

Africa: How to seize the Middle Eastern wave of investors

Historically, Africa first raised the interest of European investors who benefited from the post-colonial relationship with the continent. Then came Asian investors led by the Chinese and their interest in natural resources. Now is the turn of the Middle Eastern investment community to look at Africa. The Middle East, predominantly the GCC, is leading the way for this new wave of investments. PROF LAURENT MARLIERE looks at why the Gulf's interest has grown so fast for Africa and how we can become involved in the process.



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The GCC, an economic alliance of six Middle Eastern countries, is both home to huge liquidities and severe instability. The recent diplomatic ballet between some of its members, which have excluded Qatar from political and economic relationships with their markets, is evidence of the turmoil between some of the wealthiest countries in the world. The regional political context, including the instability created by Daesh in the north, a war with Yemen in the south and the rise of the Iranian regional power, impacts the investment community.

Traditionally, GCC investors have looked at relocating their assets into jurisdictions offering more political stability and legal security. This is why Europe and Northern America have been their preferred choice. However, if these western markets offer relative security for their investments, they do not provide high yields.

The GCC is increasing its trade and foreign direct investments (FDI) with Africa. A number of African multinationals have set up their headquarters in Dubai. On the other side, between 2005 and 2016, Gulf firms injected at least US\$9.3 billion in FDI into sub-Saharan Africa, with a further US\$2.7 billion in the first half of 2016 alone. Nigeria, South Africa, Kenya and Uganda are the markets that attracted the largest number of Gulf investors. However, over the same period, investment from Gulf countries into North Africa has been almost 10 times as much, illustrating closer links between the Arab regions.

For obvious geographical reasons, East Africa has been the 'most appealing region' for non-commodity investment

from the Gulf, with Ethiopia's manufacturing industry, Kenya's and Mozambique's retail and tourism, Uganda's education sector and Sudan's banking sector being of particular interest. Because of the distance and language barrier (a predominantly French-speaking region), West Africa has not been the immediate option. The Maghreb, however, is drawing spectacular interest because of the cultural similarities.

With the conventional banking sector being less developed and competitive than other regions in the world, there is potential for 'relatively high' profit margins for Gulf banks, especially within trade and infrastructure project financing. Both the Qatar National Bank (the GCC's largest bank) and the National Bank of Abu Dhabi are focusing on expanding to Africa, while others such as the Union National Bank and the Abu Dhabi Islamic Bank are currently only active in North Africa. The Qatar National Bank has acquired banks in Egypt, Libya and Tunisia, and set up branches in Mauritania, Sudan and South Sudan, as well as acquired a 23% stake in Ecobank.

One needs to distinguish Islamic finance and investments coming from Muslim-based countries. Islamic finance, also known as Shariah compliant finance, is a specific chapter of world finance respecting ethical rules implied by the Muslim faith. Investments emanating from the Muslim world are not necessarily Shariah compliant as some investors from the Middle East or Asia use conventional law for their investments abroad. The distinction is important. However, Islamic finance may be the Gulf's most prominent involvement.

Africa constitutes the world's largest untapped growth market for high-liquidity markets from the Middle East, the Gulf and Asia. Among these, 'Islamic'

business, which includes Islamic finance (banking, insurance, bonds and capital markets) and Halal (Shariah compliant) goods and services, is growing. By increasing awareness among policy and decision-makers about Shariah compliant instruments, Islamic finance could act as the catalyst in mobilizing funding into Africa, thereby resulting in further economic growth and sustainable development.

In Africa's context, the use of Islamic finance could help the continent pay for multibillion dollars-worth of infrastructure projects a year and help fund countries' fiscal deficits. African nations are also looking to diversify their funding sources and gain access to a pool of wealthy investors from the Middle East and other regions where investors generally only invest in Shariah compliant products. Shariah compliant retail products, microfinance, SME funding – these are multiple offers that meet the existing African demand.

Private equity for Africa

To balance part of their low-yield investments in Europe and the US, a growing number of Gulf investors and businesses, often being family-owned, are looking at African markets. A number of Gulf companies are also making direct investments into private African companies. Another option for Gulf firms is to target companies already backed by private equity firms, with a number of these players approaching the end of their fund lives and looking for exits. Co-investment with private equity firms is also an attractive option for Gulf companies that have limited experience in Africa, but want to develop exposure alongside a more experienced player.

Financing Africa's infrastructure

Africa is in need of infrastructure, particularly electricity, water, roads and information and communications

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technology. The African governments can use Islamic finance as a means to fund government spending plans. An excellent way to do so is through issuing sovereign Sukuk (bond offerings that comply with Islamic law), a choice that has already been made by several African countries, namely South Africa, Sudan, Senegal, the Ivory Coast (two Sukuk issued), Togo, Niger and Nigeria. Egypt, Tunisia and Kenya are following in their footsteps. Both corporate and public players can benefit from this economic model to boost the economic and social development of the country.

Indeed, on one hand, investing in tangible infrastructure and development projects and assets totally complies with the Islamic ethos and on the other hand, there is plenty of liquidity in the GCC region looking for viable investments. Africa offers investors many choices as the continent is tremendously diversified.

Moreover, the IDB supports many infrastructure development projects in Africa as well as private sector expansion, in part by providing Shariah compliant funds and technical support through its private arm, the Islamic Corporation for the Development of the Private Sector. The IDB's Islamic financing facility has been utilized by more than 10 African nations, including Morocco, Senegal, Burkina Faso, Uganda, Niger, the Ivory Coast, Mozambique, Gambia, Egypt and Tunisia.

The primary motivation for African countries to issue Sukuk is to access the financing available from the Gulf's Islamic banks. These banks are also active in commercial deals, such as Ibdar Bank of Bahrain's Shariah compliant purchase and leasebacks of planes for Ethiopian Airlines and RwandAir. With about 30% of the sub-Saharan African population being Muslim, there is a growing demand for retail Islamic banking. This is why Gulf banks are establishing branches or purchasing banks in Africa. As more countries roll out legislation to support Islamic banking, there will be further opportunities for entrants.

Real estate boom

Large African metropolises keep attracting inhabitants including a growing African middle class eager to live in new housing schemes. Several

REITs based in the Gulf are now systematically looking at including African operations and investments. The attraction for Africa is not only for the private real estate segment but for the commercial segment as well.

Before 2014, there were roughly a dozen shopping centers north of South Africa that were larger than 20,000 m². Their combined retail area was smaller than Dubai Mall, the largest shopping mall in the UAE. However, between 2014 and 2015, another dozen opened, with a similar number expected in 2016-17. Gulf-based companies have a unique expertise and experience in developing such shopping malls. They have the financial power as well, to cater to the demand from a growing African middle class.

Travel and tourism

Both business and leisure travel are increasing as connectivity improves, with room for further growth. The countries with the most developed tourism sectors are South Africa, Ghana, Tanzania, Mauritius, the Seychelles and Kenya, while the sector is emerging in others such as Gambia, Mozambique, Morocco and Rwanda.

Gulf airlines are particularly active on the continent, and have also been directly involved with African carriers. Gulf hotel brands are also showing some activity on the continent. East African countries are also attracting hospitality groups, with two of the Gulf's largest hotel chains making plans to enter the region.

Logistics prospects

Poor infrastructure has made transport and distribution in Africa a major challenge. However, some Gulf-based logistics companies are expanding their operations on the continent. For example, the UAE's DP World is now systematically challenging the Bolloré Group to manage ports – it won the battle in Mozambique, Egypt, Algeria and Senegal – while Kuwait's Agility is active in 11 African countries with plans to develop five warehouse distribution parks on the continent.

Diasporas

Unlike Europe and America, the Muslim diasporas in Africa are usually wealthy

and economically active. The examples of the Indian, Pakistani and Lebanese diasporas are eloquent. Indian, Pakistani and Lebanese families in Africa are usually Muslim who offer a culturally minded business dialogue for Middle Eastern investors.

How to do business with the Middle East

Trusted advisors have a specific role to play in the Gulf-African connection. Unlike brokers, professionals such as accountants, auditors and lawyers offer a guarantee of security as they have professional indemnity insurance, are listed in a Bar or a Chamber, respect ethical rules and have a name in the market. Security is paramount for investors and particular attention should be given on that matter, including a sound client engagement contract, ethical guarantee, extra-territorial legal dealings, arbitration opportunities, introduction to local co-investors, etc.

Professionals also offer a wider range of competence than real estate brokers: understanding of labor law, pre-litigation, tax issues, etc. Tax is often key in designing a viable yield for investors who will refrain from investing in Africa if the return on investment does not compensate a weaker perception on security.

Understanding the basics of Islamic finance and the cultural way to do business with Muslim investors is a remarkable asset to have for an advisor of such transactions. Being able to provide investors a specialist, a supplier or a partner able to create the chemistry and demonstrate credibility on their needs and expectations is an invaluable asset.

Smart professionals will look at this new wave of investments coming from the Muslim world as Europe and Asia are presently focusing on their own issues. Gulf investors are just starting to include Africa on their radar but it is becoming systematic. The consultants, lawyers, accountants and auditors who develop knowledge, a practice or a desk to work with these markets will have a unique positioning and beat the competition which will traditionally still be focused on the old investment and trade routes. ☺