to be complementary to provide coordinated regulation in Non-interest Finance sub-sector.

Initiative 1: Strengthen the Institutional Capacity of SEC

Based on the novelty and dynamism of the NICM, SEC needs to enhance its institutional capacity to keep pace with the demands of the market in line with its mandate of regulating and developing the Nigerian capital market. A notable area for institutional strengthening has been identified as human resource capacity.

Measures will be taken to train and re-train skilled personnel of SEC in this field to enhance their knowledge. This is important considering the crucial apex regulatory role SEC will play in promoting the development of the Non - Interest capital Markets.

Co-ordinated efforts between the SEC and relevant industry bodies to work on training initiatives and continuing professional education should be pursued.

Efforts will be made to ensure effective monitoring and supervision of NICM operations as well as strong enforcement which is key to enhancing market integrity and boosting investor confidence.

Initiative 2: Strengthen Coordination among Regulatory Authorities within the Financial Sector

Given the novelty of Non-interest Finance in Nigeria, cooperation and coordination between the regulatory authorities in the non-interest financial sector needs to be enhanced to address common issues.

Increased levels of co-operation, interaction, information exchange, collaboration, and policy initiation and implementation between the various financial markets regulators and government agencies will also strengthen oversight and ensure consistency and effectiveness in implementing policies/programmes. Hence, a forum will be introduced as platform for consistent flow of information.

INITIATIVE 3: CONTINUOUS REVIEW/CREATION OF NEW RULES ON NICMPS

Rules on NICM need to be reviewed and strengthened to attain international standards, strengthen oversight, enhance transparency and promote a robust and deeper market. There is need for SEC to intensify effort in this direction.

3.1.2 Encouraging the Development of NICM Market Stakeholders

Human resources are critical to the development of the NICM. Having adequate human resources, in terms of quantity and quality, will enhance the development of the NICM in Nigeria.

Currently, there is paucity of market operators that have good understanding of the NICMPS. There are however substantial opportunities for participants to establish their niche in the area, as well as to participate in a number of transactions to enhance and deepen the NICM segment.

Initiative 1: Regulatory Authorities to engage Stakeholders

Given that human resource development will be focused not only on building the industry technical knowledge but also knowledge of fiqh muamalat (i.e. Islamic jurisprudence and shari'ah commercial transaction), it is imperative to forge synergy with relevant stakeholders to promote the development of the NICM.

Further, there is the need to enhance regulations to support the implementation of standard qualification and certification for professionals in the NICM including shari'ah experts.

Initiative 2: Conduct Public Awareness Campaigns

To increase the number of participants and investors especially retail investors, accurate and appropriate communication is necessary. Public awareness will be pursued to enhance the knowledge of the public on NICM. The programmes will be structured specifically for particular market segments. Awareness programmes will be focused and aligned with the conventional capital market products.

Initiative 3: Build Capacity of Stakeholders

The availability of practitioners with knowledge and skill will improve the smooth functioning of the market. The Nigerian educational system is currently not producing enough people of the calibre required by the NICM.

Market participants require specialized knowledge and skills for the performance of their functions. Effort to improve the quality of players will be made through enhancing the standard qualifications or requirements that need to be fulfilled for operators practicing in the NICM segment and continuous improvement of players.

Continued training and upgrading the skills of local professionals will help local participants enhance their skills and understanding so that they operate and compete effectively in the emergent market.

To strengthen intermediaries/professionals that are capable to offer a broad range of NICMPs and services, there is the need to enhance professional standards, conduct and consumer protection in the delivery of services.

Specifically, the availability of legal professionals and judicial officers who are conversant with non-interest financial transactions should be enhanced to further strengthen the pool of expertise within Nigeria's NICM. Therefore, training and education effort should be initiated to build up competent legal professionals who possess the necessary technical expertise to handle non-interest financial cases within the judicial system.

Key players within the market such as issuers are to be sensitized on the available fund raising opportunities within the market.

The investing public is a major stakeholder in the NICM and their literacy on NICMPs is important in enhancing the development of the market. Collaboration and cooperation of stakeholders are required to increase the domestic investor base. Specifically, investor education will require partnership with other bodies such as professional associations, academic institutions, and related government institutions.

Human resources development for SEC will focus on increasing the understanding of fiqh muamalah. The availability of capable human resources within SEC who are knowledgeable on the operations of NICMPs will strengthen the institution and help to deepen the market. For shari'ah experts, an improvement of their understanding of finance is imperative in addition to the knowledge on shari'ah and Islamic jurisprudence.

Measures will need to be taken to develop the infrastructure for boosting the human resources for the market.

An all-inclusive approach to human resources development is expected to balance the understanding and knowledge between Shari'ah issues and conventional financing among the players such as professionals, regulators, and Shari'ah experts. This would ultimately create an attractive and competitive NICM in Nigeria. Detailed strategies for capacity building on NICM are contained in the report of Capital Market Literacy Master Plan Committee.

Initiative 4: Ease Entry into the NICM

The entry requirements for participants need to be as attractive as obtainable in the conventional segment of the Nigerian capital market. This will be in line with international best practice.

Efforts will be directed at ensuring that there is a conducive environment for the development of private venture capital industry that is shari'ah compliant, to provide an attractive and competitive environment for emerging companies seeking funding in an ethical or shari'ah compliant manner.

3.1.3 Developing NICM Products

The NICM is an important part of the overall capital market and the development of NICMPs will strengthen and complement the capital market. Given that shari'ah-based products constitute a relatively small portion when compared to conventional capital market products, it is projected that the public demand for NICMPs will progressively increase in the next ten years.

Nigeria's NICM will be able to provide domestic savers with a wide range of products to mobilise their savings in investments that best suit their individual risk-return preferences in an ethical/shari'ah compliant manner. Empowering investors with greater choices in the variety and quality of products available to them is an important part of the overall strategy to enhance efficiency within the NICM.

While the fund-raising capacity of the NICM is gradually growing, the span of products over the entire risk-return spectrum needs to be widened further to accommodate the funding needs of issuers.

Efforts to introduce a wider variety of instruments to be developed to cater to the different needs of issuers and varying risk-return appetites of investors within the market will provide viable complements to conventional capital market products if actively pursued. The availability of NICMPs such as shari'ah screened shares, sukuk, and investment funds are expected to complement the development of the Nigerian capital market.

There is potential for further diversification of the NICMPs base through the mobilisation of dormant non-interest assets. Hence, efforts to mobilise untapped non-interest assets through securitisation should be pursued.

The development of the non-interest Private Equity/Venture Capital and Mutual Fund industry are important

components of the NICM in view of the critical roles they play in meeting the financing needs of emerging high-growth companies/SMEs. Consequently, it is vital that effort be directed towards developing avenues for capital formation for high-growth, value-added sectors that will support long-term development. This will include measures to assist in the promotion of Non-interest collective investment schemes to attract more investors.

Going forward, it will be important to consider areas not only where the domestic NICM can more effectively meet the basic investment needs of investors, but also where it can open up new investment opportunities for other categories of issuers/ investors.

Initiative 1: Ensure availability of NICMPs that meets the regulatory requirements of banks, takaful, PFAs, assets managers and other fund/portfolio managers

Going forward, product development efforts should be intensified to increase the number of NICMPs that are available in the market in order to fulfill the demand for non-interest investments and creating new product alternatives that are not yet available in the market.

Initiative 2: Ensure availability of NICMPs that attract retail investors

Existing shari'ah compliant Funds do not fully accommodate retail investors. Considering that the majority of Nigeria's population is categorized as medium to low class, the availability of a wide range of NICMPs will encourage retail investors to make investments that suit their needs.

Therefore, measures will be taken to facilitate a greater quantity and frequency of promotional and educational Programmes to increase awareness among investors of non-interest/ethical fund management products.

Aggressive education programmes on NICM will be carried out to raise the sophistication of retail investors. An active fund management industry, with strong participation from PFAs will be developed.

Initiative 3: Regulatory authorities to engage relevant stakeholders to address tax issues

Given the need to place the NICM on an equal footing with the conventional capital market, efforts should be focused on achieving tax neutrality between NICMPs and conventional capital market products. Tax impediments on NICMPs will be reviewed and appropriate recommendation will be made to the relevant authorities.

3.1.4 Create a Regional NICM Hub

A niche market where Nigeria has a comparative and competitive advantage represents potentially significant areas where the domestic market can effectively position itself at the regional or even global forefront,

particularly where there is largely untapped potential for such development. This will enlarge the breadth of the overall NICM beyond the borders of basic conventional financial products, and the positive implications for broader NICM activity will also contribute to the overall growth of the financial market.

Considering that issuers, and investors will naturally choose to converge in markets that offer them the best value in terms of cost, liquidity, skilled professional services, and the diversity of fund-raising instruments, the Nigerian NICM must offer issuers the ability to raise funds in the most efficient manner and investors the opportunity to invest through a variety of instruments commensurate with their maturities and risk profiles.

In order to ensure that the Nigerian NICM provides an effective avenue for capital raising and investment, efforts should be made to address the shortcomings in the NICM's current capacity to meet local fund-raising and investment needs, as well as to identify focused measures to ensure that Nigeria establishes a regional NICM hub. This initiative is aimed at attracting foreign investors into the NICM. The NICM will be the preferred choice for companies to raise funds from the region. It will showcase the hallmarks of an efficient and effective market with liquidity and vibrancy resulting in greater participation by local and foreign investors and issuers.

This aspiration will be achieved if domestic capabilities are first built up. Human capital represents an extremely important dimension in supporting the objective of positioning Nigeria as a leading NICM hub in Africa. A knowledgeable and skilled workforce is the key to sustaining a competitive advantage. It is therefore necessary to develop local expertise to ensure the availability of a pool of skilled professionals who are well-versed in Shari'ah matters and are able to provide a range of relevant high quality, value-added advisory and intermediation services. It is imperative to increase the pool of non-interest capital market expertise through training and education.

The strength of the domestic investor base in terms of number and investment value can give foreign investors impetus to invest in the country. This will boost market credibility which in turn helps to attract more foreign issuers, investors and intermediaries into the market.

Laws, regulations and rules need to be reviewed to achieve international competitiveness, strengthen oversight, enhance transparency and promote a vibrant and deeper NICM.

With a strong supportive legal and regulatory framework and pool of skilled resources, the domestic Non-interest NICM can act as a gateway for foreign funds to access funds from the market.

To achieve the objective of becoming a leading NICM hub, the quality of financial reporting plays an indispensable role in ensuring that information about non-interest financial products and transactions to be disseminated to existing and potential investors, regulators and other market participants is of a high quality and benchmarked against international standards. Efforts to develop an appropriate financial reporting framework for the non-interest capital market in collaboration with AAOIFI (Accounting and Auditing Organization of Islamic Financial Institutions) will be pursued.

It is also recognised that the current tax treatment of certain Non-interest financial transactions is not in sync with that of comparable transactions in the conventional financial market, resulting in the former bearing an

additional taxation burden. This creates a disadvantage. Such tax disparities will need to be addressed in order to allow consistent opportunities for development across both the Non-interest and conventional capital markets. Therefore, efforts will be made to ensure neutrality in the current tax regime governing Non-interest securities transactions.

Initiative 1: Promote and enhance Cross-Listing

A strong legal and regulatory framework that is in tandem with international standards will provide an enabling environment for cross border investments/offerings.

The listing of Nigerian Non-interest instruments on major exchanges such as the London Stock Exchange will serve to promote these instruments to a global audience and further enhance the international profile of the Nigerian NICM. Thus, efforts to ensure the listing of Nigerian Non-interest instruments in international markets will be pursued.

Initiative 2: Promote and enhance Multi-Currency Listing

Today, only a sub-national naira-denominated Non-interest debt security has been issued within the domestic capital market.

Going forward, the feasibility of issuing foreign currency-denominated sukuk in major international financial markets will be encouraged, in order to enhance the profile of NICMPs within the global market and at the same time, tap global investment funds.

Initiative 3: Rationalize Cost of Listing/Issuance

Entities in Nigeria must be able to access the NICM on competitive terms compared with other sources of financing in the markets. To ensure that the NICM remains competitive and consequently the market of choice for Nigerian issuers, it is necessary to address the issues of cost and efficiency in the fund-raising process. Initiatives will be directed at ensuring that the overall process of raising funds is efficient and provides a competitive cost of raising funds for issuers.

The ability to issue NICMPs within a reasonable period at minimum cost is vital in ensuring that issuers are able to capitalise on business opportunities in a timely and cost-efficient manner. To this end, therefore, there will be a continuous drive to further improve the efficiency of the regulatory processes intrinsic to the raising of funds within the NICM.

Initiative 4: Ensure active Promotion of NICM

There is inherent potential in the NICM which calls for commitment towards raising the international profile and name recognition of the Nigerian Non-interest capital market segment, with the ultimate aim of enhancing the overall NICM's capacity to draw international funds into the domestic market. Coordinated promotional efforts are needed to achieve the kind of global recognition that is required to enhance Nigeria's NICM profile and attract the desired patronage.

Efforts need to be made to enhance the awareness of the market at the domestic, regional and international levels. This will involve comprehensive educational and promotional programmes with industry participants aimed at enhancing general awareness among issuers and investors keen to participate in the Nigerian NICM. At the international level, particularly in key target markets, efforts will be undertaken to familiarise foreign intermediaries such as fund managers, investment bankers and the relevant financial service providers with the NICMPs.

Periodic road shows locally and internationally will be pursued. The use of electronic media in the fund-raising process and awareness campaign where applicable will be encouraged to take advantage of the greater reach, speed and efficiency that electronic platforms can offer.

Nigeria will seek synergistic relationships with other key market jurisdictions, including establishing strategic alliances with other major regulatory/standard setters to promote the NICM.

Initiative 5: Enhance Secondary Market Liquidity in NICMPs

Liquidity typically expands with the scale of trading, and the presence of large and active institutional investors within the NICM will foster a more conducive environment in which liquidity can flourish.

The NICM currently lacks liquidity due to paucity of NICMPs and absence of secondary market. Efforts will be directed at ensuring increased products offering and creation of secondary market.

To deepen the secondary market, access to the existing market infrastructure for trading in NICMPs will be encouraged to provide a level playing field with conventional instruments.

An active and efficient secondary market for NICMPs allows domestic and foreign companies to be able to raise capital at competitive prices and reasonable cost through established market channels. It enhances the value recognition for these issuers because of the presence of established pools of liquidity within the market itself, and also increasing the attractiveness of investing in NICMPs.

CHAPTER 4

HOW WE CAN GET THERE

4.0 The recommendations contained in the Master plan have been formulated with consideration of the current state and challenges of the NICM which will be addressed in the short, medium and longer term. It is also premised on the vision, objectives and strategic initiatives earlier discussed. Detailed recommendations on capacity building for the NICM are contained in report of the Capital Market Literacy Master Plan - Part C of the report.

4.1 To build a strong regulatory foundation for NICM

RECOMMENDATIONS

PENCOM

- To fast track the release of guidelines on multi-fund structure for Retirement Savings Account (RSA) Funds which contained non-interest fund.
- To amend guidelines for PFAs' assets selection criteria to be risk-based as against the current approach which differentiates between alternative (non-interest) products and conventional products by removing specificity in guidelines such as Sukuk and focus on broad asset classes and risks e.g fixed income, variable income and REITs.

CBN

- To fast track the release of guidelines on liquidity status on NICMPs similar to the existing guidelines on conventional products.
- To issue a standardized template for non-interest products under its purview to guide the market.

FIRS

- To release comprehensive guidelines and regulation on non-interest transaction to give confidence to investors in non-interest finance products.

SEC

- To standardize operational guidelines in line with international best practice. There is the need to review and improve existing guidelines to accommodate shari'ah compliant securities such as REITs e.t.c.
- To foster synergy among regulators in the Non-interest financial sector through the Financial Services Regulation Coordinating Committee or any other standing committee.
- To issue guidelines on approach for regulating shari'ah governance/model of Shari'ah advisory council.
- To set robust minimum criteria for qualification of Shari'ah adviser or advisory council for CMOs using CBN and NAICOM template.
- To strengthen its monitoring mechanism on NICM to ensure that shari'ah compliant issues are fully adhered to by market operators to protect investors.
- SEC, CBN, and NAICOM to jointly consider and adopt any of the following oversight bodies:

to establish a financial market regulatory advisory council, utilize FRACE or leverage external bodies.

Capital Market Stakeholders

- To jointly enlighten policy makers on the need to amend BOFIA to accommodate the use of CBN assets to create non-interest liquidity instruments

RECOMMENDATIONS

4.2 To encourage the development of NICM market stakeholders

SEC

- To establish PMO to coordinate implementation of NICMPs Master plan. The PMO is to train and build internal capacity on NICM. Staff with expertise on non-interest capital market should be initially deployed while external experts in the field should be leveraged upon on an ad-hoc basis.
- To spearhead initiatives to enhance awareness and education of market stakeholders at domestic and international levels.

FMBN & NMRC

- To issue sukuk to fund PMBs. Other potential issuers should also be contacted and encouraged by SEC to issue NICMPs.
- To encourage PMBs to offer non-interest products.

4.3 To encourage the development of NICM products

RECOMMENDATIONS

CBN

- To provide optional generic Non-interest Banking contracts template as a guide.
- To issue non-interest T-Bills and short term notes.

NATIONAL ASSEMBLY

- To amend Sections 28 & 29 of CBN Act to allow CBN use its assets to create non-interest liquidity instruments.
- The Land Use Act (LUA) should be amended to facilitate the process of perfection and transfer of title to make the creation of mortgages less cumbersome.

STATE GOVERNORS

- To be encouraged to access the NICM through sukuk issuance.
- Governors and relevant stakeholders in the Land Registry to grant a level playing field to property acquisition using non-interest structure alongside conventional structure and avoid the need of seeking consent twice.

CMOs

- To promote a wider range of NICMPs to create opportunities to tap investible funds from investors that are averse to conventional products.

FIRS

- To ensure neutrality in the current tax regime governing non-interest products by addressing tax provisions that may impede NICMPs development and innovation.

SEC

- To encourage the setting up of 'functional' and standardized commodity exchange with varieties of shari'ah compliant instruments.
- To engage NSE to understand structures and agree on classifications of NICMPs for listing purposes.
- To encourage unquoted PLCs to list on the floor of the Nigerian Stock Exchange.
- To encourage fund managers of the NICM to make public the screened shares that complies with shari'ah screening for investors' information., or adopt the Malaysian model of identifying and labeling compliant listed equities.
- To engage selected corporates by encouraging them to issue sukuk.
- To engage Islamic Development Bank, AfDB and other multilateral institutions to issue supranational sukuk in Nigeria.
- SEC in conjunction with IDB to encourage provision for shari'ah compliant guarantees.

Fund Managers Association of Nigeria

- To promote and educate its members on how to structure more shari'ah compliant products.
- SEC and NSE to actively work with domestic as well as international financial institutions that have interest and possess the capacity to ensure listing of Nigerian Non-interest equity funds on major exchanges.

The implementation framework and key performance indicators are attached as appendix 2 to the Master Plan

LIST OF COMMITTEE AND SPONSOR

NAME	
Rt. Hon. Zakawanu I. Garuba (Committee Sponsor)	Sponsor
Mrs. Hajara Fola Adeola (Chairperson)	Sponsor
Alh. Rasheed O. Yussuff	Member
Mrs. Oluwatoyin Sanni	Member
Mr. Kasimu G. Kurfi	Member
Dr. Timi Austen -Peters	Member
Mr. Dipo Omotosho	Member
Mr. Masud Balogun	Member
Dr. Basheer Oshodi	Member
Mr. Attahiru Maccido	Member
Mr. Napoleon D. Okosu	Member
Mr. Ahmad U. Kollere	Member
Mr. Ibrahim Shehu Kangiwa	Member
Mr. Abbas Abdulkadir	Member
Mrs. Mary E. Ekwo	Member
Mr. Mohammed Salihu	Member
Mr. Daniel Okonji	Member

List of Abbreviations/Acronyms

ACRONYMS	DEFINITION
AfDB	African Development Bank
BOFIA	Bank and Other Financial Institutions Acts
CBN	Central Bank of Nigeria
CMC	Capital Market Committee
DMO	Debt Management Office
ETF	Exchange Traded Fund
FIRS	Federal Inland Revenue Service
FMAN	Fund Managers Association of Nigeria
FRACE	Financial Regulatory Council of Experts, Nigeria
ICM	Islamic Capital Market
IDB	Islamic Development Bank
KPIs	Key Performance Indicators
LUA	Land Use Act
MIFC	Malaysia International Islamic Financial Center
NAV	Net Asset Value
NIB	Non-interest Banking
NICM	Non-interest Capital Market
NICMPMP1	Non-interest Capital Market Products Master plan 1
NICMPs	Non-interest Capital Market Products
NIFWG	Nigerian Islamic Finance Working Group
NMRC	Nigerian Mortgage Refinance Company
NSE	Nigerian Stock Exchange
OTC	Over-the-Counter
PFA s	Pension Fund Administrators
PMO	Programme Management Office
REITs	Real Estate Investment Schemes
RM	Ringgit Malaysia
SAC	Shari'ah Advisory Council
SC Malaysia	Securities Commission Malaysia
SEC	Securities and Exchange Commission, Nigeria
SMEs	Small and Medium Enterprises

GLOSSARY

In the Masterplan, the following terms are used to mean:

Collective Investment Scheme

A scheme whereby an entity is set up to pool money from many investors who share the same investment objectives. A full-time manager then invests the pooled money on behalf of the investors in securities or other investments in accordance with those objectives. The basic forms of collective investment schemes are unit trust -based vehicles, share-based corporations such as closed-end funds, and pension funds.

Corporate Governance

The process and structure used to direct and manage the business and affairs of the company towards enhancing business prosperity and corporate accountability with the ultimate objective of realising long-term shareholder value, whilst taking into account the interests of other stakeholders.

Ijarah

A contract where a financier buys and leases equipment or other assets to the original owner for a fee. The duration of the lease as well as the fee is set in advance. The financier remains the owner of the assets.

Istisna`

A contract to acquire an asset according to the specifications given in the sale and purchase agreement. After the parties to the contract have decided on the price, settlement can be delayed or arranged based on the schedule of work completed.

Intermediary

Professional securities industry participants who act as go-betweens for issuers and investors. Intermediaries include brokers, fund managers, investment advisers, custodians and other financial institutions.

Market Makers

Market makers ensure that there is always a market in which investors can buy and sell shares of the clients they are market makers for. The market maker quotes bid and offer prices at which he stands ready to buy and sell.

Mudharabah / Muqaradah

Trust financing agreement involving a contract where one party provides the capital and another party manages the project using his entrepreneurial skills. Profits are shared based on an agreed ratio and the losses are borne by the provider of the funds.

Murabahah

An agreement that refers to the sale and purchase transaction for the financing of an asset or project whereby

the costs and profit margin (mark-up) are made known and agreed by all parties involved. The settlement for the purchase, which can be done in cash or instalments, is specified in the agreement.

Musarakah

A partnership arrangement between two parties to finance a project whereby all parties contribute capital either in the form of cash or in kind. Any profit derived from the project will be distributed based on a pre-agreed profit sharing ratio, but losses will be shared on the basis of equity participation.

Mutual fund

Mutual funds, like unit trust funds, are open-end collective investment schemes. The main difference between the two is in their legal structure. A mutual fund is an investment company that issues redeemable shares. This is in contrast to a unit trust which is not a company and which issues units instead of shares.

Over-the-counter

A market for the purchase and sale of securities not listed on an organised exchange.

Self-regulatory Organization

A private sector organisation which is responsible for regulating its own members through the adoption and enforcement of rules of conduct for fair, ethical and efficient practices, subject to the oversight of the regulatory authorities.

Sukuk

A document or certificate which represents the value of an asset.

Shari'ah

The divine law of Islam derived from three (3) sources:

- the Quran
- the Hadith (a transmitted narration of what the Prophet Muhammad said, did, approved or disapproved)
- the Sunnah (a path or manner of life. A term used for those rules and ordinances of the Muslim community which are established upon the precept or practice of the Prophet Muhammad)

Takaful

A form of Islamic insurance based on the Quranic principle of Ta'awun or mutual assistance. It provides mutual protection of assets and property and offers joint risk sharing in the event of a loss by one of its members. Takaful is similar to mutual insurance in that members are the insurers as well as the insured.

Unit Trust

An arrangement or scheme that invests funds subscribed by the public in securities, futures contracts or

property and in return, issues units that it is obliged to repurchase at any time.

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