



ISLAMIC FINANCE IN NIGERIA: AN OVERVIEW OF THE RULES GOVERNING THE LISTING OF SUKUK ON THE NIGERIAN STOCK EXCHANGE



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Introduction

Islamic financing has gained ground in Nigeria in recent times. Further to this, Islamic finance institutions are being set up and the government at both state and federal levels have issued sukuk bonds. Indeed, the Nigerian Stock Exchange recently published Rules for Governing the Listing of Sukuk and Similar Debt Securities which came into effect on 23 July 2018 (“the Rules”).

The differentiators between Islamic finance and other types of financing are that Islamic finance is non-interest bearing finance and the activity being financed under Islamic finance must be Sharia-compliant. The question arises as to how Islamic finance institutions expect to make profit from non-interest bearing financing.

This article provides a brief overview of Islamic financing and a synopsis of the application of the Rules

Types of Islamic Financing

There are four basic types of contractual agreements through which Islamic finance can be provided and these are Ijarah, Murabahah, Mudarabah and Musharakah.

An *Ijarah* contract operates as a lease; under this arrangement, the Islamic finance institution will purchase the asset required by the customer and will then lease it to the customer at a price that factors in the institution's profit. In certain situations, the contract may provide the customer with an option to purchase the asset from the institution at a nominal amount at the end of the lease period.

A *Murabahah* contract is similar to an Ijarah contract. However, instead of leasing the asset to the customer, the institution will sell the asset to the customer who will then pay for the asset in instalments. Like the Ijarah, the institution will add its markup on the selling price.

A *Mudarabah* contract is an investment management agreement. The institution will provide capital to an investment manager to undertake a venture. Profits will be shared at an agreed ratio, but losses will be borne only by the institution that provided the capital.

A *Musharakah* contract is a partnership; the institution will provide the funds for the customer to carry out a venture. The profits and losses from the venture will be shared between the institution and the customer in proportion to each's capital contribution. It is similar to an equity investment.

Sukuk Bonds

Any of the four contracts outlined above can form the basis of a Sukuk. A Sukuk is an investment certificate that evidences interest/ownership in assets, and it is one of the means of Islamic finance that has been employed by the Nigerian government.

However, Sukuk is typically Ijarah or Murabahah based. For example, the N100 billion 7-Year sukuk issued by the **Federal Government of Nigeria** (“FGN”) in 2017 is Ijarah-based.

The money raised is to be used to repair some selected roads in Nigeria. Ownership of the roads was transferred to a trustee to hold in trust for the investors. The roads were then leased to FGN, and the FGN pays rental income to the investors which reflects the amount of money invested by them plus a markup of 16.47%. At the end of the seven-year period, the roads will be purchased by the FGN.

The Rules provide a framework for the listing of a Sukuk and similar instruments on the **Nigerian Stock Exchange (“NSE”)**. **A Sukuk listed on the NSE will have increased liquidity** and would be traded in the same way as other listed instruments.

Although the requirements for listing a Sukuk and a bond on the NSE are similar, one of the extra requirements for the listing of a Sukuk is that the issuer of the Sukuk must appoint a Shariah adviser who is charged with specific responsibilities. Clause 3.1 of the Rules provides that the Shariah Adviser should:

- advise on all aspects of the Sukuk including the structure and the documentation;
- issue a Shariah certification outlining the basis of the structure of the Sukuk, the Shariah principles applicable to the sukuk and other relevant Sharia matters relating to the documentation;
- ensure that Shariah principles and relevant resolutions and rulings endorsed are complied with; and
- carry out other functions stipulated by the Securities and Exchange Commission.

Conclusion

The Rules are a welcome development and may serve to deepen the Nigerian capital market as Sukuk and other similar instruments can now be traded on the NSE.

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