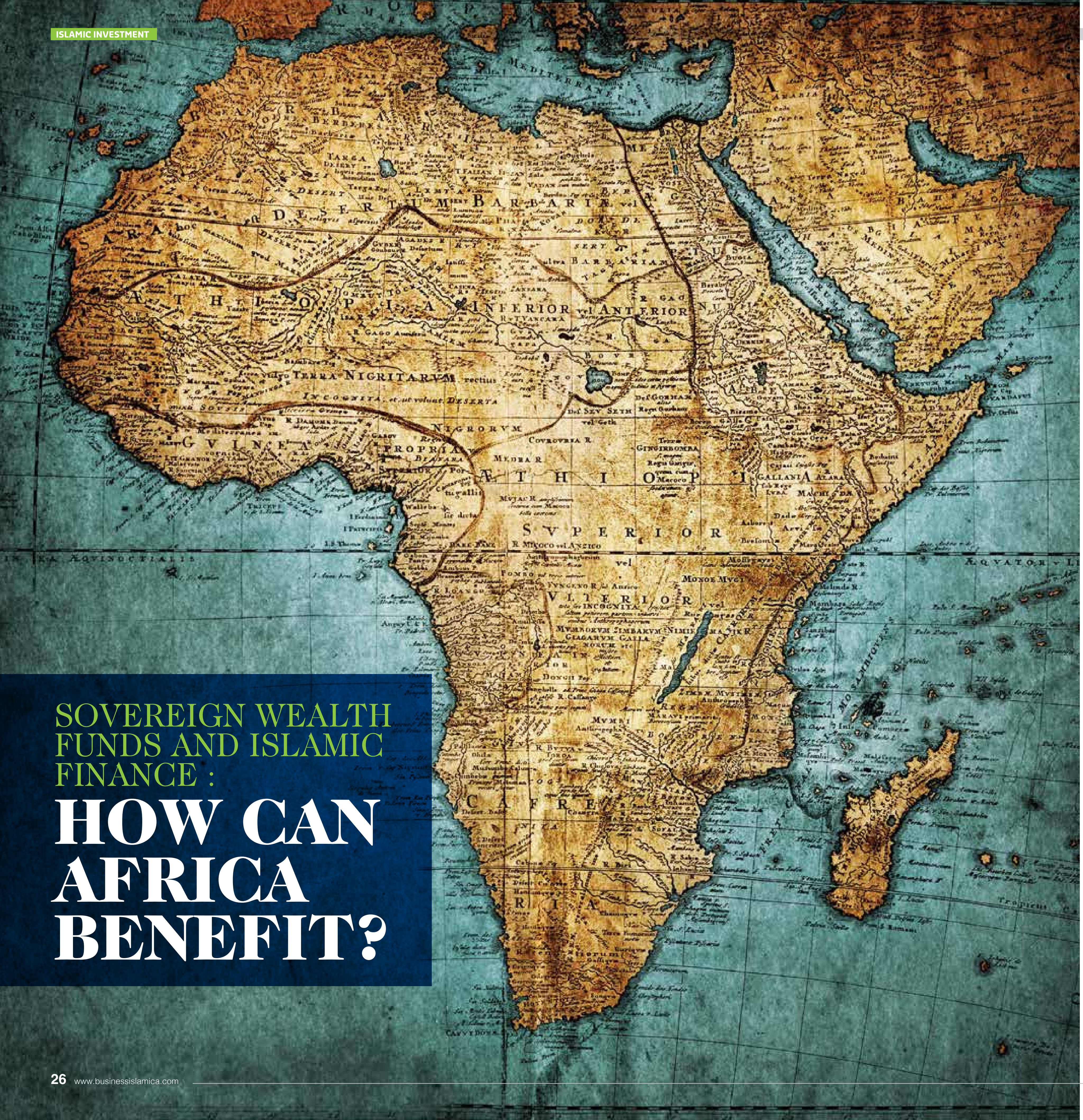


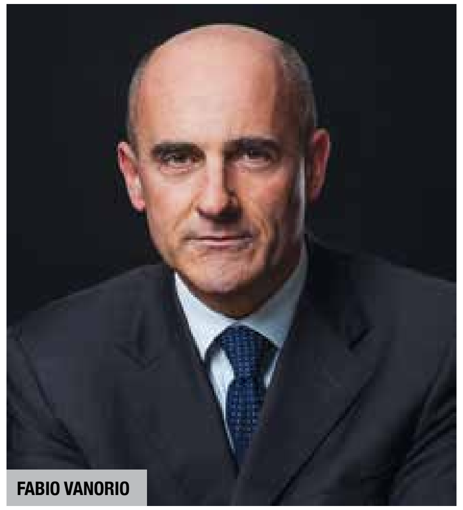
SOVEREIGN WEALTH FUNDS AND ISLAMIC FINANCE : HOW CAN AFRICA BENEFIT?

By: Fabio Vanorioi

About Fabio Vanorio
Fabio Vanorio is a Ministerial Counselor at the Italian Ministry of Foreign Affairs. His expertise in Islamic finance dates back to 2007; since then he has carried out extensive academic research on Shari'a-Compliant Finance, under the supervision of Prof. Paolo Savona.

In addition to his academic qualifications in International quantitative economics and finance, he hold a Diploma in Islamic Banking and Insurance from the Institute of Islamic Banking and Insurance (IIBI) of London (UK). He also participated in a training course held by the Financial News - Dow Jones, as well as a series of conferences dealing with the Islamic finance topic.

Recently, he began an in-depth analysis concerning the existing links between the expansion and evolution of Islamic finance and the asset allocation of Islamic Sovereign Wealth Funds.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As the global economies continue to look for new solutions that allow them to contain the worldwide downsize, Africa's market potentialities are emerging. The United Arab Emirates (UAE) has been fast, so far, to recognize this challenge and is planning how to access these newer opportunities. Many countries on the African continent have been rising, then, as new UAE trade partners, such as, among the most important, Nigeria, Tanzania, Kenya and Uganda, exploiting the existing and strong ties between United Arab Emirates (UAE) and the African continent.

Dubai, in fact, shares age-old ties with many African countries, mainly from the South and East regions, and in recent times, has boosted economic and commercial relationships with the COMESA (Common Market for Eastern and Southern Africa) economic bloc . Furthermore, to increase ideas and partnership projects, the Dubai Chamber of Commerce and Industry has gathered, as of last October, more than 700 government officials and business leaders from across Dubai, the Middle East and Africa with the 2nd Africa Global Business Forum 2014.

Today, the UAE is the main trading partner of Africa within the GCC, with approximately 80% of the UAE's imports from Africa being primary products, such as food produce and beverages. As regards specifically Dubai, during the first half of 2014, Dubai's total non-oil trade with Africa reached a value of around US$ 16.3 billion, according to Dubai Customs. Furthermore, over 500,000 African nationals currently reside in Dubai, over 800,000 African nationals visited Dubai in 2013 alone and it is estimated that, by 2020, tourism from Africa to Dubai will reach over 1.5 million visitors per year.

Dubai is venturing into Africa mainly through one of its Sovereign wealth funds, the Investment Corporation of Dubai (ICD). The current goals in Africa of ICD can be summarized as follow:

• INFRASTRUCTURE SECTOR

Recently, the ICD has concluded a $300 million stake to buy a 1.4 per cent stake in Dangote Cement, the largest firm on Nigeria's stock market, which controls two-thirds of the cement market and has around $23 billion in market value. This deal opens up interesting future partnerships between ICD and Dangote, and allows ICD to increase its investment exposure to Africa. In August 2013, for example, Dangote partnered with the private-equity firms Blackstone Group and Carlyle Group for Africa investments.

According to Frost & Sullivan Africa, the average cement consumption in most African regions is currently low, and the process of catching up to international averages will facilitate future industry growth. Population growth, urbanization and housing development should increase cement consumption over the next five to ten years. In this sector, Dangote Cement planned to expand production capacity from about 35 million tons a year to more than 60m tons a year by 2018 as it grows domestically and across 12 other African countries.

• CIVIL AVIATION

Recently, Emirates Airlines, owned by the ICD, reached two notable deals: a ten-year agreement with the Angolan government to manage the national carrier, TAAG Linhas Aéreas De Angola, and a partnership with Nigeria's Arik Air.

Today, Emirates fleet investment in Africa tops $7 billion with operating costs of over $2 billion. In the past five years, Emirates has carried over 1.6 million passengers and 40,000 tons of cargo between Africa and China, underscoring the vital trade relationship that the continent has with the East. By 2020, Emirates expects to provide an additional 8.5 million seats to its African capacity, to add at least 10 new routes in Africa (by 2025). Taking advantage of a strong demand for flights, despite the Ebola outbreak.

• AGRICULTURE

One of the main discussions between ICD and Dangote has also been Dangote's spending plan of about $3 billion to boost production of sugar and rice.

The UAE is, in fact, looking for a solution for its food security, and Africa can be a good option to offset its limited domestic food production capacity, thanks to its fertile soil and water resources. ICD projects are to establish huge farms (in particular, for meat production) across Africa to provide agricultural products to the UAE economy.

• TELECOMS

The telecoms operator Etisalat, also owned by ICD, has a presence in several African markets including Sudan, Tanzania, Benin, Gabon and Ivory Coast. In May 2013 it finalised the acquisition of a 53 per cent stake in Maroc Telecom, giving it access to Burkina Faso, Mauritania and Mali. Etisalat also owns an 82% stake in Atlantique Telecom, which operates under the Moov brand and is operational in Benin, the Central African Republic, Gabon, Burkina Faso, Niger, Ivory Coast and Togo.

Etisalat enjoyed a monopoly in the UAE's domestic market until a few years ago and has over 6.3 million registered subscribers in the UAE, out of its regional subscriber base of approximately 33 million – making it the second biggest telecom operator in the Middle East region. Etisalat will inject another $5.5 billion in African markets, $4.1 billion of which in East Africa, and $1.4 billion in West Africa.

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• FINANCIAL SECTOR

Many businesses in Africa are calling for more access to finance. Dubai Islamic Bank, the world's oldest Shari'ah-compliant lender, is exploring opportunities in Kenya and surrounding countries in Africa, looking for acquisitions, joint ventures, or startups. While describing Africa as a virgin territory for Islamic finance, DIB's chief executive, Adnan Chilwan, told Reuters that countries like Kenya where about 15 percent of the population is Muslim and the financial regulator is preparing a ten-year capital markets development strategy that includes Islamic finance, are a viable investment hotspot for Islamic banking, including Sukuk issues. Kenya will open the door for more branches across the region, including Tanzania and Uganda

Moreover, DIB could also have a major role in helping a rising number of African companies that are catching the eyes of major Stock Exchanges around the world. In this way, Dubai is encouraging African companies to open up offices in UAE to make use of its financial infrastructure, listing African companies on Dubai Financial Market (DFM)'s rebounding exchange.

ICD's investment is the latest of a sequence of recent acquisitions by Sovereign Wealth Funds (SWFs) in sub-Saharan Africa, such as Temasek in Nigeria and Tanzania, or China Investment Corporation in South Africa. The trend could be further made stronger in future. The African Development Bank, in fact, forecasts that the continent will see record foreign inflows of more than $80bn in 2014, with an expected rise of portfolio flows, which include equity and bond investments, to nearly $25bn, over a peak set in 2006.

The new presence of Dubai's SWF can contribute -above all- to raise up the embrace of large-scale Islamic finance in Africa, strengthening the connection between SWFs and Islamic finance. Indeed, Africa is home to roughly 400 million Muslims - around a quarter of the world's total - and the issuances of Shari'ah-compliant instruments could smooth the progress of Islamic finance.

In 2013, Nigeria's Osun state became the first economy in sub-Saharan Africa to issue the 10 billion naira ($61 million) Sukuk, after which Senegal, that issued 100 billion CFA francs ($208 million) Sukuk with the Islamic Development Bank assistance, and Gambia, that placed one of the lowest Sukuk issuance. South Africa, which has the continent's largest stock and bond exchanges, and Kenya have planned to issue Sukuk in 2014 to broaden their investor base.

The African region, then, is already benefiting from ad hoc Islamic finance deals, particularly targeting specific infrastructure projects. Sukuk, commonly based on property or infrastructure, are particularly suited for sub-Saharan Africa, that needs huge investments in power stations, railways, ports and roads. However, as also Neil Miller, head of Islamic finance at Linklaters, said "Sukuk is the tip of the iceberg. There is a lot more Islamic finance going on linked to infrastructure projects, trade and food security transactions" . In this sense, the action of the Islamic Development Bank must be understood with its $150 million lending through Shari'ah-compliant facilities in Nigeria and with a $200m loan financing the construction of a power plant in Morocco.