Realising and Facilitating pan-African investment

Kigali International Financial Centre

In partnership with

AFRICA LEGAL

Contents

Expert Insight

Foreword

Nick Barigye | Chief Executive
Rwanda Finance

Africa is exploding with potential. People are engaged, motivated and increasingly well educated. Add youth and enthusiasm and you have the ingredients for success.
However, the challenge is changing the entrenched narrative that says the professional skills that should guide decision-making around investment in Africa are found somewhere else.

In this, the second of a three-part research and analysis series on doing business in Africa, Rwanda Finance and Africa Legal examine the impediments to confident investment.

Our legal and business communities were surveyed for their views on what is working and what could be done better.

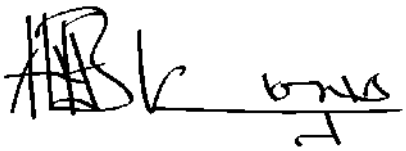
Their overriding opinion is that Africa is undersold.

It has the skills and there are certainly opportunities.

What can be improved are legal and regulatory frameworks that give investors confidence that they will do what investors come to do - make money.

And there are the obvious and, in the scheme of things, small improvements that can lead to quick and easy growth: internet access, office space, good transport links, decent hotels and nice places to eat. Add rule of law and the money starts to flow.
Changing the story of Africa and why it should be an investor's first port of call is the driving force behind Rwanda Finance through the Kigali International Financial Centre (KIFC).

We are delighted to present this report with our partner, Africa Legal, which we hope will encourage professionals everywhere to think about how they view doing business in Africa and, in so doing, begin a journey to learning more about this "continent of untapped opportunity".



Executive Summary

Driving more pan-African investment is a key priority for a continent that has long struggled to attract the same level of capital inflows as other emerging markets. Concerns around security, political stability, dispute resolution and transparency have traditionally made investors hesitant about increasing their exposure to Africa.

In this report, Africa Legal and Rwanda Finance—which is developing the Kigali International Financial Centre—surveyed almost 100 senior professionals in Africa and beyond about the challenges countries face when trying to attract more investment and how the KIFC can potentially give investors more confidence to deploy their capital.

The report also explores why investors are not always making use of African entities or structures to facilitate deals and how the KIFC's skill development efforts and commitment to the highest global compliance standards could help change that and ultimately boost pan-African investment.

Kigali International Financial Centre

Changing perceptions

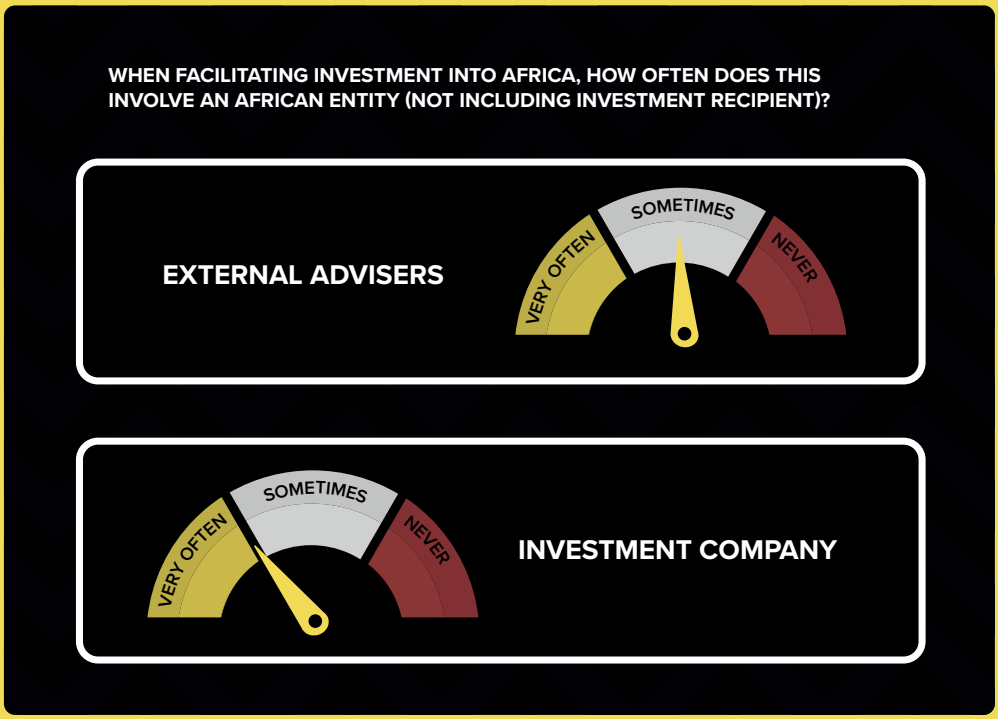
How KIFC can help support greater pan-African investment

Attracting investment capital into Africa has never been easy. Negative perceptions ranging from corruption to political instability have historically deterred investors from deploying capital across the continent, with foreign direct investment into Africa the lowest across all main developing economic regions. In 2020, FDI into Africa was just $40 billion, down from $45 billion in 2019, according to the United Nations Conference on Trade and Development's 2021 World Investment Report. Much of that investment was concentrated in a handful of countries—$5.9 billion went to Egypt, $4 billion to Congo, $3.1 billion to South Africa and $2.4 billion to both Nigeria and Ethiopia. More than 20 African countries received less than $0.5 billion each, the data showed. By contrast, FDI into Latin America and the Caribbean was $88 billion and investment into Asia was $535 billion. As a share of global FDI, Africa accounted for just 4% in 2020.

Part of the challenge of attracting more capital is also the lack of infrastructure to support the investment industry on the ground in many countries. That is something that a modern and forward-thinking international financial centre (IFC) in Africa could help solve and potentially attract greater FDI inflows.

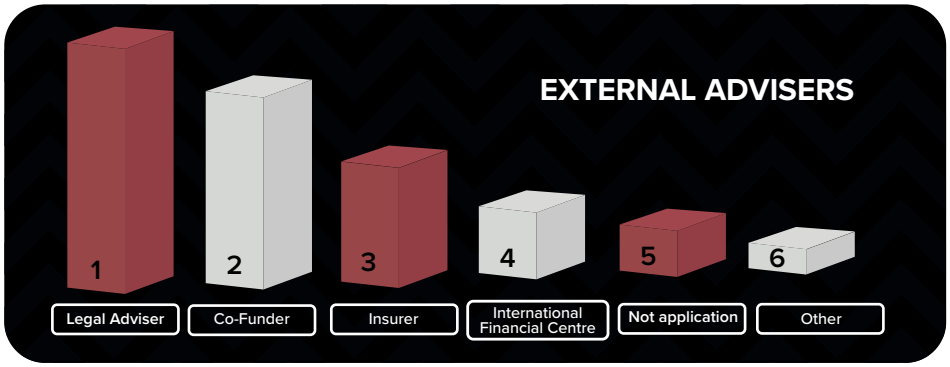
“There are some excellent and highly talented professionals on the ground in the intermediaries space in sub-Saharan Africa, but these are concentrated in a handful of countries like South Africa, Nigeria and Kenya, but beyond the major hubs and the larger countries you then see a huge capacity gap,” said Jennifer Mbaluto, a partner and co-head of Clifford Chance’s East Africa practice. “This is an area where the opportunity lies for Rwanda and the Kigali International Financial Centre (KIFC) to offer these support services on a cross-border basis to other African countries.”

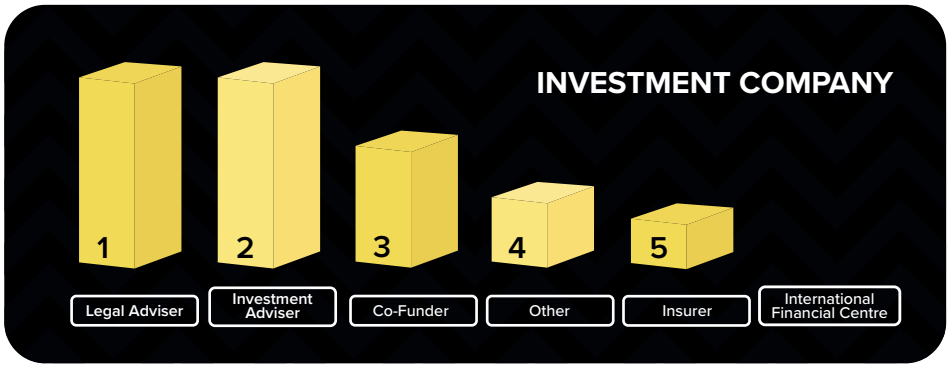
To assess the true state of investment into Africa, we surveyed a range of investment professionals—including external investment advisers, which comprised private lawyers, accountants and financial advisers, and investment company workers—to better understand the factors that impact capital deployment on the continent and the barriers that need to be dismantled to facilitate greater pan-African investment. Some 78% of survey respondents—who are spread across the world, but with the highest concentration in Tanzania, Rwanda, Kenya and Nigeria—said they work in an external advisory capacity for the investment industry, yet when advising on African deals, only 'sometimes' will an African entity be involved as a key component of the deal (excluding the recipient of the funds). Meanwhile, the 22% of respondents who work internally for an investment management company said they use an African entity slightly more often than those organisations that work in an advisory capacity—scoring 31 on a scale where 0 is ‘very often’ and 50 is ‘sometimes’.



African entities that external advisers most engaged with were investment advisers, followed by co-funders and then insurers. For the respondents who work internally at an investment management company—the majority of which were private equity funds—the African entities they most often engaged with to help facilitate deals were legal advisers and investment advisers, followed by co-funders and insurers. Most significantly, none of those investment management companies used Africa-based IFCs to help facilitate deals, highlighting the relative lack of existing IFCs on the continent.

What is the main function of the African entities?





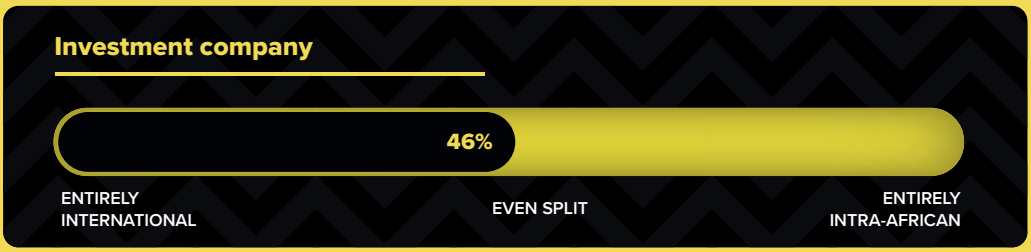
“

“In time they will learn that knowledge of the local environment is important because of Africa’s specificities. This will then generate increasing interest for the KIFC.”

Nishi Kichenin | Chief Executive
Juristax

SOURCES OF CAPITAL FOR AFRICAN INVESTMENTS

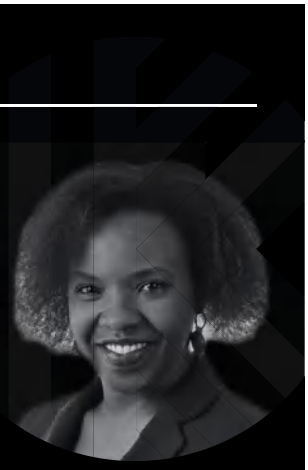
When asked where the capital used on those transactions was sourced, external advisers (private lawyer, accountant, financial adviser) said it was veering mostly towards being entirely international, while internal investment management company (mostly) Private Equity respondents said it was more of an even split between international and African capital.



Rwanda Finance, Chief Investment Officer, Ntoudi Mouyelo joined the Africa Legal Podcast for a fascinating discussion inspired by themes of this report.

Q&A

with **Jennifer Mbaluto | Partner and East Africa Co-head Clifford Chance**



What are the main issues that you typically face when working on M&A deals in East Africa?

"A lot of the challenges are around execution. One is structuring—many of our clients are looking for holdco jurisdictions that are conducive for structuring investments from a tax perspective, so we're often looking at which jurisdictions have put in place double taxation treaties and so on. Most European investors that have invested into Africa have historically used Mauritius or the Netherlands or to some extent the UK, but what we're lacking really is a good challenger to Mauritius. Investors who may not necessarily favour Mauritius but want to have their holding companies in Africa may view the KIFC as a potential way in."

In what ways can the KIFC help fix some of those challenges you face?

"One of the areas that we're usually helping clients navigate is compliance, including anti-money laundering, sanctions and general know your customer checks. This can be a big challenge because many countries in Africa unfortunately are considered higher risk. KIFC can play a role in that to the extent that it is applying the highest international compliance standards, that would give a huge level of comfort to investors who are investing in companies that set up through the KIFC."

To what extent can the KIFC drive more M&A activity in Africa?

"Africa has many small and medium enterprises that are growing very fast and will be ripe for international investment, but unless those businesses are investor-ready from a compliance perspective and from a structuring perspective, then it's difficult to attract that investment. But to the extent that African companies can embrace the KIFC as a centre and a framework that will help them become investor-ready, then that should ultimately drive more investment and therefore more M&A activity."

CLIFFORD
CHANCE

Respondents explained some of the reasons why they think market participants are not always engaging African entities to help facilitate transactions:

- "The current legal landscape and approach from legal experts is old fashioned and not in line with international standards."
- "There is a lack of development banks in most countries which can offer large development credit facilities."
- "International investors are just reluctant to use African service providers even when they are capable."

Investment Challenges

Aside from the lack of investment services infrastructure, there are other deeper-rooted fears that make investors nervous about deploying capital in Africa.

"There are often concerns about the stability of regulation, or that regulation would change ad hoc or too quickly," said Batya Blankers, Chief Executive and Co-founder of Chancen International, a non-profit organisation that helps finance tuition fees for low-income students in Rwanda. "The KIFC can help overcome these concerns by ensuring there is consistency in implementation of new laws that have been passed."

In addition, Blankers says it is important that audit firms and law firms are up-to-date and very familiar with the new laws that have been passed so that the advice they are giving is consistent.

"When investors reach the stage where they are doing their own due diligence or reaching out to a local legal firm as a final step before they disperse capital or sign any contracts, if there is a mismatch of information it can lead to a little bit of concern around the stability of new regulations," she said.

Q&A

with **Batya Blankers | Chief Executive and Co-founder Chancen International**

Given that much investment into Africa is facilitated through non-African investment vehicles or funds, what impact does that have on your ability to access capital?

"For impact investment, it's a huge advantage being on the ground in Africa—it ticks a big box for impact investors as they don't need to prove to their funders that the money is actually going to where all the impact is taking place. On the commercial side of investment, there is a little bit of an aversion towards having an entity in a newly regulated space, but for impact investment there's a very strong case to be made to directly funnel investment into Africa and not via non-African vehicles."

In what ways can your organisation benefit from the development of the KIFC?

"The restructuring of the investment code in Rwanda has been a big attraction. Before, there just weren't sufficient legal vehicles or structures to allow for innovative finance. The KIFC is pushing the Rwandan investment and banking and regulation space to be more forward thinking and to be more streamlined, which is reducing the bureaucracy on our end. Things like looking at whether every single resolution needs to be notarised are quite archaic approaches. The change away from that—we wouldn't have set up as a vehicle in Rwanda if it wasn't for that—means the cost of doing business is being reduced through the KIFC."

What financial intermediaries and services does Africa need more of locally to support more pan-African investment?

"From a legal advisory point of view, we need law firms that have a more innovative approach to the structuring of legal entities, of governance, and more complex entities. We have a couple of legal entities that fit into our group, and the ability to deal with that complexity is pretty low at this point. And then from a tax advisory and accounting perspective, with the big auditing firms there is enough expertise but there is a gap with the ability to take on this new law and apply it correctly—there just aren't many use cases. It will probably require quite a lot of collaboration to make sure these firms understand how to apply the law to the best benefit of their clients. In terms of support services like fund management services, it's important for there to be at least two or three providers so that you can get comparative quotes and ensure there isn't a monopoly."

CHANCEN International
FAIR FINANCE FOR EQUAL ACCESS

“

“KIFC can play a role in [reassuring investors] to the extent that it is applying the highest international compliance standards, that would give a huge level of comfort to investors that are investing in companies that set up through the KIFC.”

Jennifer Mbaluto | Partner and East Africa Co-head | Clifford Chance

Investors also have broader concerns about instability.

“A lot of investors have had this belief that Africa is unstable—this may be true or not—but this is how external investors see Africa, they link Africa to instability and, usually, if a fund decides not to go ahead with their investment, it is often because of concerns about stability,” said Nishi Kichenin, Chief Executive of Juristax, a corporate services provider.

A modern, forward-thinking financial centre like the KIFC has the potential to give investors more confidence about putting money to work in Africa.

“If the KIFC can provide necessary comfort about political, economic and social stability, that can help overcome a big barrier, and if there is a robust legal framework and the jurisdiction follows best practice for compliance standards, then we have all the elements to attract investment funds into the jurisdiction,” Kichenin said.

Q&A

with **Nishi Kichenin | Chief Executive Juristax**

What ingredients does the KIFC need to support greater investment in Africa?

"For a fund to work well we need first to have the people that can make it work, you need good asset and fund managers, you need strong banks, you need good custodians, you need brokers, you need corporate lawyers, you need accountants to be able to do the NAV (net asset value) calculation, therefore you need a lot of players on the ground to satisfy a fund requirement. At Juristax we have helped set up the African Institute of Training and Development in Kigali, to build capacity and to train people to work in a financial centre, because accounting in the textile industry and in the global business sector are two different types of work. Therefore, training these people for a fund to work well is very important."

Where are international investors currently going to facilitate deals in Africa?

"When Chinese invest in Africa they use Hong Kong or Singapore, when Europeans invest in Africa they use either Mauritius or Morocco and when Americans invest they use other jurisdictions like London. Therefore there are already good players in the market that are already facilitating investment, but what we do not have is a strong player on the ground in Africa. There is therefore space to welcome a new African player. All the steps are being taken for Rwanda to occupy this space and thrive in the international financial services sector."

What potential advantages does the KIFC have over other IFCs when it comes to facilitating pan-African investment?

"For a lot of investors, knowledge of the local environment is very important. Investors are provided with better comfort when they are supported by people from the jurisdiction or continent in which they are investing. This is Rwanda's source of competitive advantage. There will still be some investors who will think that London or New York or the Netherlands are better options for them. This is mainly because of habit. In time they will learn that knowledge of the local environment is important because of Africa's specificities. This will then generate increasing interest for the KIFC."

JurisTax

The survey respondents also outlined some of the key issues that need to be fixed to help drive more investment into Africa:

> Inconsistent regulatory framework and ever changing policy directives that are not necessarily derived from a pre-roundtable discussion between the would-be investors and the potential local beneficiaries.

> Corruption, bribery, security.

> Some of the greatest hurdles include market volatility and inefficient fund management.

> Lack of exit opportunities—there are no developed secondary markets—and low enforceability of credit recovery systems.

> The perception that Africa does not have the capacity to utilise the capital received efficiently due to mismanagement of funds previously provided, and the lack of the necessary skill sets in the relevant sectors to which capital is being disbursed.

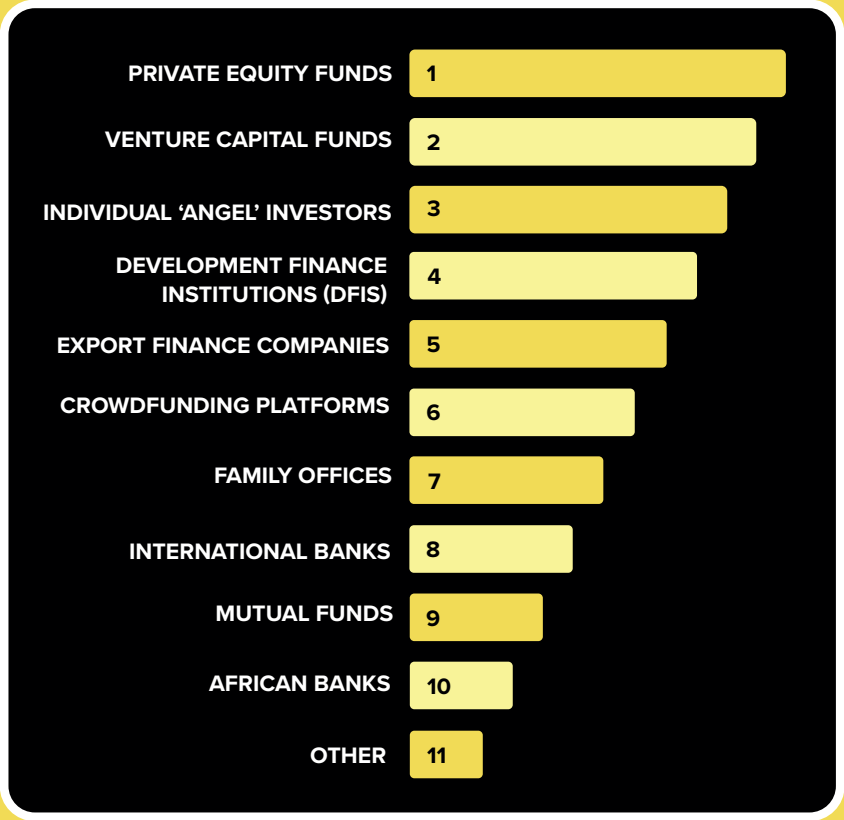
Those fears around the stability and robustness of the legal and regulatory environment in Africa were underscored by a recent FSD Africa report 'Conduits of Capital', which showed that legal and regulatory concerns were the main reason why investors were deterred from using eight out of nine key onshore African jurisdictions—the only outlier being Rwanda, where concerns were more focused on the availability of skilled human capital. Worries about political stability were also flagged as an inhibiting factor in eight of the nine onshore African jurisdictions, with Morocco the only outlier.

For the investment that is currently being made in Africa, respondents who work in an external advisory capacity said they most often advised private equity funds, followed by venture capital funds, individual 'angel' investors and then development finance institutions (DFIs). Mutual funds, international banks and African banks were the least prevalent. While respondents said private equity funds were keeping them busiest, 2020 was a tough year for African private equity fundraising. Africa-focused funds raised just $1.2 billion last year, a 69% drop compared to 2019, according to the African Private Equity and Venture Capital Association (AVCA). By contrast, global private equity fund raising fell 19% in 2020 to $535.2 billion, according to Private Equity International data. To put that in context, between 2015 and 2020, African private equity funds raised $18 billion in total. Given those dynamics, DFI investment is likely to remain the most important source of funds for African development. In June, G7 countries said their DFIs and other multilateral lenders, including the World Bank's International Finance Corporation, would invest $80 billion in Africa over the next five years.

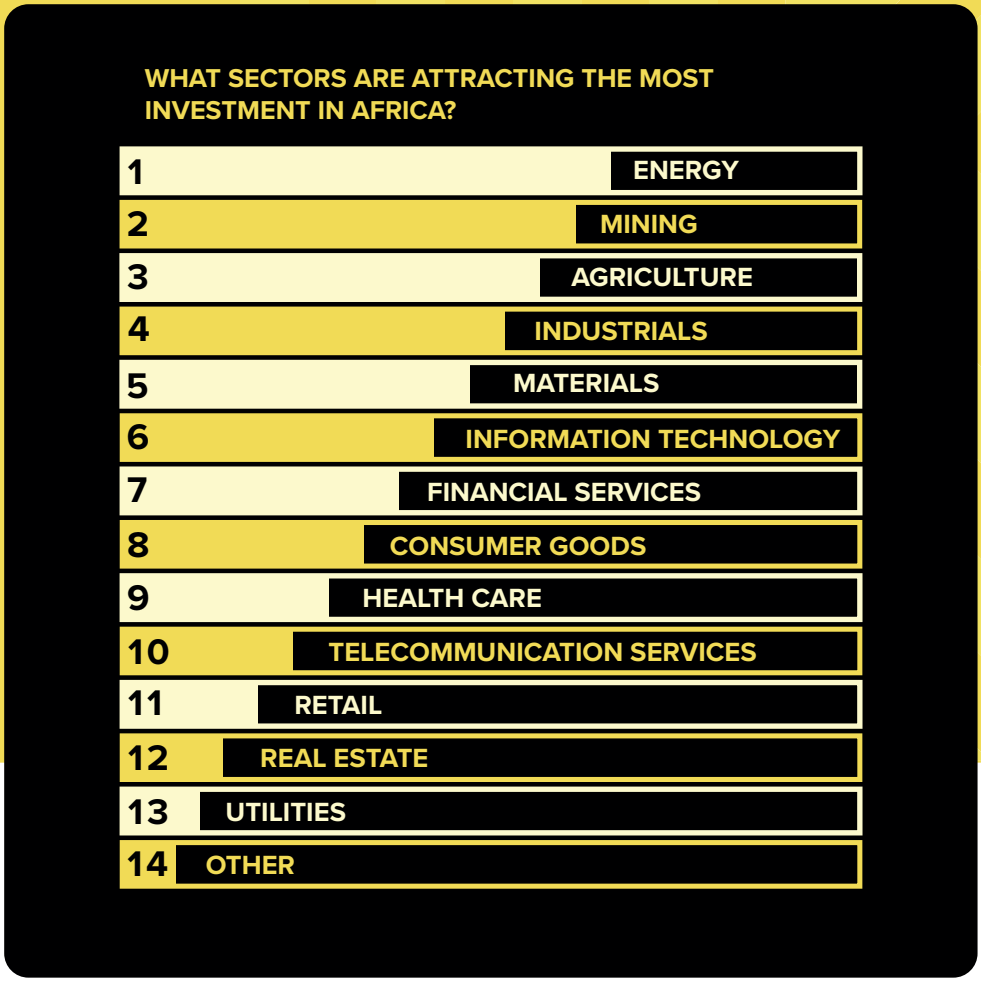
Regardless of where those inflows are coming from, the KIFC is focused on addressing the concerns of investors and ensuring they are more confident about deploying capital on the continent.

"The essence of KIFC is to build a capital of trust, for investors to truly feel their capital is deployed in a safe, compliant and transparent jurisdiction," said Ntoudi Mouyelo, Chief Investment Officer at Rwanda Finance. "In addition to that, we are constantly working to develop a pool of excellent professionals to serve investors who will join our centre."

WHAT TYPES OF INVESTMENT ENTITIES DO YOU USUALLY ADVISE? (EXTERNAL ADVISERS)



Respondents said the top three sectors those investors are targeting are traditional industries such as energy, mining and then agriculture. Financial services, by comparison, was ranked the seventh most popular investment target, partly reflecting the absence of a well-developed financial services industry in many regions—another area where the KIFC can potentially drive change.



The coronavirus pandemic also adds another complicating factor for potential investment inflows into Africa. The AVCA says that the pace of recovery is difficult to predict given the ongoing uncertainty around the virus, though it adds that Africa's road to economic recovery has already begun, albeit with regional disparities.

“

“The restructuring of the investment code in Rwanda has been a big attraction. Before, there just weren't sufficient legal vehicles or structures to allow for innovative finance.”

Batya Blankers | Chief Executive and Co-founder Chancen International

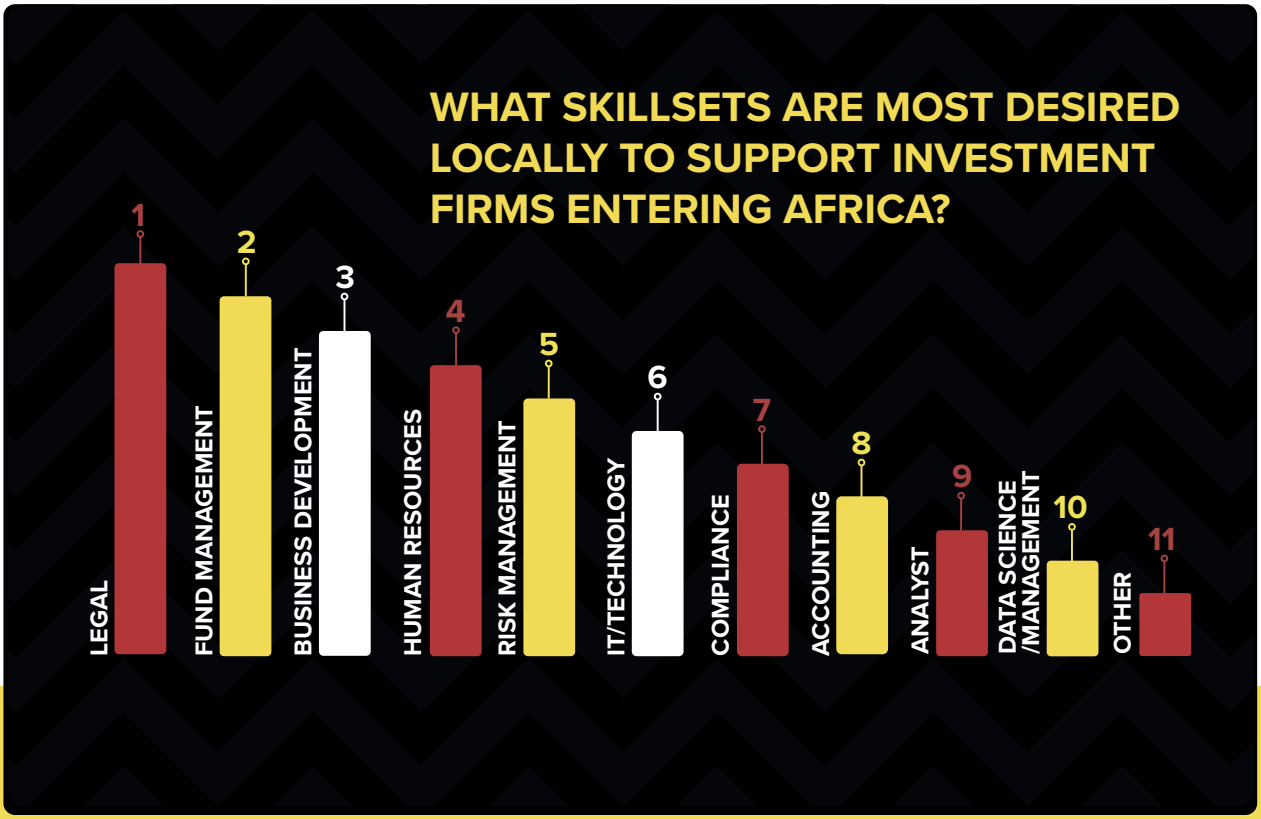
Building for the future

The lack of necessary skill sets is one area where efforts are underway to train local talent for a career in financial services.

“We put a lot of emphasis on capacity building because working as an administrator in a financial centre is completely different to other sectors in that success depends on the quality of the workforce,” said Kichenin.

The skill sets that respondents ranked as the top five most in demand on the ground to support the investment industry were legal professionals, followed by professionals working in fund management, business development, human resources and risk management.

The need for IFCs to focus on developing their human capital to support growth was underscored by the 2020 Global Financial Centres Index, where three out of the top five IFCs—New York, London and Hong Kong—also led in human capital development.

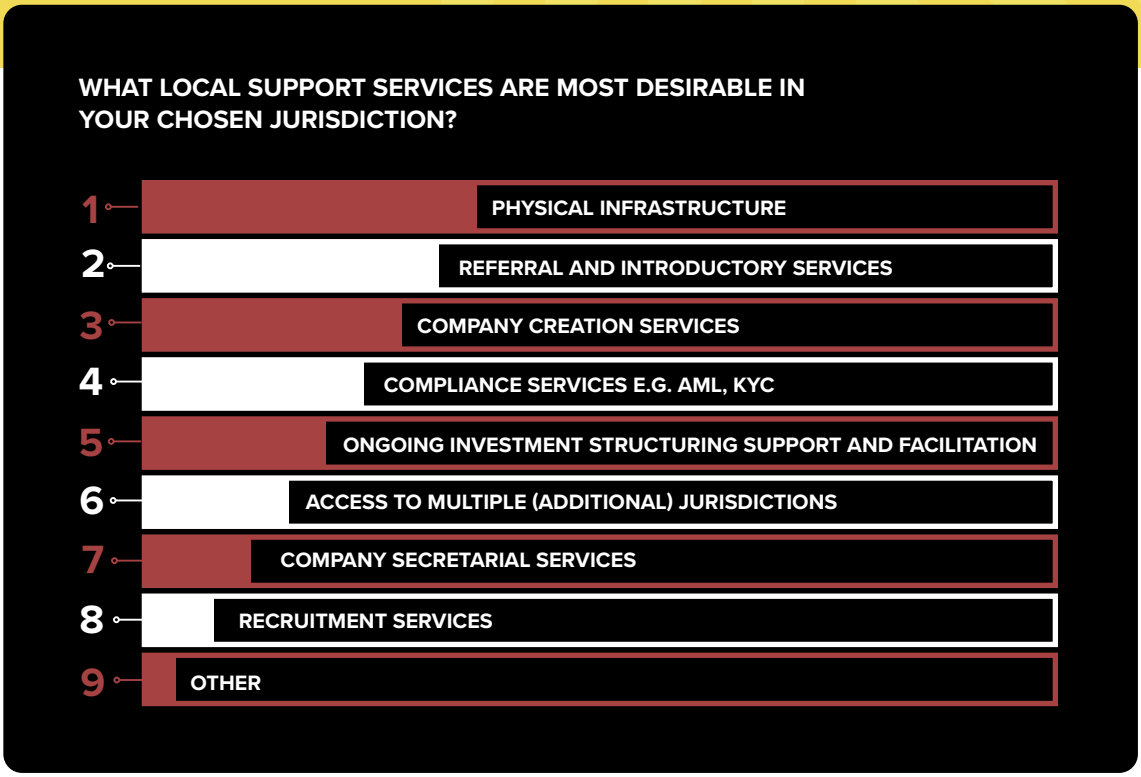


Mbaluto says one skill set that Rwanda could also potentially focus on developing is dispute resolution.

“That is another area where we have a huge gap in Africa,” she said. “We have excellent arbitrators but they are mainly concentrated in a few countries—usually the larger economies—and as soon as you step out of that you haven’t really got the critical mass needed when it comes to African experts in dispute resolution and that can often be a point of friction between international investors and the local industry.”

Respondents said the most desirable support services they look for on the ground when they choose a jurisdiction to deploy their funds are physical infrastructure—things like office space, travel connections, business services and high-speed internet—followed by an equal need for referral and introductory services and company creation services. What that indicates is that even though Covid-19 has changed thinking around remote working practices, most people still need the in-person facilities that have traditionally made international financial centres attractive places to cluster.

"Africa needs a concentration of institutions like banks, providers of corporate services such as lawyers and accountants, private investors and family offices, financial sector regulators, among other stakeholders," said Isabelle Bébéar, a director and head of the International and European affairs department at French public investment bank Bpifrance. "It is essential for the financial industry to have access to a comprehensive, modern, transparent and globally recognised legal, fiscal, regulatory and supervisory regime."



Yet for all the ancillary services needed by the investment industry on the ground, ultimately what people want is reliability, Says Blankers.

"You need to take what has been put in place and make sure it is consistent, because through that the trust will increase," she said. "What the KIFC and Rwanda Finance are doing here is pretty groundbreaking, it's shifting the needle for investment in the region."

Q&A

with **Isabelle Bébéar | Director and Head of International and European Affairs Department | Bpifrance**

How important is it for you at Bpifrance to have an IFC based in Africa to facilitate pan-African investment?

"As an investor in Africa, we are very happy to see the development of a new IFC. This is an excellent signal to all investors to take an interest in Africa. It allows the construction of an exemplary and integrated eco-system that corresponds to African characteristics and, above all, to its culture. This will make it easier for private equity funds Bpifrance invests in. This is very positive for Africa's growth and business development."

What are some of the common concerns you have when making investments in Africa and how does the KIFC help improve that?

"Through the Averroès Africa vehicle, Bpifrance invests in African investment funds which themselves invest throughout Africa in start-ups, SMEs (small and medium-size enterprises) and ETIs (intermediate-size enterprises). Our concern is to invest in funds incorporated in countries that will ensure exemplary governance and fair taxation, while allowing the managers of these funds to do their job as simply as possible. KIFC can help by having put in place a legal and regulatory framework that is robust, compliant and attractive for investments, setting up an efficient and stable tax policy, as well as developing a skilled workforce."

To what extent will investment and development be boosted by the ability to structure and facilitate deals on the ground in Africa as opposed to having to go through non-African IFCs?

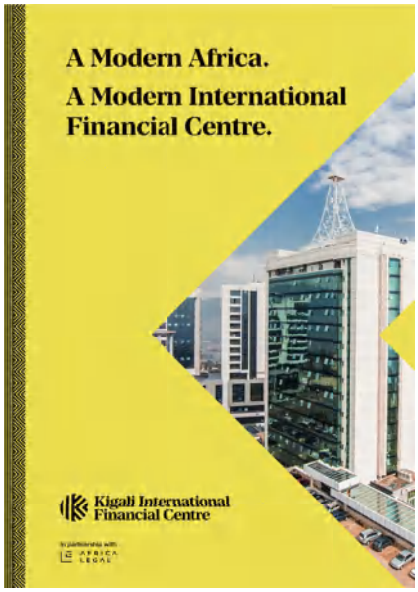
"On the one hand, it is a question of accentuating the credibility of Africa by offering exemplary IFCs. On the other hand, being on the ground, those IFCs understand the needs of industry players within the financial services sector, their challenges, and then engage with policy formulators to address them. Other key factors of success include having a flexible tax regime, provisions for repatriation of capital to avoid double taxation, as well as a regulatory framework that reflects global standards."

bpifrance

Conclusion

Changing investor perceptions is not something that will happen overnight, but by addressing the concerns in the survey and focusing on the needs of investors—from robust regulatory standards to highly-skilled local support services—a forward-thinking financial centre such as the KIFC can chip away at those preconceptions and begin to drive more pan-African investment. In the next and final part in this series of reports on the potential for a new and modern African IFC, we will examine the broader corporate and commercial opportunities the KIFC can generate for businesses seeking to expand in Africa. If you want to take part in the research for the final report and to keep up-to-date with plans for the KIFC, register your interest at research@africa-legal.com

To go back to Report 1, which focuses on how a new and modern African international financial centre can attract investment and drive economic growth across countries, regions and the continent click here:



Coming next, in Report 3, is an examination of the broader corporate and commercial opportunities the KIFC can generate for businesses seeking to expand in Africa.

To find out more about KIFC contact:

Michelle Umurungi
Senior Strategy & Policy Analyst | Rwanda Finance Limited

Email: info@rfl.rw
Website: www.rfl.rw/

In partnership with

AFRICA LEGAL

Africa Legal provides increased access to news, market insight, online courses and jobs via one integrated platform for the African legal community around the world. At the core of Africa's potential is the continued development of the professional services sector and empowering and upskilling talent. Lawyers provide a gateway to deals that is often overlooked and the KIFC's engagement with this critical audience will be a game changer for Rwanda and other African countries.

Together, we are building a transparent and collaborative community that will provide a solid platform for growth.

We wish to thank our community for their willing participation.

http://www.africa-legal.com