STAYING GROUNDED

Outdated regulation and restrictive policies mean Africa's aviation story is yet to take off

Ashish J. Thakkar on entrepreneurship and the battle to beat African unemployment

EXCLUSIVE: Bill Gates

Why the world's richest man is banking on the GCC to help transform a continent

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Africa saw **$87bn** worth of foreign direct investment last year – but **Gulf** investors are largely **staying silent**

What's holding them back?

IT'S AFRIC

"IF AFRICAN COUNTRIES WERE TO BE MORE TRANSPARENT, HAVE BETTER SYSTEMS IN PLACE AND THE PERCEPTION OF RULE OF LAW IMPROVED, THERE WOULD BE A FLOOD OF CASH COMING FROM THE GULF, FOR SURE"

'S TIME

COVER STORY

By Sarah Townsend

Africa has long been portrayed as a troubled continent, leading more cautious Gulf investors to lag behind other regions in tapping into the wealth of opportunities. But Africa is fighting back, working to overturn negative stereotypes and attract Arab investment to its shores.

Around 30 percent of Africa's infrastructure is in dire need of rehabililtation.

AFRICA HAS AN IMAGE problem. According to prominent Malian businessman and politician Cheick Modibo Diarra, it is struggling to overturn its reputation as a continent "that has its hands out always asking for help; that has no opportunities to give anyone; a continent where political instability rules and where countless other problems have free rein".

Diarra, an astrophysicist, former chairman of Microsoft Africa and interim prime minister of Mali during 2012 and now chairman of the African Legal Network (ALN), an alliance of top tier law firms across Africa, is not the first to make this observation. Former president of Nigeria Goodluck Jonathan bemoaned the negative image of his country, promoted by the West, he claimed, in a speech to foreign diplomats in 2014.

Four years previously, Nigerians had criticised a BBC documentary series, 'Welcome to Lagos', which exposed a community living off mountains of rubbish. The Lagos state government submitted a formal complaint calling on the BBC to "repair the damage we believe this series has caused to our image".

Diarra says: "Until recently, communication in the form of newspapers, TV or radio was not well developed in Africa.

"So actually, Africa has become a brand created by people outside Africa, and which it is now struggling to replace."

While few are naïve enough to believe that the whole of Africa is suffering from famine, disease, corruption and war, many Africans — and those working there — believe such negative perceptions are sufficiently deep-rooted to frustrate the continent's economic growth. They claim Gulf investors have been particularly wary of investing in Africa due to lack of knowledge about the opportunities and a perception that it is too risky.

"Be it agriculture, energy production, extraction of gold and diamonds, or oil and gas, there are a lot of opportunities here and we have a young workforce that understands how business works"

2bn

Africa's population by 2050, according to estimates.

"My feeling is that the Gulf is not entirely convinced," says Atiq Anjarwalla, managing partner of Anjarwalla Collins & Haidermota law firm in Dubai, which has a practice in Kenya.

"The main barrier is lack of knowledge and lack of transparency," he adds. "The *Economist* ran a cover story back in 2000 describing Africa as 'The hopeless continent', and I think many people viewed it as a disaster zone.

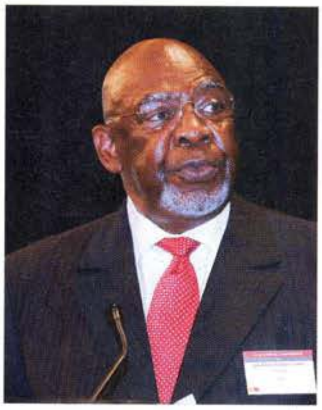
"In recent years there's been a complete shift in thinking, but people still have different concerns in terms of the boxes they need to tick before they can make their investment.

"The Gulf is more nervous than, say, the UK or certain countries in the European Union, which have had longer trade relations because of the old colonial connections and therefore higher levels of comfort.

"Gulf investors may think, if I can get a return on my money in a market I know, like South East Asia, that is equal to or slightly less than what I might get in Africa, why take the risk?"

The most recent figures from the Dubai Chamber of Commerce, published in September 2014, showed Gulf entities provided $30bn of funding to African infrastruc-

Kenya is seen by international businesses as the gateway to East Africa.



Cheick Modibo Diarra is a Malian businessman and politician.

Atiq Anjarwalla, managing partner of Anjarwalla Collins & Haidermota.

ture projects alone over the past decade — which amounts to between 7 percent and 10 percent of total inflows.

The study predicted annual contributions to average $5bn "in the coming years", but it did not provide a more specific timeframe and a spokesperson for the chamber declined to disclose this year's figures ahead of their official publication later this month.

The report noted: "Gulf investors continue to perceive Africa as a risky market. Risks from operational problems, non-honouring of contracts, currency volatility, political risks and change of government and policies are the main concerns for Gulf investors."

However, mindsets are changing and the Gulf is looking south for new opportunities. The chamber, for example, is opening representative offices in Kenya and Mozambique in 2016, following openings in Ethiopia and Ghana in 2012 and 2014, respectively.

Last month, Diarra's ALN hosted its Bridging the Gulf conference at Dubai's Park Hyatt Hotel. In his opening speech, UAE Minister of Culture, Youth and Social Development Sheikh Nahyan Bin Mubarak Al Nahyan told delegates: "The darkest thing about Africa is [our] ignorance of it".

1.1bn

The expected number of Africans who will be of working age by 2020.

The conference was a stage set to rip up the image of a poverty-addled, corrupt continent and promote Africa's business opportunities to prospective investors from the Gulf.

"When it comes to investment, it will sound like a cliché but Africa really is the last frontier," Diarra says. "Be it agriculture, energy production, extraction of gold and diamonds, or oil and gas, there are a lot of opportunities here and we have a young workforce that understands how business works."

The Africa Investment Report 2015 by the Financial Times' fDi Intelligence found that foreign direct investment (FDI) into Africa increased by 64 percent to $87bn in 2014. Coal, oil and natural gas was the biggest sector, accounting for 38 percent of capital investment.

The UAE ranked the seventh most dominant FDI source country, investing $5bn into the continent in 2014, the report says. Other GCC countries were absent from the list and the UAE lagged behind Europe, China and the US — the report placed France top, investing a total of $18.3bn during 2014, followed by Greece, the US, China and

Belgium, although the UAE's contribution was up 10 percent from last year.

Meanwhile, the proposed formation of Africa's Tripartite Free Trade Area (TFTA) between 26 African states that have signed an 'in principle' agreement, is expected to increase economic cooperation between Africa and the Gulf because Dubai is a gateway to markets in Asia, Africa's major trading partner.

According to the Dubai Chamber, African-UAE imports and exports grew by a cumulative annual rate of around 11 percent during the past five years, and in 2014 the UAE was Africa's 19th biggest export destination, with 1.1 percent of Africa's total world exports.

The main sectors in which the Gulf has invested are real estate, hospitality, finance and telecoms. The UAE's Etisalat has investments in Egypt, Morocco, Nigeria and a slew of other countries in West and sub-Saharan Africa. In real estate, Emaar Properties' Eagle Hills division is drawing up plans for Century City, a 12.6 sq km extension to Nigeria's capital city Abuja, as well as La Marina Morocco.

Meanwhile, Dubai's Al Futtaim Group acquired 100 percent of Kenyan automotive distributor CMC Holdings for $73m in September and, on the finance side, Qatar is advising several African governments on the establishment of free zones modelled on Qatar Financial Centre. Among them is Kenya, with whom Qatar signed a memorandum of understanding in April to help create Nairobi International Financial Centre (NIFC).

The hotels sector is arguably the most exploited by Gulf investors. The UAE's Albwardy Investments, which owns Spinneys supermarket, has hotels such as the Bilila Lodge in Serengeti, Hyatt Regency Dar Es Salaam and Melia Zanzibar.

Prince Alwaleed's Kingdom Holdings has a portfolio including the Fairmont Mount Kenya Safari Club, 75 percent of which it sold in September for $18m. The Aga Khan Foundation owns a stake in the Serena Group, a large East African hotels company, while the Kharafi Group owns hotels in Gambia and South Africa.

David Harper, head of property services for consultancy Hotel Partners Africa, reports a "massive shortfall in supply of branded hotel rooms as a growing middle class of African nationals push up demand".

▲ Sheikh Nahyan Bin Mubarak Al Nahyan, UAE Minister of Culture, Youth and Community Development (left), with Cheick Diarra.

▲ Futtaim Group acquired 100 percent of Kenyan automotive distributor CMC Holdings for $73m.

"When it comes to investment, it will sound like a cliché but Africa really is the last frontier"

$1tr

The potential investment prospect of Africa's power and power-related infrastructure over the next 10-11 years.

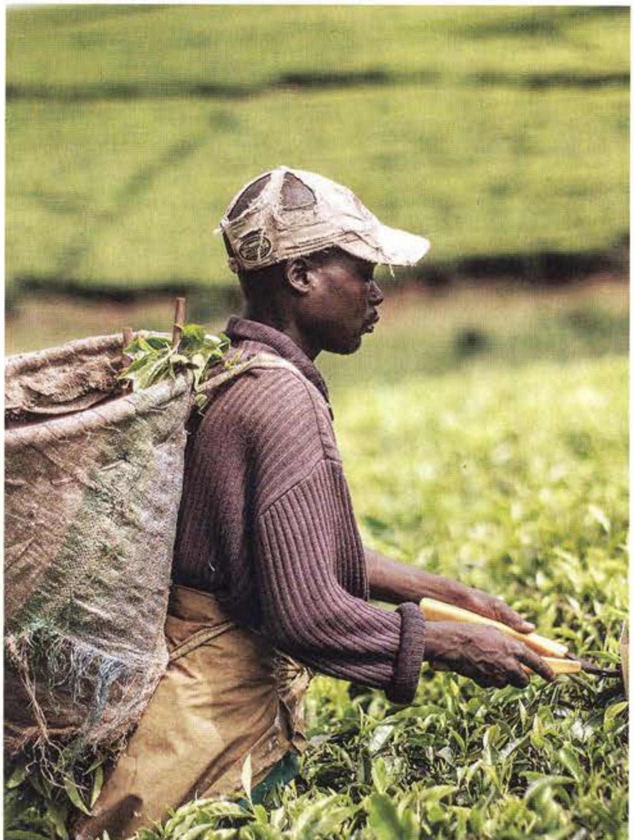
East Africa, he says, is fairly saturated and recent terrorist attacks have scared off international tourists but opportunities still exist, particularly in the luxury sector. "An upscale hotel in an east African city would reap a 40 percent ROI [return on investment] within 2 ½ years," he claims.

In a report published by Hotel Partners Africa last month, the consultancy claims that in 76 percent of African countries, hotel investment returns have been higher than blended averages across other property investments. Eight "undersupplied" markets, including Zambia, Ghana, Tanzania and Angola, have commanded growth of more than 6 percent over the past six years, it says.

However, experts say there are abundant untapped opportunities in other sectors, including agriculture — which accounts for at least 30 percent of Africa's GDP — Islamic finance and infrastructure.

Agnes Gitau, international trade and investment consultant at the East Africa Business Network, says 64 percent of

"AFRICA IS ONE OF THE LAST PLACES IN THE WORLD WHERE YOU HAVE AN ALMOST INFINITE AMOUNT OF FRESH WATER, FERTILE LANDS, UNTAPPED MINES AND RIVERS"



▲ **Africa's population is dependent on agriculture for food security.**

Africa's population is dependent on agriculture for food security and income, and many of these are small-scale farmers with limited access to finance. It is not unusual for GCC countries to lease commercial farmland in Africa — Qatar, for example, rented 100,000 acres in Kenya in return for investment in the port of Mombasa — however, Gitau argues there is also a case for investing in small-scale farming ventures.

"The current production rate is about 40 percent so there is an opportunity to get to 100 percent by upscaling ventures. Not only would you solve the food security issue but the Gulf would be a great market for their produce."

Anne Muchoki, chairperson of the Kenyan Investment Authority, agrees.

"Farmers could add value at the point of production, by attracting investment in on-site food processing and packaging to cut out the middle man and sell products at more lucrative margins."

Gulf investors have traditionally viewed large African infrastructure projects as a risky proposition but they should take note of the potential, says Anjarwalla. If the TFTA goes ahead as planned, Africa would face pressure to improve internal road and rail links to facilitate higher volumes of trade. At present, claims Anjarwalla, it costs more to send a container by truck from Kenya to Uganda (around 1,000km) than it does to send it by ferry from Mombasa to China (around 4,000km).

There are also gaps in the provision of infrastructure for energy production, mining and other extractive industries — and Diarra shares his vision for collaboration with the Gulf to bring projects to fruition.

"Africa is one of the last places in the world where you have an almost infinite amount of fresh water, fertile lands, untapped mines and rivers.

"The Gulf, on the other hand, has the financial resources and expertise. What if it came into a joint venture with Africa to help modernise its infrastructure and take advantage of the natural resources with which it has been endowed?"

He cites Grand Inga, a proposal for the world's largest hydropower scheme on the Congo River. "If you put a dam there you could produce enough electricity for the entire continent. Can you imagine if Africa, in partnership with the Gulf, was able to fund that? It would change the whole destiny of the continent.

"And imagine if we put the infrastructure in place to develop farmland and generate enough food to feed half the world together. The returns for the Gulf would be staggering."

Cultural synergies such as "valuing family, dialogue and looking out for your people" strengthen the case for joint ventures between the two,

"And imagine if we put the infrastructure in place to develop farmland and generate enough food to feed half the world together"

$130bn

Africa's annual spending on infrastructure between 2012 and 2020, according to estimates by McKinsey.

adds Gitau. "Look at Dubai. It has developed from a desert to a global city in little more than 30 years. It has been very successful at attracting investment in infrastructure and maybe we can learn from that."

Given the large Muslim population in Africa, several governments are looking to Islamic banks to plug infrastructure deficits and this is perceived as a nascent opportunity for the Gulf. The Africa Finance Corporation in August secured \$50m in financing from Saudi Arabia's Islamic Development Bank for infrastructure projects; Dubai Islamic Bank is eyeing possible investments in Africa, and the Qataris are understood to be advising Kenya on the sukuk it plans to issue next year, as well as other governments.

However, a report by Standard & Poor's this year said African sovereign wealth funds have issued around \$1bn of sukuk finance compared to \$100bn globally, suggesting the sector is struggling to gain momentum.

Amjarwalla says: "Most African countries have traditionally looked to the European and US capital markets and have realised lately they are missing a trick. There's a heap of Gulf money available for just this one type of financing.

"However, there are challenges, especially legally. The jurisprudence of many of these countries is not Islamic, so they need to put all this together. I expect Gulf Islamic finance institutions will start out by buying into existing Islamic banks in Africa."

There are other regulatory barriers to greater investment in Africa. "Some countries have made helpful reforms but most are still working to create a proper legislative environment that incentivises foreign investment," explains Diarra.

▲ **Dubai Islamic Bank is eyeing possible investments in Africa.**

▲ **SMEs are responsible for roughly 40 percent of Africa's GDP.**

"If I'm an investor and I sign a contract, I want to know for sure that if there's a problem, the legal system is solid enough that I have a chance of defending and recovering my investment."

The TFTA, in uniting 26 countries from Cape Town to Cairo with a shared trade visa and streamlined rules and regulations, could provide foreign investors with the certainty and continuity they need.

But complex negotiations must take place before the agreement is signed, and Anne Muchoki says she does not expect this to happen in her lifetime. "If you have your own little castle and then suddenly there are five of you, whose castle is it?"

"This is not a continent you can do by remote control — you have to go in and get your hands dirty"

\$1tr

The estimated worth of the agriculture industry in Sub-Saharan Africa by 2030.

Amjarwalla is more optimistic. "If African countries were to be more transparent, have better systems in place and the perception of rule of law improved, there would be a flood of cash coming from the Gulf, for sure."

But even without the free trade agreement, he says, Gulf inflows will grow over the next two years as investors seek returns that are increasingly difficult to get in mature markets.

Prospective investors must seek advice and remember Africa is not one country; it is 54 different states, each with their own culture, rules and unique offer. "This is not a continent you can do by remote control — you have to go in and get your hands dirty," Anjarwalla says. If you do, then substantial returns are possible.

Gitau speaks for the whole continent in her plea to Gulf investors: "We've always heard about Africa's 'potential' but it's been over 50 years now of talking in slogans — 'Africa Rising' and so on. Let's stop this narrative — now it's Africa's time."