Onshore Options for Africa-focussed Investment Funds and Vehicles

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by

Z/Yen Group Limited I 90 Basinghall Street I London EC2V 5AY I United Kingdom
Telephone: +44 20 7562-9562 I Facsimile: +44 20 7628-5751 I www.zyen.com

1. INTRODUCTION

1.1 Defining Financial Centres

The definition of a financial centre is bound up in the definition of a city. We can start by observing that financial centres are cities or districts of cities where finance is conducted. However, the definition of a city is problematic, as anyone who has tried to compare city populations knows. Is Paris bigger than London? Did we mean the core city, perhaps the medieval walls, the city as defined by political boundaries, the greater metropolitan area? In certain cases, such as offshore centres like the Cayman Islands, the financial centre is really just the jurisdiction.

Likewise, the definition of finance is problematic. All cities have financial transactions. Is a shipping transaction finance? Paying for fuel? When does a shipping transaction become just finance? Are we talking about transactions that are wholly financial? Funding a vessel, insuring it? So much finance is conducted electronically that one might be able to claim that server farms located anywhere are financial centres.

Z/Yen's definition—"financial centres are places with strong concentrations of financial professionals and their firms." It's the people that matter.

Financial centres funnel investment toward innovation and growth. Vibrant, competitive financial centres give cities economic advantages in information, knowledge and access to capital. A strong financial centre, whether domestic, niche, regional, international or global, connects the wider economy to the global financial community. Cities that are part of the global financial network gain from global trade and growth. Inward and outward investment opportunities increase the wealth of cities that have financial centres and the wealth of their citizens.

'Traffic' between the domestic economy and the global financial community is critical to national economic performance. The key function of the domestic financial community is not its ability to service the domestic economy's needs domestically, but rather its ability to service the domestic economy's needs wherever and however they are best serviced. But after a point a well functioning financial centre attracts global financial transactions in its own right, and this confuses matters.

Z/Yen sees the core value-added themes of finance and financial centres as:

THEME	SERVICE	FOCUS
Trust	Identities	Community
Space	Transactions	Payment Services
Time	Debts	Investment Services
Mutualisation	Pooling	Distribution and Concentration

- Community—financial centres are both 'open' and 'closed.' Access to the community needs to be via confirmation of identity and qualifications. At the same time, a too closed community cannot grow. A wider discussion might explore how diaspora often succeed internationally in growing networks, but with too restricted access to the community for outsiders they often fail to grow financial centres. A successful financial centre's over-riding principle is 'treating all comers fairly.' This obviously underscores recent emphasis on the 'rule of law' as a key institution.
- Payment services—are typically based around trade. Financial centres often grow from trade finance, and are thus often associated with ports or logistics interconnections.
- Investment services—with the increasing recognition that a financial centre can be significant without a large domestic economy, think Zurich, Geneva, Singapore, or Hong Kong before the 1997 transfer of sovereignty, it is more evident that financial centres facilitate multi-party investments, most often cross-border.
- Distribution and concentration—sophisticated financial centres often move into wholesale insurance and reinsurance, allocating risk capital where needed and adjusting returns from capital to provide good prices.

1.2 Financial Centre Profiles

Successful financial centres can and do fulfil more than one role:

- 'Global' financial centres that are truly global foci, where only a few can claim that role, such as London, New York, Hong Kong and Singapore;
- 'International' financial centres such as Seoul or Shanghai or Frankfurt that conduct a significant volume of cross-border transactions;
- 'Niche' financial centres that are worldwide leaders in one sector, such as Hamilton in reinsurance or Zurich and Edinburgh in fund management, as well as Toronto, Vancouver, Johannesburg and Sydney in mining and extractive industires;
- 'National' financial centres, often within federal countries, that act as the main financial centre for financial services within one country, such as Toronto or Frankfurt;
- 'Regional' financial centres that conduct a large proportion of regional business within one country, e.g., Boston or Vancouver.

There is much more information about the Global Financial Centres Index (GFCI) and its classification system online, www.globalfinancialcentres.net, but the table below provides a good indicator of a division based on quantitative parameters the categorises centres by global-transnational-local, broad-shallow and specialised-diversified.

The profiles assigned to each financial centre in the GFCI are based on mathematical clustering and correlation analysis. There are three determinants of a centre's profile—connectivity, diversity, and specialty:

- **Connectivity**—or connectedness, is the extent to which a centre is well known around the world, and how much non-resident professionals believe it is connected to other financial centres. Respondents to the GFCI online questionnaire are asked to assess only those centres with which they are personally familiar. A centre's connectivity determines

whether it is 'Local,' 'Transnational' or 'Global' (the vertical axis of the table below). A centre's connectivity is assessed using a combination of 'inbound' assessment locations (the number of locations from which a particular centre receives assessments) and 'outbound' assessment locations (the number of other centres assessed by respondents from a particular centre).

- **Diversity**—is the **breadth** of financial industry sectors that flourish in a financial centre. We consider this sector 'richness' to be measurable in a similar way to that of the natural environment and therefore, use a combination of three widely respected biodiversity indices calculated on the instrumental factors) to assess a centre's diversity.
- **Speciality**—is the **depth** within a financial centre of the finance industry, in particular investment management, banking and insurance.

In the table below, the 83 GFCI centres are assigned a profile on parameters for the three measures: how well connected a centre is, how broad its services are and how specialised it is. We will look in detail later at a group of nine centres, four in Africa. One, Nairobi, has insufficient data to be properly classified. The remaining eight have been circled below. On the horizontal axis, a centre can be either:

- A 'emerging contender' if it has insufficient breadth and depth;
- A 'specialist' if it has sufficient depth in one or more sectors (but insufficient 'breadth');
- A 'diversified' centre if it has sufficient breadth in several sectors (but insufficient 'depth' in any sectors; or,
- A 'leader' if it has both sufficient depth and breadth.

	Broad and Deep	**Relatively Broad**	**Relatively Deep**	**Emerging**
Global	Global Leaders	Global Diversified	Global Specialists	Global Contenders
	Amsterdam	Brussels	Beijing	
	Boston	Dublin	Dubai	
	Frankfurt	Milan	Geneva	
	Hong Kong	Moscow	Luxembourg	
	London			
	New York			
	Paris			
	Seoul			
	Singapore			
	Tokyo			
	Toronto			
	Zurich			
Transnational	Established Transnational	Transnational Diversified	Transnational Specialists	Transnational Contenders
	Chicago	Istanbul	Abu Dhabi	Copenhagen
	Madrid	Kuala Lumpur	Almaty	Edinburgh
	Montreal	Prague	Cayman Islands	Jakarta
	Munich	Rome	Casablanca	
	San Francisco		Gibraltar	
	Shanghai		Isle of Man	
	Sydney		Jersey	
	Vancouver		Monaco	
	Vienna		Qatar	
	Washington DC		Shenzhen	

	Broad and Deep	Relatively Broad	Relatively Deep	Emerging
Local	Established Players	Local Diversified	Local Specialists	Evolving Centres
	Busan	Budapest	Bahamas	Athens
	Johannesburg	Lisbon	Bahrain	Bangkok
	Melbourne	Mexico City	British Virgin Islands	Cyprus
	Sao Paulo	Osaka	Buenos Aires	Glasgow
	Stockholm	Warsaw	Calgary	Hamilton
			Guernsey	Helsinki
			Mauritius	Malta
			Panama	Manila
			Riyadh	Mumbai
			Taipei	Oslo
				Reykjavik
				Rio de Janeiro
				St Petersburg
				Tallinn
				Tel Aviv
				Wellington

Of the group, Dubai is the only peer group centre which is 'Global.' Casablanca and Doha are Transnational Specialists. Istanbul is transnational but more diversified. The remaining four group centres are all 'Local' centres. It is likely that Nairobi, were it classified with enough data, would begin as a local evolving centre like Tel Aviv.

1.3 Roles – Onshore and Offshore

We would define an onshore financial centre as one whose primary mode of competition is not tax permissiveness or lack of certain accepted 'norms' of market regulation. Offshore and onshore cannot be hard and fast definitions. At what point does a country's sensible tax regime become permissive, or "light touch" regulation become disregard for investors, or individualism tip it from being an "onshore financial centre" (given this definition) to an "offshore financial centre"?

Interestingly, the OECD doesn't define financial centres yet it defines offshore financial centres starting with, "Countries or jurisdictions with financial centres that contain financial institutions…" This focus on offshore may have much to with the OECD's focus on tax avoidance / evasion issues. Large numbers of financial centres fall into small jurisdictions. Out of the world's 221 sovereign states and dependent territories in 2009, 67 have a population of less than 1 million (30%), such as the Bahamas, Guernsey, the Isle of Man, the British Virgin Islands, Mauritius or Gibraltar. Many have sought to become offshore centres, and some critics would argue that London and certain USA centres, such as Delaware or Nevada are 'offshore' [J.C. Sharman, Michael Findley and Daniel Nielson, Global Shell Games: Experiments in Transnational Relations (Cambridge: Cambridge University Press, 2014), 250 pages].

Offshore centres have used their constitutional independence to develop legislation, regulation, and tax vehicles that attract non-resident business. Many have used their comparative advantage to create world-class expertise in international financial services. The most enduring offshore centres offer ways of carrying out financial transactions, which are essential but complex from a regulatory point of view, such as reinsurance in Bermuda.

There are numerous other categorizations of offshore, and a desire amongst some offshore centres to be called 'international business centres,' but the term offshore sticks and is useful as many centres such as Geneva, Luxembourg or Zurich could equally be termed international business centres. Arguably, there could be about 15 offshore centres in the GFCI, heavily concentrated in the 'Transnational Specialists' or 'Local Specialists' profiles, often by having developed a legal or taxation approach, e.g., protected cell captives, fixed tax fees, facilitated nationalisation, or easily-established funds, that in turn

are suited to particular financial segments, e.g., wealth management, asset management, fund management, gambling, or insurance / reinsurance.

Offshore centres tend to have four comparative advantages: long-term finance, regulatory simplicity and responsiveness, tax mitigation and secrecy. Offshore centres are famous for two of their four roles, tax mitigation and secrecy. Secrecy is easily attacked—why do you have something to hide? When looked at from a stable country, this seems a cutting question, but there are many legitimate reasons to desire secrecy. When looked at from an unstable country, secrecy can mean being less vulnerable to extortion or kidnap, or more able to consider positive reforms. Still, secrecy can too easily correlate with criminality, particularly where money laundering is involved. One solution is what Bermuda, Barbados and other offshore financial centres do—have information agreements that allow competent authorities to share essential information responsibly, without risking legitimate people. There are many small states that need to attain these essential levels of transparency, but so too do many larger states. Increasingly, the work of the OECD Global Forum on Exchange of Tax Information and Transparency and other international bodies means that many offshore centres have been peer reviewed as part of the Global Forum process and found to be largely compliant. Secrecy and lack of transparency are now rarely used by mainstream financial centres as a selling point.

Tax mitigation, as with all things to do with tax, is more complex. Offshore centres act as “way stations” that facilitate complex international trade and investment flows. Taxes are paid at the beginning of the journey where the activity takes place and when the investors are at the end of the journey, but not along the way. Tax mitigation (legal) can too easily become tax evasion (illegal), particularly where secrecy is too highly guarded.

The comparative advantage of offshore centres is displayed in how they ‘signal.’ In biology and economics, animals and people convey information about their abilities and intentions by ‘signalling.’ Offshore centres walk a tight-rope signalling that they are both capable of rapid change, and that they are havens of stability. For example, offshore centres simultaneously claim that they can change legal codes rapidly when laws impede sensible decisions, yet also avoid hasty legislation when larger nations are senselessly reacting to domestic calls for action.

A large nation can change tax rules or ownership rules at short notice. ‘Long finance’ structures set up to endure for a generation or two or three benefit from avoiding the capriciousness of larger nations’ domestic agendas. Savvy offshore centres signal that they avoid hasty changes in their own self-interest. Perversely, bouts of regulatory change directed at offshore centres can increase the odds that an offshore centre thrives.

FINANCIAL CENTRES RISE AND FALL – TIMBUKTU

Timbuktu, a fabled city on the Niger now in the modern West African country of Mali, was an important centre for the gold, salt, cotton and slave trades from the 10th to the 17th centuries. Ibn Battuta in the 1300s and Leo Africanus in the 1500s celebrated its success and praised it as a centre of learning, of universities, of libraries.

“Tin” or “tain” is Tuareg for a water well. According to popular etymology, an old Malian woman, Buktu, lived by a well and was known for her honesty. Travellers, including the Tuareg, would entrust Buktu with possessions when they were on the road and the location became known as Tin Buktu, meaning Buktu’s well. So Timbuktu started with trust, a familiar theme in finance.

From the 1375 Catalan Atlas of the known world (mapamundi), drawn by Abraham Cresques of Mallorca just after Ibn Battuta died and well before Leo Africanus, there is an inscription on the map which reads: “This Negro lord is called Musa Mali, Lord of the Negroes of Guinea. So abundant is the gold which is found in his country that he is the richest and most noble king in all the land.”

But aside from trust, why did Timbuktu rise? Timbuktu was rather inaccessible, far upriver. This perhaps enhanced its mystical image, but was a practical hindrance. The native tongue is a Songhay family language Koyra Chiini, hardly a lingua franca, so traders probably spoke many languages, principally Arabic, later enriched with Portuguese and French. Aside from lying on several trade route intersections and having a water supply, Timbuktu challenges many conventional assumptions about why financial centres form—it’s not just the location or seapower, not just the language, not just the time zone, not just the local industry needs for finance. Here’s a modern speech by a modern Permanent Secretary for Financial Services and the Treasury:

> “What is it … that attracts investors and financial institutions to this city? The answer lies in our fundamental strengths. These include our simple and low taxes; high-quality services; free flow of capital with no foreign exchange controls, and a stable, fully convertible currency; as well as a free economy buttressed by the rule of law and an independent judiciary. Our regulatory regime is on par with international standards; and our regulators are tasked to ensure a fair, transparent and orderly market.” [Miss Au King-chi, at the Hong Kong Investment Funds Association 3rd Annual Conference on 29 September 2009 positioning Hong Kong as an International Financial Centre]

So, how do you get a small financial centre? Start with a large one. The BBC describes Timbuktu differently in our century, “Today, it is a desolate and impoverished town—renowned for its heat, isolation and sand dunes.” [Source: http://news.bbc.co.uk/1/hi/world/africa/1911321.stm]. Financial centres depend on collective imagination being realised in intangible institutions. Financial centres can be made from the sands alone, yet also blow away with the winds.

2. COMPARING AFRICAN FINANCIAL CENTRES

2.1 Overall Comparisons

GFCI assigns ratings to financial centres using two main inputs:

- Instrumental factors—objective city or country assessments developed by a number of reputable, global organisations; and,
- Financial centres assessments—a range of financial centre assessments, on a scale of one to ten, provided by a number of international financial services professionals within the previous 24 months.

This report reviews Africa and its regional peer group with the data available from GFCI 16 (September 2014). Appendix E contains a summary table of country, capital, population, GDP, and $GDP/capita, arranged both by regional location and sorted by $GDP/capita.

In GFCI 16, only three African centres featured fully with sufficient data, viz:

- Casablanca—transnational specialist—wide North African connectivity;
- Johannesburg—local, broad and deep—largely based on local economy and strong mining, with local regional connections; and,
- Port Louis (Mauritius)—local specialist—access to India and regional trust structures, an important African investment and private equity fund domicile.

A number of assessors have begun rating Nairobi, so the GFCI 16 ratings are provided for comparison, but the ratings should be used with care as they are fewer than for the other three centres and have not been critically evaluated by the GFCI methodology. Assessors are providing assessments and comments on a number of other centres, but not in sufficient quantities for comparative, quantitative analysis, e.g., Abuja / Lagos, Lusaka, Djibouti, Cairo, Tunis, Harare and Kampala. The complete GFCI is available online, but for the purpose of this analysis a peer group might help to provide more realistic comparisons, rather than pointing out that Casablanca is not like London or New York. The peer group chosen consists of the following cities: Busan, Doha, Dubai, Istanbul and Tel Aviv.

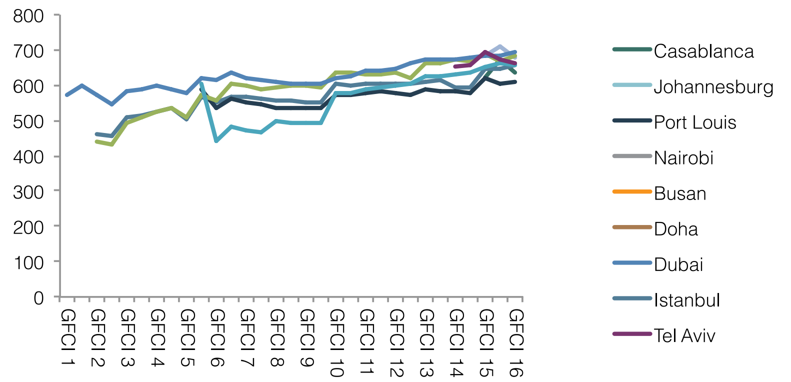
The table below shows the GFCI 16 rating of the group compared with GFCI 15:

Centre	GFCI 16 Rank	GFCI 16 Rating	GFCI 15 Rank	GFCI 15 Rating	Change in Rank	Change in Rating
Casablanca	51	635	62	622	▲11	▲13
Johannesburg	38	659	50	647	▲12	▲12
Port Louis	69	608	63	621	▼-6	▼-13
Nairobi	-	602	-	-	-	-
Busan	28	676	27	686	▼-1	▼-10
Doha	22	684	26	687	▲4	▼-3
Dubai	17	694	29	684	▲12	▲10
Istanbul	42	655	47	651	▲5	▲4
Tel Aviv	36	664	21	692	▼-15	▼-28

One can see that the group is fairly volatile. It is especially worth focussing on the rank volatility. Port Louis is falling in line with other 'offshore' centres. We will return to the rapid rise of Casablanca and Johannesburg later. Below we record the overall number of responses for the group:

	GFCI 16		Home		Foreign		Total	
Centre	Rank	Rating	Number	Average	Number	Average	Number	Average
Casablanca	51	635	42	864	369	803	411	809
Johannesburg	38	659	1	500	207	660	208	660
Port Louis	69	608	1	1,000	215	570	216	572
Nairobi	-	602	2	550	70	603	72	601
Busan	28	676	21	952	272	827	293	836
Doha	22	684	8	725	341	680	349	681
Dubai	17	694	51	835	713	712	764	721
Istanbul	42	655	15	813	223	631	238	643
Tel Aviv	36	664	5	900	187	666	192	672

The graph to the right shows the historical rating of the financial centres in the group. Historically, the Middle Eastern centres of Dubai and Doha have led the group. Tel Aviv joined the GFCI in GFCI 14. Busan and Casablanca only joined the GFCI in GFCI 15.



2.2 Future Financial Centre Stability

The GFCI 16 model provides analysis of the financial centres with the most volatile positions. The chart below contrasts the 'spread' or variance of the individual assessments given to each centre with the sensitivity to changes in the instrumental factors:

UNPREDICTABLE
DYNAMIC
STABLE
Tel Aviv
Busan
Beijing
Monaco
Buenos Aires
Vienna
Qatar
Mauritius
Stockholm
Calgary
Shenzhen
Munich
Luxembourg
Montreal
Osaka
Paris
Abu Dhabi
Vancouver
Tokyo
Dubai
Amsterdam
Johannesburg
Istanbul
Shanghai
Zurich
Washington DC
Casablanca
Taipei
Seoul
Geneva
Toronto
Frankfurt
Sao Paulo
London
Melbourne
Boston
New York
Chicago
Hong Kong
Singapore
Sydney
San Francisco
Increasing variance of assessments
Increasing sensitivity of instrumental factors

There are three bands of financial centres. The 'unpredictable' centres in the top right of the chart have a high sensitivity to changes in the instrumental factors and a high variance of assessments. These centres have the highest potential volatility of the GFCI centres. This group includes four centres in the group (Tel Aviv, Busan, Doha and Port Louis). These centres are easily affected by changes in assessments and in instrumental factor scores and Tel Aviv and Port Louis in particular are 'outliers.'

The 'stable' centres in the bottom left of the chart (including the top four centres) have a relatively low sensitivity to changes in the instrumental factors and a low variance of assessments. These centres are likely to exhibit the lowest volatility in future GFCI ratings. Looking back at recent GFCI ratings, the stable centres are fairly consistently towards the top of the GFCI ratings.

The 'dynamic' centres in the central band including four from the peer group (Dubai, Casablanca, Istanbul and Johannesburg) are the most interesting. They have a potential to move and generally once in the 'dynamic' area tend to stay there and move towards greater stability. From this viewpoint, Casablanca and Dubai are the best positioned centres in the peer group.

2.3 Reputational Advantage

One of the great advantages of the instrumental factor approach to index construction is the ability to distinguish a centre's reputational advantage or disadvantage. The distinction emerges when examining the difference between the weighted average assessment given to a centre and its overall rating. The first measure reflects the average score a centre receives from financial professionals across the world. The second measure is the GFCI score itself, which represents the average assessment adjusted to reflect the instrumental factors.

If a centre has a higher average assessment than its GFCI 16 rating, this indicates that respondents' perceptions of a centre are more favourable than the quantitative measures alone would suggest. If a centre has a higher average assessment than its GFCI 16 rating, this indicates that respondents' perceptions of a centre are more favourable than the quantitative measures alone would suggest. This may be due to strong marketing or general awareness. Casablanca (as Dubai has done in the past) has spent a considerable amount on advice, marketing, conferences and promotion. It has had active French and UK advisors. Casablanca has a very high reputational advantage suggesting that the marketing of the centre has worked, perhaps too strongly as its reputation well outstrips its GFCI rating. If respondents did not know it was Casablanca, they would have rated it significantly differently.

Centre	Average Assessment	GFCI 16 Rating	Reputational Advantage
Casablanca	803	635	168
Johannesburg	666	659	7
Port Louis	572	608	-36
Nairobi	600	602	-2
Busan	825	676	149
Doha	656	684	-28
Dubai	710	694	16
Istanbul	637	655	-18
Tel Aviv	667	664	3

This reputational advantage might be seen to indicate that Casablanca and Busan are 'overtrading,' i.e., their marketing is working too well. It could be argued, and will be important later in sub-indices later, that a significant discount, perhaps up to 50 points, should be applied to the Casablanca and Busan ratings that follow.

2.4 Financial Centres of The Future

"I never predict anything, and I never will." Paul Gascoigne

Given the potential of Africa and the paucity of contemporary financial centres, it seems only right to hazard some thoughts on the centres that might become significant. A few observations on the sifting process are in order. Readers are referred to Appendix E to form their own thoughts. First, there is a distinction between federal countries and centralised countries.

The federal GFCI countries with multiple centres are clearly the USA, Canada, and Switzerland. A federal country which has consolidated on a single centre is Germany, i.e., Frankfurt. With the odd minor satellite centres—Osaka in Japan, Edinburgh and Glasgow in the UK (though arguably with a country label)—the only problematic centralised country is China, arguably not federal despite the provincial system with Beijing, Shanghai, Hong Kong and Shenzhen (also symbiotic with Hong Kong). Second, financial centres seem to grow either from a strong hinterland, implying a significant economy (no specific numbers but perhaps a 20+ million population and certainly a US$1,000/capita+ GDP; or third, from a commitment to building an international financial centre, e.g., Mauritius. Equally, there are smaller capital economy centres that might do very well relative to their economy, e.g., Windhoek, and deserve support yet not merit a GFCI rating.

With that background, a few centres beyond Casablanca, Johannesburg, Port Louis and Nairobi seem to be worth watching:

- **Offshore?**—Djibouti, Botswana, the Seychelles, Gabon, Equatorial Guinea and Réunion (Djibouti, Gaborone, Victoria, Libreville, Malabo and Saint-Denisare) are potential 'offshore' centres. That said, Réunion is unlikely, given the French system, to have the degrees of freedom needed to be an offshore centre. Equatorial Guinea has significant organisational stability issues. Thus, it seems only Djibouti, Botswana, Gabon and the Seychelles might make a larger play to be international financial centres if they so desired;
- **Capital Economy**—Harare, Lusaka, Accra, Abidjan, Dakar, Yaoundé, Khartoum, Algiers, Tunis, N'Djamena, Juba and Luanda should all be on a watch list as centres that would accompany successful economic development;
- **Federal**—South Africa (current financial centre Johannesburg, formal capitals Pretoria (executive), Bloemfontein (judicial), Cape Town (legislative)) and Nigeria (formal capital Abuja, vastly larger economic city Lagos) are both countries where the capital is ever unlikely to be the financial centre, yet might support multiple financial centres as do the USA and Canada.

3. GFCI SUB-INDICES ANALYSIS

3.1 Industry Sector Sub-indices

GFCI categorises participants according to the sector in which they work. We aggregate these into five main industry sectors:

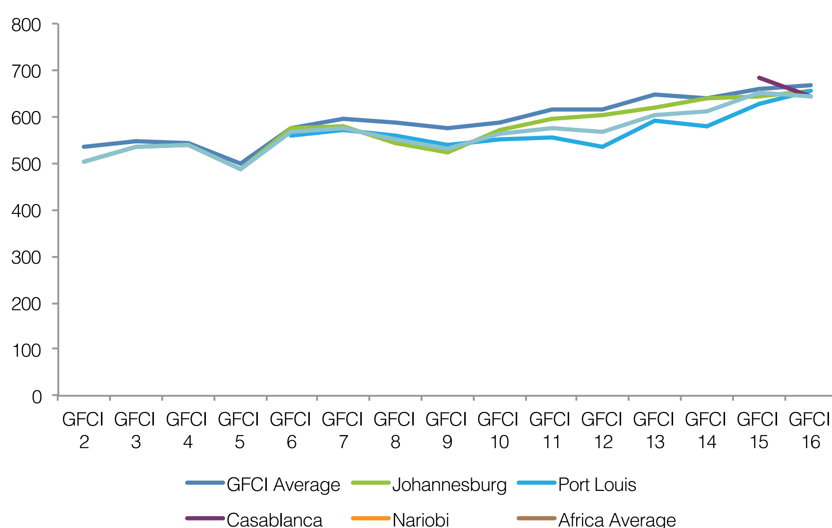
- Investment management;
- Banking;
- Insurance;
- Government and regulatory; and,
- Professional services.

The GFCI model is re-run to derive scores for each separate sub-industry by removing respondents from the other sectors; all the instrumental factors remain as inputs but the only responses considered are the ones that come from professionals working within a particular sector (e.g., responses from banking professionals only or responses from insurance professionals only). The tables below show the scores and ranks within each industry sector for the group:

	GFCI 16		Investment Management		
Centre	**Rank**	**Rating**	**Rank**	**Rating**	**Influence on Rating**
Casablanca	51	635	79	**642**	7
Johannesburg	38	659	47	**657**	-2
Port Louis	69	608	47	**657**	49
Nairobi	-	602	-	**623**	21
Busan	28	676	79	**642**	-34
Doha	22	684	33	**660**	-24
Dubai	17	694	17	**677**	-17
Istanbul	42	655	47	**657**	2
Tel Aviv	36	664	27	**663**	-1

African centres score well with investment managers. This may be due to Africa being 'hot' in the press, conferences, and discussions among this group. All of our interviews placed Africa as important as China and well above other regions for future investment. Given that the focus of this report is on investment funds, it is worth a specific look at African centres over time.

In sum, African centres are tracking the GFCI average due to a combination of being 'hot' and large sums of capital seeking returns. This level of interest is an opportunity for financial centres to capitalise upon.



	GFCI 16		Banking		
Centre	**Rank**	**Rating**	**Rank**	**Rating**	**Influence On Rating**
Casablanca	51	635	81	**632**	-3
Johannesburg	38	659	30	**654**	-5
Port Louis	69	608	43	**649**	41
Nairobi	-	602	-	**596**	-6
Busan	28	676	68	**641**	-35
Doha	22	684	26	**655**	-29
Dubai	17	694	10	**672**	-22
Istanbul	42	655	33	**653**	-2
Tel Aviv	36	664	33	**653**	-11

Bankers rate all centres in the group except Port Louis poorly. We have found that bankers worldwide favour firm regulation with good access to regulators and seem to find its regulation comfortable without being too lax, and a place in which they are prepared to invest, e.g., offices and staff.

	GFCI 16		Insurance		Influence on Rating
Centre	Rank	Rating	Rank	Rating	
Casablanca	51	635	79	**642**	7
Johannesburg	38	659	61	**650**	-9
Port Louis	69	608	35	**656**	48
Nairobi	-	602	-	**636**	34
Busan	28	676	3	**733**	57
Doha	22	684	69	**648**	-36
Dubai	17	694	21	**664**	-30
Istanbul	42	655	35	**656**	1
Tel Aviv	36	664	55	**652**	-12

Busan, as the fifth largest container port in the world, has a successful shipping insurance industry. The strong showing by Port Louis reflects shipping and insurance captives. Anecdotally, Port Louis is also seen as a good place by Western investment managers to establish low cost investment fund structures for both Africa and India. We are unsure why insurers rate Nairobi so strongly, and the data is weak, but may reflect future prospects in retail insurance. Some of the people interviewed for this paper expected Kenyan retail insurance to mimic some of the Kenyan mobile payments successes.

	GFCI 16		Government and Regulatory		Influence on Rating
Centre	Rank	Rating	Rank	Rating	
Casablanca	51	635	12	**651**	16
Johannesburg	38	659	38	**637**	-22
Port Louis	69	608	74	**615**	7
Nairobi	-	602	-	**614**	12
Busan	28	676	74	**615**	-61
Doha	22	684	38	**637**	-47
Dubai	17	694	14	**649**	-45
Istanbul	42	655	41	**636**	-19
Tel Aviv	36	664	17	**648**	-16

Government officials and regulatory professionals rank African centres better overall than many established centres. The suspicion is that they value the legal and regulatory framework on paper, while businesses value the way the legal and regulatory framework works in practice. Correcting for Casablanca's reputational advantage, then Johannesburg's strong South African governance rules may be helping it remain high here.

	GFCI 16		Professional Services		Influence on Rating
Centre	Rank	Rating	Rank	Rating	
Casablanca	51	635	17	**637**	2
Johannesburg	38	659	32	**629**	-30
Port Louis	69	608	76	**612**	4
Nairobi	-	602	-	**591**	-11
Busan	28	676	81	**594**	-82
Doha	22	684	62	**620**	-64
Dubai	17	694	10	**647**	-47
Istanbul	42	655	23	**633**	-22
Tel Aviv	36	664	17	**637**	-27

Professional service providers tend to focus on access and cross-recognition. Johannesburg appears to have a number of barriers to entry on free movement of professionals.

3.2 Factors of Competitiveness Sub-indices

The instrumental factors used in the GFCI model are grouped into five key areas of competitiveness:

- Business environment;
- Financial sector development;
- Infrastructure;
- Human capital; and,
- Reputational and general.

In order to assess how financial centres perform in each of these areas, the GFCI 16 factor assessment model is run with only one of the five groups of instrumental factors at a time. The tables below show the peer group centres in each sub-index. In the case of Casablanca and Busan, it is likely that the reputational advantage, examined earlier, is so high that some of these sub-indices are suspect and a discount factor of approximately 50 should be applied.

	GFCI 16		Business Environment		Influence on Rating
Centre	**Rank**	**Rating**	**Rank**	**Rating**	
Casablanca	51	635	43	**650**	15
Johannesburg	38	659	48	**644**	-15
Port Louis	69	608	81	**569**	-39
Nairobi	-	602	-	**576**	-26
Busan	28	676	17	**685**	9
Doha	22	684	32	**666**	-18
Dubai	17	694	16	**686**	-8
Istanbul	42	655	34	**664**	9
Tel Aviv	36	664	38	**659**	-5

The Business Environment sub-index contains a variety of indicators, with a slight overlap with Financial Sector Development—political stability and rule of law, institutional and regulatory environment, macroeconomic environment, tax and cost competitiveness. In the Business Environment sub-index, Dubai and Busan lead the group. The African centres' business environments need work.

	GFCI 16		Financial Sector Development		Influence on Rating
Centre	**Rank**	**Rating**	**Rank**	**Rating**	
Casablanca	51	635	33	**668**	33
Johannesburg	38	659	56	**647**	-12
Port Louis	69	608	78	**614**	6
Nairobi	-	602	-	**579**	-23
Busan	28	676	41	**662**	-14
Doha	22	684	74	**622**	-62
Dubai	17	694	19	**684**	-10
Istanbul	42	655	30	**669**	14
Tel Aviv	36	664	22	**681**	17

In the Financial Sector Development sub-index, Dubai leads the group. Casablanca may be doing well based on the strength of marketing for its stock exchange.

	GFCI 16		Infrastructure		Influence on Rating
Centre	Rank	Rating	Rank	Rating	
Casablanca	51	635	63	**642**	7
Johannesburg	38	659	32	**663**	4
Port Louis	69	608	54	**648**	40
Nairobi	-	602	-	**577**	-25
Busan	28	676	36	**659**	-17
Doha	22	684	24	**669**	-15
Dubai	17	694	25	**668**	-26
Istanbul	42	655	25	**668**	13
Tel Aviv	36	664	33	**662**	-2

In the Infrastructure sub-index, Port Louis does extremely well, perhaps because its good tourism infrastructure supports financial services needs well too, which may be a pointer to development of other centres—tourism-led financial leads.

	GFCI 16		Human Capital		Influence on Rating
Centre	Rank	Rating	Rank	Rating	
Casablanca	51	635	43	**658**	23
Johannesburg	38	659	27	**673**	14
Port Louis	69	608	65	**643**	35
Nairobi	-	602	-	**649**	47
Busan	28	676	34	**668**	-8
Doha	22	684	59	**651**	-33
Dubai	17	694	24	**674**	-20
Istanbul	42	655	17	**683**	28
Tel Aviv	36	664	16	**685**	21

In the Human Capital sub-index, Tel Aviv and Istanbul lead the peer group due to strong academic institutions. However, it is clear that the African centres also do well. The human capital factors do not seem to be a constraint among assessors.

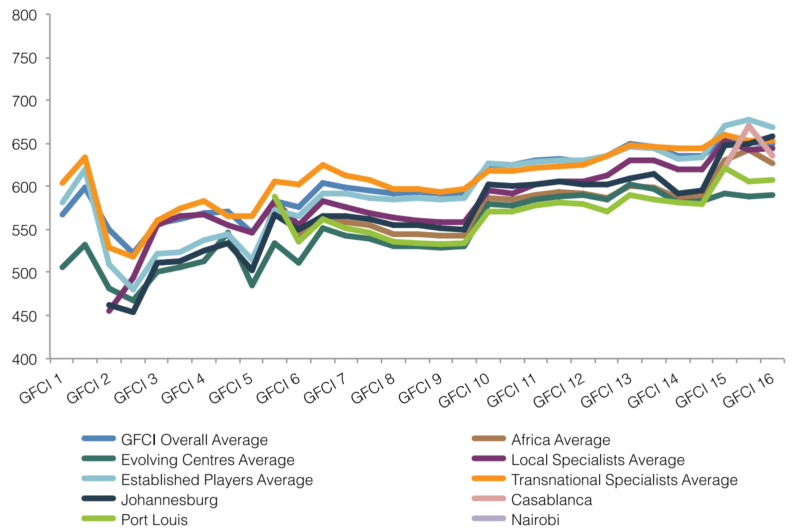
			Reputational and General		Influence on Rating
Centre	Rank	Rating	Rank	Rating	
Casablanca	51	635	51	**643**	8
Johannesburg	38	659	45	**648**	-11
Port Louis	69	608	79	**600**	-8
Nairobi	-	602	-	**597**	-5
Busan	28	676	44	**649**	-27
Doha	22	684	32	**662**	-22
Dubai	17	694	17	**683**	-11
Istanbul	42	655	32	**662**	7
Tel Aviv	36	664	24	**673**	9

Busan and Doha have been advancing recently, but better marketing could move them further. With the exception of Casablanca, the African centres could improve a bit with better marketing, but marketing is not their core problem. Overall, the primary need is to focus on improving the business environment.

4. HOW AFRICAN CENTRES CAN IMPROVE

4.1 Evolution of a Traditional Financial Centre

During other research, the GFCI model has been run to identify what sequence increases competitiveness from 200 points on the index to 800 points on the index. Before we start to examine each of the five competitive areas, it's important to recognise that a criterion that helped to cause success may not be particularly strong today, but set in train a sequence of positive events. For instance, low taxation might draw participants in, but not persist. Likewise, a criterion that is strong and important today, for instance, the availability of skilled personnel, may be an effect rather than a cause. Still, using the predictive model at various GFCI ratings, we can see what matters at each stage.



First, infrastructure. Infrastructure is all the stuff that's taken for granted. In major financial centres, many things are assumed, for instance, reliable electricity supplies and water, an absence of natural threats such as hurricanes or flooding, basic internet connectivity. Yet London used to have significant flood risk, and may again as the Thames Barrier comes to the end of its projected usefulness. Up to 400 points on the scale, basic 'infrastructure' matters. You can't have a financial centre without basic infrastructure. While it might appear that infrastructure ceases to matter after 400 points, it's rather the contrary. Infrastructure tends to get taken for granted as it grows in line with wealth and expectations, yet is crucial. Stuart Fraser at the City of London Corporation said, "You don't get to the top by being complacent. You have to be somewhat paranoid." ["On Top Of The World," Sunday Times, 9 October 2009].

Second, from roughly 400 to 600 points, 'business environment' is what matters. There's no point in building infrastructure and being open for business without having fundamental market activity. It's at this point that things such as setting up a stock exchange might make a difference. There are many ways of saying, "we're open for business," but commitment, simple financial laws, regulations efficiently and consistently applied and an open banking and investment regime get things going.

Third, starting after business environment, but before human capital, is 'financial sector development.' This means providing the panoply of financial sector regulation, connections, and training that prove a commitment to having a financial sector.

The fourth area of competitiveness, from 600 to 800 points, is 'human capital.' This may seem oddly late, after all people are the most important bit of finance, no? However, the going only starts to get tough after 600 points as more and more advanced skills are required to win and transact more and more complex transactions – transactions of advanced financial, structural or legal complexity in multiple languages. One could argue that this area is 'split,' i.e., good basic education is part of infrastructure, but later an emphasis on the skills and qualifications needed for financial services begins to dominate.

Finally, 'reputational and general' factors matter from 600 points. After 800 points, and here we're at the edge of our data envelope, it appears that infrastructure may start to matter again. However, throughout the climb from 200 to 800, business

environment is always the key area of competitiveness, always the most important—stable politics, good regulation, low bureaucracy, low corruption. Policy matters. Interestingly, we have grouped good taxation (i.e., low personal and corporate tax rates, especially the overall GDP taken by tax) in business environment; when you examine taxation on its own, it tracks business environment almost perfectly. So, in summary, always, always work on a friendly business environment, then emphasise infrastructure, followed by market access, followed by good people.

4.2 Criticisms of African Investment Climate

During the course of this report, 20 investors (investment managers, asset managers, high net worth individuals and private banks) were asked about their opinions of future investment in Africa. They were ***very positive*** about the future, assuming that the business environment improved and political risk was held in check. As expected, some focussed on very near term issues, e.g., the Ebola crisis, however, their longer-term concerns included:

1 - **Rule of Law And Corruption**—probably the biggest and most common issue and one which could be discussed at great length. A number of people noted though that the "natural resource curse" might be abating due to the variety of investments (more than just mining) and the variety of investors (e.g., China) proving that Africa was now 'investable' in turn spurring more reform and transparency—["Twilight Of The Resource Curse," The Economist, (10 January 2015), pages 43-44 – http://www.economist.com/news/middle-east-and-africa/21638141-africas-growth-being-powered-things-other-commodities-twilight].

2 - **Pace of Reform**—the pace at which decisions are made and changes are made was widely criticised during this research. Successful economic development will be hindered if the slow pace of decision-making is not addressed. It is hard to recommend a precise course of action; however, corruption was seen as a huge issue for virtually all of Africa.

3 - **Joint Marketing**—it might appear from the reputational advantage exhibited by the centres, particularly Casablanca, that marketing has gone well. However, it was clear from interviews, and from the cross-correlations in ratings, that Africa needs to market Africa as much as individual centres. Another region with a similar problem is the Caribbean. Once there are problems, e.g., Antiguan scandals, then investors flee the region, not the specific centre.

4 - **Infrastructure**—an international financial centre needs high quality transport, building and ICT infrastructure. High quality infrastructure generally contributes to economic productivity, innovation, entrepreneurship and business sophistication. Casablanca has done as great deal to improve its transport infrastructure with highways being built. The port is being developed and in time the airport will need considerable expansion or replacement. Similar infrastructure tales must exist elsewhere, but investors were not aware of many.

5 - **Clear, Comparable Regulatory Frameworks**—two clear African opportunities are local fund management for inward investment and Islamic finance. Both of these sectors need very specific legislation, which can be and should be put in place fairly quickly. There are examples of best practice in Europe and the Middle East, which can be copied.

6 - **People**—primary and secondary education are perceived to be adequate in the few centres covered by GFCI, for the moment. If typical financial centre development is followed, then a large skills shortage will emerge quickly. Several interviewees were expecting an extremely tight labour market in the near future. However, what they wanted were more basic skills of bookkeeping, compliance, database management, not advanced financial skills. More vocational qualifications, rigorously vetted, were investors' key concerns.

7 - **Accurate Information**—people wanted clear, validated information. They wanted pan-Africa information. They wanted credit information on companies, on people. One report was particularly interesting in illustrating current problems, "*Stock Exchanges in Sub-Saharan Africa: Capturing Intent Towards ESG Requirements*" (ACCA, July 2014) - http://www.accaglobal.com/gb/en/technical-activities/technical-resources-search/2014/july/stock-exchanges-in-sub-saharan-africa.html. Examining stock exchanges in Botswana, Ghana, Malawi, Kenya, Nigeria, Mauritius, South Africa, Uganda,

Zambia and Zimbabwe, the report noted that while there are signs of intent to introduce ESG disclosures from some of the stock exchanges, there is room for exchanges to develop more extensive and meaningful disclosure requirements. The report finds that, with the exception of listed companies on the Johannesburg Stock Exchange (JSE), the level of sustainability reporting from the largest listed companies across Sub-Saharan Africa is very low, with only 13 companies (15%) reporting on sustainability, either through a sustainability report, combined report or integrated report.

5. HOW DONORS CAN HELP

A generic strategy for any financial centre might be:

- Get real—more aggressive promotion addressing shortcomings with long-term planning yet avoiding the appearance of capricious regulatory change, combined with a clear legislative cycle in finance where finance bills change regularly but not too rapidly;
- Get integrated—consider 'mid-shore' strategies where there is a symbiotic offshore relationship with larger or neighbouring nations allowing businesses to function under less-than-ideal or complex onshore regulation;
- Get better—tackle long-term skills shortages with better training for indigenous populations rather than relying on imported skills; improve power, transportation and communications infrastructure;
- Get connected—host high-profile regular events, create strong academic links, simplify visa and work permit processes; and,
- Get serving—increase levels of service both for those entering the centre and long-term residents; use benchmarks, data comparisons, and awards to keep service high, encourage innovation.

Some suggestions for donors focussed on building financial centre capacity might be programmes containing some of the following ideas:

Get Real – Hard Targets, Hard Measures, Hard Knocks

- Set out a standard for a **Memorandum of Understanding between a government and its domestic financial services** on such items as inward investment, infrastructure investment, tax changes, or venture capital rules – basically agreements on how governments will change the rules in consultation with industry. This could be combined with scorecards or indices (an African Regulatory Effectiveness Index, for example) that underpin targets and evaluation. African centres need to expose themselves to international scrutiny and competition—this obviously is important for attracting foreign investment but also for retaining domestic talent with knock-on benefits for domestic capital markets development. With sufficient take-up, a standard Memorandum could become a pan-African commitment.
- Consider **Policy Performance Bonds**, perhaps in conjunction with development agencies. Such bonds would pay investors if policies were not delivered, yet give interest-free money to governments that did deliver. Such bonds would be investment hedges and reduce political risk. Governments would pay for non-delivery of policy outcomes. The terms of the bonds would reflect the pace of change and the commitment to longer-term goals.
- For onshore countries, deliver **full, early compliance** on people and tax, e.g., anti-money laundering rules, FATCA, know-your-customer. Malta is a good example of a country which has attempted to be first to implement new EU regulations on the basis that delay rarely if ever helps it be competitive, whereas early compliance does. Outside the EU, identifying 'real' regulations versus norms, e.g., OECD, is more difficult, but leading on early compliance can still be a competitive angle.
- Equally fight for **tax simplicity** in all African centres. A good starting point for donors might be a comparative evaluation of the complexity (or simplicity) of African tax rules. A more radical step might be to promote the simple tax structures of land value taxes or flat consumption taxes that both make economic sense and simplify the tax system. Naturally there are wider tax issues of certainty and corruption, but simplification might be the positive theme.

Get Integrated – Present a United African Story

- Recognise that African centres stand separately but fall together. Encourage regional groupings, regional joint commitments, regional cross-recognition (e.g., of qualifications), regional information and reporting, a measure of regional marketing. Of these, the focus might be most on **cross-recognition of professional standards** (e.g., accountancy, securities trading, banking, legal – in line with the FTQI point below), and the establishment of right-to-work agreements which would facilitate cross-border trade and investment, e.g., no need for a visa for three months financial services work by a qualified professional.
- Establish information sharing agreements, particularly about statistics on financial services and investments.
- Consider the application of **voluntary standards markets**, e.g., ISO standards, for processes, perhaps development of an ISO standard for a well-run financial centre which in turn would be audited by the major certification agencies, equally areas such as anti-money laundering (AML) or know-your-customer (KYC) are amenable to this process certification approach.
- Develop **regional securitisation standards** to build scale, e.g., emulate the Hedge Fund Standards Board or the Climate Bond Initiative in African investment themes such as mining, tourism, or forestry. These would help investors invest cross-border by providing sufficient deal flow outside the capability of a single country.

Get Better – Professional and Firm Accreditation and Certification

- Consider establishing a regional **Financial Training and Qualifications Institute** (FTQI) drawing upon the Chartered Institute for Securities & Investment (CISI), City and Guilds, CFA, ACCA, and other organisations that can deliver accreditation and certification to training at a vocational level. The FTQI would set standards for practitioner and regulator training, and academic development for the financial sector. The FTQI would be an accreditor of other bodies (e.g., trainers) that would certify. Only world-class accreditation will suffice. It follows that certification would best be provided in partnership with leading international bodies, probably a limited number of core partnerships. AN FTQI could be somewhat 'virtual,' i.e., pulling together existing international and regional resources. The virtual resources should be spread throughout the region to help draw the region together on financial training and qualifications. An FTQI would need to be rigorous in its accreditations and certifications and still have some 'physical core' (with the regional jostling or, more positively, competition to host which that implies). To make an impact efficiently MOOCs (Massive Open Online Courses) and train-and-certify-the-trainer schemes are almost essential. The support and close involvement of regulators (particularly Central Banks) is desirable. The general assent and agreement of governments would be necessary, but they can have a back seat role. Ideally some some elements of compulsion, e.g., all participating countries require regulators and government officials involved in financial services to have achieved a minimal qualification, would help both to raise standards in the region more rapidly and to underwrite government commitment to the professional improvement the FTQI is required to deliver. Following several years of mutual recognition to bind things together, longer-term an FTQI should move to standardising regulations across the region leading to consistent qualifications, testing, and certification.
- Consider having such an FTQI build an **online professional community** consisting of areas such as:
  - A guide for existing courses and publicise those courses deemed to meet defined standards and criteria;
  - A centre for online training and courses, including certification, testing, and rating such courses;
  - Specifically commission courses in specific areas with specific characteristics and to defined standards;
  - Provide a portal for research; and,
  - Publicise conferences meeting defined criteria.
- Consider having such an FTQI develop a **"Who's Who" and "What's What" directory** on the regional industry, publishing relevant accreditations and certifications. The lack of comprehensive information means that even those within the industry have little idea of what is going on in different parts of the region, unless it is in their own particular market niche. Linking this with a jobs portal both provides a strong link to qualifications and partially answers individual members' questions on 'what's in it for me?'

Get Connected – Ease Scaling Up In Africa

- Consider developing a **mutual financial client and worker identification** system that would provide AML and KYC passports. Some jurisdictions, notably Estonia, are working hard on providing 'identity' services for global use. Such an identity system would smooth entry into Africa (one AML or KYC check for a few dozen countries) from outside, and smooth cross-border working.
- **Engage universities directly with financial services**, also under appropriate international accreditation, to lay the foundations for future financial services expertise. Much work needs to be done to integrate vocational training with academic, e.g., graduating in accounting with accounting qualification tests already completed, equally actuarial, banking, or finance; pushing universities to accept vocational qualifications as credit for higher than entry level joiners; or targeting university success partially on job placement and salaries. An FTQI should equally promote the recognition of university qualifications, e.g., mathematics or statistics, for part of vocational qualifications.
- **Use cross-recognition and visa rules** to connect more with global professional and financial services firms to work across Africa. Can a major accountancy practice or bank send professionals freely across the region, African or not.
- **Develop a global dialogue on African financial services** using a portal's discussion groups to unite the region on topics, unite practitioners and regulators, unite academics and the industry; work on developing strong links with international fora—Geneva Association (insurance), SWIFT, IMF, etc.—especially consider not 'African' conferences but global financial conferences – and look to bringing in academics and financial intellectuals. Equally, the ability to consolidate African expertise when needed could build confidence and pride about regional capabilities, e.g., a South African professor and a Nigerian investment manager along with a Kenyan quant publish a paper to help answer a World Bank question on how to price Congo forestry for sustainability, a paper that no specific country had the expertise to develop.

Get Serving – Develop African Products

- Consider **'selling' regulation**, i.e., offering investors additional supervision and inspection of their local investments or investment managers though for an additional fee. Such services could be run by the centre's regulators and could provide local benchmarking information to investors. Donors could be particularly helpful in providing oversight and control for such services.
- Establish and publish **service benchmarks** that help raise customer service standards across the region, e.g., secret shoppers.
- Consider developing **FinTech Africa**, an incubation centre for software—given the African 'leapfrog' on mobile and payments, perhaps Africa can leapfrog in insurance or blockchain technologies.
- Consider how **financial literacy** might actually aid financial centre development, e.g., training games for children (such as CISI's CISIext) or getting finance into secondary school curricula. This could be a high-impact pathway for donors.