

# Next generation Africa-GCC Business Ties in a Digital Economy





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# About this report

*Next-generation Africa-GCC Business Ties in a Digital Economy* is an Economist Intelligence Unit report, sponsored by Dubai Chamber of Commerce and Industry. The report explores the perspectives of young entrepreneurs and investors in Africa and the Gulf Cooperation Council (GCC) countries on building business relationships, identifying challenges to overcome and spotting opportunities that await.

The report is based on extensive desk research and in-depth interviews with entrepreneurs and investors in Africa and the GCC, with a focus on millennials.<sup>1</sup> The interviews were conducted between June and August 2017.

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Our sincerest thanks go to the following participants (listed alphabetically) for their time and insights:

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general manager, Sharjah Entrepreneurship Centre (Sheraa)
- **Idriss Al Rifai**,  
CEO, Fetchr
- **Yasmin Belo-Osagie**,  
co-founder, She Leads Africa
- **Uday Bhasin**,  
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- **Walid Cherif**,  
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- **Nawaaz Meghji**,  
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CEO, ReserveOut
- **Paras Shah**,  
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CEO, Panache International
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# Executive summary

Africa's middle class numbers more than 300m by some estimates. This increasingly affluent and aspirational young cohort is driving a consumption revolution across the continent, increasing demand for consumer goods, technology and services. In parallel, young business leaders in the Gulf Cooperation Council (GCC) countries are starting to look beyond the Middle East. As GCC startups mature and Gulf investors seek more fertile opportunities abroad, entrepreneurs and investors are starting to eye the value of business links—and expansion—to sub-Saharan Africa.

This report presents the perspectives of the next generation of business leaders in Africa and the GCC, focusing on millennial entrepreneurs, against an evolving economic and technological backdrop. It explores their approach to entrepreneurship and investment, and delves deeper into sectors of interest such as retail, financial services and renewable energy. There is room for growing business ties between the two regions if key hurdles can be overcome.

## Key findings of the report:

### **Young business leaders in the GCC and sub-Saharan Africa want flexibility and freedom in how they work.**

Entrepreneurship is an increasingly attractive career for millennials. In a study of nine African countries, in only two did the proportion of young people engaged in some form of entrepreneurial activity dip below 25%. Even employed millennials have an entrepreneurial streak and want to do business differently—they eschew hierarchy, favour flexibility and want to be empowered: “Everyone is a micro-entrepreneur,” says Najla Al-Midfa, general manager of the Sharjah Entrepreneurship Centre (Sheraa).

### **Growing self-confidence is boosting the potential for homegrown solutions and South-South collaboration.**

Young business leaders in Africa and the GCC no longer look only to the West for

inspiration and brands to import. Increased access to the latest technologies enables them to develop products and services that meet the needs of their local and regional markets. Examples span sectors from financial services to restaurants. Entrepreneurs in these regions face similar challenges and share common characteristics—a recipe for increased collaboration.

### **Awareness of the opportunities for Africa-GCC business links is limited, but growing.**

As their businesses start to scale up, Gulf millennial leaders are preoccupied with expansion in their immediate neighbourhood. For them, Africa remains, on the whole, the third phase of growth after the Middle East and Asia. Gulf private-equity investment in Africa is likewise currently a niche activity, dominated by a handful of funds. However, experts claim that understanding of the potential power of Africa-Gulf market links is starting to tick up. Timing and information will shift the balance. Private capital that has flowed from Europe and North America into Africa over the past decade is now looking to exit, providing opportunities for Gulf investors.

### **Consumers, not commodities, are powering growth sectors in Africa.**

With consumer spending forecast to reach US\$1.4trn annually by 2020, long-term consumption trends make Africa an enticing prospect for young business leaders, despite the short-term challenges. Africa's emerging middle class is the key driver behind interest in sectors such as retail (particularly e-commerce), financial services, healthcare and education. Technology is the gateway to get goods and services into new hands. The room for growth is vast: in South Africa, for example, e-commerce accounted for just 1% of overall retail last year. Financial technology is another promising sector that is poised to boost the fortunes of the continent's small businesses.

**The practical challenges remain real for entrepreneurs interested in the African market.**

Young Gulf business leaders must contend with volatile currencies, reluctant investors, the need to identify the right partners, and data gaps. Unstable currencies have already hindered expansion plans for some, but in general plans to expand into Africa have not been abandoned as a result. Creating multi-country strategies, denominating sales and purchases in US dollars and plugging information gaps can all help to mitigate risk, experts advise.

**African entrepreneurs are turning to the GCC for more than just capital.**

While the GCC is largely viewed as a source of capital by African startups, GCC investors and businesses have a lot more to offer in the way of knowledge-sharing on operational and legal strategies. The Gulf is also increasingly becoming a destination for African products and services, particularly in the retail and food sectors.

# Introduction

The Gulf Co-operation Council (GCC)<sup>2</sup> and African countries have young and growing populations. In both regions, half of the population are under 25 years old. Worryingly, youth unemployment is forecast to reach almost 11% in Africa and 30% in Arab states in 2017, according to the International Labour Organisation's latest World Employment and Social Outlook report.<sup>3</sup> This is happening against a backdrop of only modest economic growth in both regions.

In April, the IMF forecast an average GDP growth rate for 2017 of 2.6% in sub-Saharan Africa, well below blockbuster annual rates of 5-6% in the past two decades.<sup>4</sup> Yet the headline figure masks considerable diversity: countries such as Ghana, Kenya, Rwanda and Tanzania are expected to grow at more than 5% this year. At the same time, the GCC has experienced its own economic challenges, as a result of low oil prices and uncertainty over economic reforms. The IMF has forecast growth in the region of only 0.9% for 2017, although its expectation for 2018 is higher, at 2.5%.<sup>5</sup> Coupled with doubt about potential in traditional markets, notably the US and the UK, this is leading GCC investors and businesses to seek fresh opportunities.

Gulf governments and the region's family conglomerates have been at the forefront of efforts to nurture GCC-Africa ties so far. The UAE (at US\$11bn) and Saudi Arabia (at US\$3.8bn) were the second- and fifth-largest capital investors in Africa respectively in 2016, according to fDI Intelligence, a division of The Financial Times.<sup>6</sup> Among the large corporates to make early forays are Kuwait's Kharafi Group (which owns hotels in Gambia and South Africa) and the UAE's Al Futtaim Group (which owns Kenyan car retailer CMC Holdings) and Etisalat (a government-owned telecommunications company that operates in nine African countries). "Having a leading group like Al Futtaim venture into [East Africa] sent a signal that the business environment is conducive to making investments," says Paras Shah,

a partner at law firm Bowmans, who specialises in mergers and acquisitions in East Africa.

Investors and entrepreneurs are being spurred by a tantalising combination of need, demand and technology in Africa. The statistics are telling: only 54% of people in the region have access to a paved road, whereas 93% can access mobile-phone services, according to a survey by Afrobarometer, a research firm. Africa's emerging middle class is the key driver behind interest in consumer-driven sectors such as retail (specifically, e-commerce), financial services and food processing. While definitions of this segment of the population vary, Africa's middle class (defined by the African Development Bank as those earning more than US\$3,900 a year) grew from 27% of the population in 2000 to 34% by 2010.<sup>7</sup>

**\$11bn**

Investment from UAE  
investors in Africa in 2016

**\$3.8bn**

Investment from Saudi  
investors in Africa in 2016

**Africa's middle class grew from  
27% of the population in 2000 to  
34% by 2010.**

The Middle East was the second-largest source of capital investment in Africa in 2015, at US\$11bn—although it lagged far behind Western Europe's US\$30bn total, according to fDI Intelligence. The value of GCC private-equity deals in the continent is thought to be considerable. But the picture is skewed by the heft of a handful of big players, such as UAE-based Abraaj Capital and Saudi-based Kingdom Africa Management.

Against this backdrop, the Gulf's young business leaders are poised to follow suit. Having built up confidence and scale in Middle Eastern markets, some are now poised for expansion into Africa. GCC startups, such as ride-hailing service Careem and courier app Fetchr, already have Africa—and particularly the regional giants Kenya, Nigeria and South Africa—in their sights.

Still, awareness of the potential among entrepreneurs is not widespread, hampered by insufficient market data and a lack of understanding of how business is done on the continent. The Gulf and nearby markets—notably India, Pakistan and Turkey—still dominate young business leaders' priorities. The practical challenges for those who do venture into Africa remain real, particularly when looking beyond



the usual markets of Kenya and Tanzania. Entrepreneurs must contend with volatile currencies, reluctant investors, the need to identify the right partners, and data gaps. In this report, we talk to some of the young entrepreneurs and professionals who are building business links between the two regions and discuss the rewards—and risks—that await.



# Chapter 1: Millennial entrepreneurs: A common bond

Although they operate in different spheres, entrepreneurs in sub-Saharan Africa and the GCC share some common characteristics—and common challenges. The startup struggle affects all entrepreneurs, but those in the Gulf and Africa have a “lot of commonalities that bind them,” according to Christopher Schroeder, author of *Startup Rising*. This cohort is defined by a unique set of characteristics that are shaping their management style and the types of business they are interested in.

## Taking control

Millennials in the GCC and Africa find entrepreneurship an increasingly attractive career choice. High unemployment makes founding a business a good option—in fact, almost a necessary one—for ambitious young people in these regions.

In the Gulf, the entrepreneurial ecosystem is starting to mature. Conscious of the need to drive employment and non-oil economic growth, governments have supported a slew of startup accelerators, and solo startup entrepreneurs are starting to take their place alongside established family businesses in the GCC’s corporate landscape. “In my time we saw family businesses that had been running for generations, but not people our age who started businesses,” says Najla Al-Midfa, general manager of a startup incubator, the Sharjah Entrepreneurship Centre (Sheraa), in the UAE. “Now, there are regional examples students can point to, like Souq.com’s Ronaldo [Mouchawar].” Sheraa mainly mentors young entrepreneurs in the making. This year, it received more than 100 applications for the ten places on its first accelerator programme.

Yasmin Belo-Osagie, the 28-year-old co-founder of Nigerian-based startup accelerator, She Leads Africa, agrees that the spirit of taking control is strong among millennials. In a study of nine African countries, in only two was the proportion of young people involved in entrepreneurial activity below 25%, according to the

Global Entrepreneurship Monitor.<sup>8</sup> Ms Belo-Osagie estimates that up to 70% of her contemporaries have a business—or “side hustle”—to supplement income.

The entrepreneurial streak is also evident in young professionals in these regions, who want to determine how, as well as where, they work. Millennial professionals tend to eschew hierarchy, favour flexibility and want to be empowered. “Everyone is now a micro-entrepreneur,” observes Ms Al-Midfa. “[Millennials] want to be given a project they own, rather than constantly reporting on small parts of it.”

**Millennial professionals tend to eschew hierarchy, favour flexibility and want to be empowered. “Everyone is now a micro-entrepreneur,” observes Ms Al-Midfa.**



## All things tech

Technology is integral to every endeavour. For young leaders, every business should be tech-enabled. “[They] are thinking about how to make traditional industries more efficient with technology,” says Ms Belo-Osagie. “Using social media to push your products is very standard, for example—or ordering items on WhatsApp.”

Young business leaders are keen to harness the mobile-first trend. The number of unique mobile subscribers in sub-Saharan Africa is now 420m, according to the GSMA, a mobile operators’ trade body. By 2020, there will be almost half a billion smartphones in sub-Saharan Africa. In the GCC, 77% of the population are mobile subscribers, with penetration rates topping 90% in Bahrain, Kuwait and the UAE. The ubiquity of mobile phones and technological advances have enabled

**420m**  
Unique mobile subscribers  
in sub-Saharan Africa

**77%**  
Of the GCC population with  
mobile subscriptions

entrepreneurs in the GCC and Africa to expand their horizons and embrace a pan-regional strategy. "Now, as an entrepreneur in Nigeria, I can have customers in Kenya and I can be thinking of selling to people in Morocco," observes She Leads Africa's Ms Belo-Osagie.

Other entrepreneurs use technology to smooth internal operations. Vishaal Shah, CEO of Dubai-based Panache International, a food packaging company, uses an online platform to allow its clients to order the packaging they need at the tap of a button. Orders are sent directly to Panache's logistics partner, to facilitate faster delivery of the products. Integrating technology to plan resources better, improving supply-chain management and communicating with customers are the approaches that set Mr Shah's company apart from models adopted by his family's business. "The approval process there was much slower to



adapt or shift to new technology," he notes. "Here, we can make our own decisions very fast."

Mr Shah has also broken with tradition for sources of financing. Finding finance for his expansion into Africa has not been easy: as Mr Shah notes, UAE banks tend to be conservative when it comes to Africa. His firm has opted to raise money on a crowdfunding platform, Beehive, in addition to using its own resources.

To cater to tech-focused millennial investors, VentureSouq, a UAE-based early-stage equity funding platform, actively looks out for technology startups that could be of interest to its 650-strong membership. Each investor typically commits US\$30,000 to a pool of around US\$250,000—an investor segment that is largely ignored by many banks and institutional investors. "We invest in early-stage tech deals, because we're millennials and that's what is in our purview," says 33-year-old Tammer Qaddumi, a partner at the firm.

# Chapter 2: The opportunity

Despite their shared characteristics, awareness of the opportunities for Africa-Gulf business links is limited among young entrepreneurs, leaving the commercial potential largely untapped. In the GCC, the question of Africa for millennial leaders is crowded out by the more obvious challenge of Middle East expansion. Most Gulf entrepreneurs think regionally, not globally, says Ignacio de la Vega, dean of EGADE Business School in Mexico and former director of the Babson Global Centre for Entrepreneurial Leadership. “Entrepreneurs from Kuwait and Dubai, for example, look at Saudi Arabia as the large expansion market,” he observes. “Africa is not the main market GCC entrepreneurs [consider].” Entrepreneurs agree that there is still much to do in their own back yard. “Most haven’t finished what they started yet in the GCC,” notes Khalil Shadid, CEO of restaurant reservation and management app ReserveOut.



**“Entrepreneurs from Kuwait and Dubai, for example, look at Saudi Arabia as the large expansion market. Africa is not the main market GCC entrepreneurs [consider].”**  
**Ignacio de la Vega, dean of EGADE Business School in Mexico**

ReserveOut’s story is instructive. A lack of awareness—culturally and in terms of information—meant that Africa was simply not on the radar until an existing client in Dubai asked to use the firm’s software in its South African businesses. South Africa was the first country where outlets approached ReserveOut, rather than the other way around, Mr Shadid observes. “It really opened our eyes, and we realised the world is much larger than we thought.”



Valerie Konde, the 33-year-old founder of UAE-based art platform Collectionair, echoes this sentiment. She says that most GCC entrepreneurs are lost when it comes to Africa. “They don’t know where to start. The reality is, if you’re not familiar with the new markets in Africa it’s very difficult,” says Ms Konde. “A common misconception is that everything is too basic in Africa. Technology, people and markets are already much more advanced than people think.”

Their reluctance is due more to cultural barriers than to any legal or financial hurdles, says Paras Shah, a partner at law firm Bowmans, who specialises in mergers and acquisitions in East Africa. Although he has large clients from the Gulf (especially the UAE and, more recently, Oman), GCC clients make up no more than 5% of the deals he works on, Mr Shah says.

## New horizons

Attitudes to Africa are starting to shift, however. The continent is the GCC’s third wave of investment, observes Uday Bhasin, a partner at Dubai-based advisory firm Tradeways. First there was Europe and America, followed by a second flow of capital to South-east Asian countries with cultural affinities to the Middle East, such as Malaysia. “Culturally we weren’t there with Africa eight years ago. [The Gulf] didn’t understand it,” explains Mr Bhasin. His firm helps investors interested in East and Central Africa. “In the last six months I’ve had a lot of calls from GCC-based investors who want to understand more. I think stronger ties are coming.”

On the other side, until now Africa’s young business leaders have likewise been more used to looking west for financing, according to Yasmin Belo-Osagie, co-founder of She Leads Africa: “We have to do a better job of going to meet capital, whether that’s in Asia or the GCC.” Others disagree, however. Mr Schroeder, author of *Startup Rising*, claims that African entrepreneurs are “very aware of the power of the Gulf markets” when it comes to financing. “It is about timing and focus going both ways,” he stresses.

Beyond finance, African entrepreneurs turn to Gulf businesses for best practice and technical know-how. Nawaaz Meghji, co-founder of The Good Food Company (TGFC), which provides food-catering services in Kenya, describes his experience. In 2015 the firm was approached by GSS, part of Bahrain's BMMI Group, a facilities management company that serves oil and gas and mining clients, to set up a joint venture providing catering to an oil company in Kenya. As a smaller business, TGFC benefited greatly from GSS's experience. Team members visited the processing unit in Bahrain to observe best practice in areas such as hygiene and line production technology, changing some of TGFC's methods as a result. "There was definitely mutual education," explains 42-year-old Mr Meghji. "For us, it was understanding the importance of strong corporate governance, which was a big part of what drew us to this particular Gulf company. From their side, the key was understanding how to operate in Nairobi and in Kenya."




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### **Beyond finance, African entrepreneurs turn to Gulf businesses for best practice and technical know-how.**

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Tie-ups with a Gulf corporate are rare, says Mr Meghji. "But I see and hear a lot more companies in Kenya having a dialogue, and engaging with, companies in the GCC."

While many experts recognise the potential for stronger ties between the Gulf and Africa, what are some of the emerging opportunities arising from this developing relationship, and which sectors are on the radar of the next generation of business leaders and professionals?

#### **Consumer goods, not commodities**

In these regions, and particularly in Africa, the rise of the millennial entrepreneur is converging with a shift in sectoral focus. Two decades of economic growth have delivered a boost to Africa's burgeoning middle class. As a cohort, they are set to prosper. The number of households earning more than US\$5,000 a year is expected to grow by 96% between 2015 and 2030 in Lagos in Nigeria (to 6.9m), by 83%

in Johannesburg in South Africa (to nearly 3.5m) and by 109% in Côte d'Ivoire's Abidjan (to 2.7m).<sup>9</sup> Increasingly affluent, middle-class people want access to the goods and services available to their peers in other regions.

This has shifted the market narrative from commodities to consumer goods. Consumer spending in Africa is projected to reach US\$1.4trn a year by 2020, up from US\$1.15trn in 2012, according to McKinsey, a consultancy. Experts interviewed agree that Africa's emerging middle class is the key driver behind interest in sectors such as retail, financial services, energy, healthcare and education.

The trend presents new opportunities for the next generation of entrepreneurs. "If you were looking at entrepreneurial opportunities in Africa previously, nine times out of ten that would be some kind of trading endeavour or a natural-resource play. Today, I see a far wider breadth in terms of the sectors African entrepreneurs explore," says Dawda Jawara, legal director at law firm Clyde & Co and former legal consultant to the African Export Import Bank. "The nature of entrepreneurship in Africa is changing to reflect middle-class aspirations."

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Still, pessimism about the continent's future overstates the reliance on commodities for growth and understates the boom in technology, media and telecommunications (TMT), according to a 2016 note by law firm Pinsent Masons. The TMT sector contributed 11% to Nigerian GDP in 2015, up from 1% in 2001. This aligns well with an increase in Middle East investors' appetite for technology. Globally, more than half of all venture-capital investments from the Middle East and North Africa (MENA) from

Figure 1

## Top sectors of interest for next-generation business leaders in Africa and the GCC



Retail/  
e-commerce



Food (restaurants and  
agri-businesses)



Fintech



Energy



Education



Healthcare

Source: The Economist Intelligence Unit.

2016 were channelled towards technology, including information technology (27%), e-commerce (15%) and financial technology (13%), according to the MENA Private Equity Association.

When it comes to Africa, however, the primary interest has been infrastructure investment. "The market thinks GCC investors mostly fund infrastructure, trade or energy, not technology," says Emilian Popa, principal at DiGAME, which is focused on investing in digital growth in Africa. The OECD's 2016 African Economic Outlook noted that Middle Eastern investors had injected some US\$100bn into African infrastructure in the past decade. But DiGAME is focusing on African companies with a technology angle.

Historic underdevelopment means that most sectors are up for grabs. "What's the need? In Africa, it's really everything. It's real estate, infrastructure, education, healthcare and the service-based industries—hospitality, entertainment," observes Mr Jawara. Here, we take a look at young entrepreneurs who hope to ride the wave and the sectors that are in their sights.

### Retail therapy

Technology is the gateway to get goods and services into new hands, and the smartphone, in particular, plays a pivotal role. In Nigeria, for example, active mobile internet subscriptions—at nearly 60% of total phone subscriptions—underpins one of the highest rates of mobile internet use in Africa.

Technology and the smartphone could help to unleash the currently nascent potential of e-commerce. World Wide Worx, a research firm, found that e-commerce accounted for 1% of overall retail sales in South Africa in 2016, although it noted that online retail had ratcheted up by 20% a year since 2000. Despite the recent economic slowdown, urbanisation, high mobile subscription

rates and a push to deliver higher connection speeds put Nigeria in a good position to lead Africa's e-commerce market, according to a recent report by The Economist Intelligence Unit.<sup>10</sup>

UAE-based entrepreneur Valerie Konde has first-hand experience of the e-commerce frontier. She helped to launch food-delivery app Hello Food (now Jumia Food, part of Jumia, Africa's answer to Amazon) in Senegal and Côte d'Ivoire. Six years ago, when smartphones were barely a feature, people thought she was "crazy". "[But] the size of the market now is so big that every internet business present in more mature markets is interested in Africa," she says.

The lack of infrastructure and logistical challenges meant that Hello Food had to set up its own fleet of drivers. That need drove innovation, according to Ms Konde. "If you look at Deliveroo [a British online food-delivery company], it's the model [that we had in West Africa]," she says. "It actually happened earlier in Africa than in Europe."

Her latest venture, Collectionair, helps emerging artists to sell artworks online at prices ranging from US\$200 to US\$10,000, mainly to young professionals. Bithed at Abu Dhabi startup accelerator Flat6Labs, the company bridges millennials in Africa, the GCC and internationally. Its portfolio includes artists from Ghana, Côte d'Ivoire, Mozambique and South Africa.

Collectionair has raised US\$1m from UAE investors to date, and has sold 150 pieces in the 18 months since its launch. The art market was worth US\$57bn in 2016, of which the online segment amounts to only US\$4.9bn, according to a report by UBS and Art Basel.<sup>11</sup> "It's still a niche," she observes. "[But] it has a 20% year-on-year growth minimum, because a big portion of what happens offline is transitioning to online."



### Case study: Fetchr Africa, delivered

For most entrepreneurs, Africa's infrastructure deficit is a problem. For Idriss Al Rifai, CEO of address-less delivery app Fetchr, it is a boon.

Established in 2012, the Dubai-based company uses the GPS position of a customer's mobile phone to courier packages, overcoming the need for a formal address—often a rare commodity in emerging markets.

In June 2017, Fetchr raised US\$41m from investors, two-thirds of them hailing from the Gulf—they include the UAE's Beco Capital and VentureSouq, as well as Swicorp of Saudi Arabia and YBA Kanoo of Bahrain. The money will help expansion: Fetchr is pushing out to eight new countries in 18 months, says Mr Al Rifai.




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**Mr Al Rifai expects to enter Nigeria, Kenya and Tanzania within the next 12-18 months. Fetchr applies a set of three criteria when scoping new markets: they must be places where e-commerce is growing, where smartphone penetration is high, and where logistics is a hurdle.**

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Expansion into Africa is on the cards: Mr Al Rifai expects to enter Nigeria, Kenya and Tanzania within the next 12-18 months. Fetchr applies a set of three criteria when scoping new markets: they must be places where e-commerce is growing, where smartphone penetration is high,

and where logistics—even simply just getting around—is a huge hurdle. Africa is ripe for Fetchr's business model. "The question is: Why [these three locations] and not other countries, like Ghana or South Africa?" says 38-year-old Mr Al Rifai. It is the confluence of his three required factors that matters. "In South Africa, for example, logistics is not the biggest issue when you speak to e-commerce companies."

Fetchr is also attracted to the dearth of competitors. "China has billion-dollar companies in the logistics segment, for example, which you don't have in Africa.

The offering is really, really poor in these markets."

At the operational level, Mr Al Rifai acknowledges that security and handling multiple languages in one country will be big challenges. Tanzania has at least four languages, while Kenya has two main ones plus a number of indigenous languages, and Nigeria has five main languages and more than 500 indigenous tongues. "You don't need to have all 500 [Nigerian] dialects in the product," he says. "[But] if you want to tap into that pocket of growth you need to have more than two."

Educating investors about the opportunity was one of Fetchr's main tasks, observes Mr Al Rifai. "There is a serious lack of knowledge about each of these countries," he says. Still, the investors are excited by the prospect, he adds.

For now, Fetchr's young founders remain among the few GCC entrepreneurs who are heading beyond their immediate neighbourhood and nearby markets such as Pakistan and India. According to Mr Al Rifai, more information—fundamentals such as population and income statistics—will help entrepreneurs to go further.

## Agribusiness: Food for thought

Africa's growing middle class serves up an appetising opportunity for those in the food business who are keen to profit from rising incomes and changing tastes. Today, the highest-spending business-to-business sector in Africa is agriculture and agri-processing; this sector is expected to increase expenditure by US\$204bn over the next decade, thanks to growing populations and rising incomes.<sup>12</sup> Moreover, Nigeria and the East Africa region will account respectively for 15% and 14% of overall growth in consumer spending to 2025, with food and beverages being one of the biggest winners in this spending spree.

Dubai-based Panache International spotted an opportunity among Africa's formalising and rapidly urbanising economies. The firm makes 5,400 tonnes of disposable packaging each year at its manufacturing facility in the UAE. "There's more opportunity for eating out, because people don't have time [to cook]," says Vishaal Shah, Panache's CEO. "There is real potential for firms involved in food and food packaging." His first African venture with Panache was to Madagascar, followed by Angola. Launched in 2005, Panache now covers 18 countries in Africa. As a young business leader, Mr Shah made sure to cater to millennial tastes. The company recently added a line of sustainable products made of bamboo to appeal to young Gulf and African consumers, says 37-year-old Mr Shah.

There are opportunities for African entrepreneurs in the affluent GCC markets, too. Johnny Tomazos, CEO of Food Fund International (which includes the Tribes and The Meat Co restaurant brands) relocated the family business from South Africa to Dubai.

**There are opportunities for African entrepreneurs in the affluent GCC markets, too. Johnny Tomazos, CEO of Food Fund International (which includes the Tribes and The Meat Co restaurant brands) relocated the family business from South Africa to Dubai.**

"We saw a big trend of bringing franchises from abroad [Europe and North America], and we



realised that the trend would die out eventually," says 32-year-old Mr Tomazos. "We thought: If we could share our homegrown brand in the region and export it, it would be a good story—and we've shown that." From its Dubai base, the firm now covers six countries, including three in the GCC.

## Fintech: Into the fold

Financial technology (fintech)—the application of technology to financial services—is among Africa's most promising growth sectors. In Africa, fintech has the potential to provide financial services to millions of people who have never had access to financial services before.

Only 34% of adults in sub-Saharan Africa are banked, according to the World Bank. Fintech is trying to plug this gap. Kenya's decade-old M-Pesa—a mobile money-transfer and microfinance service—counts 30m users in ten countries and is often lauded as an industry icon. A study by the Massachusetts Institute of Technology (MIT) found that simply having access to M-Pesa increased the amount that Kenyans had available to spend each day, lifting 2% of the country's households out of poverty between 2008 and 2014.

**In 2016, African tech startups tapped US\$367m of venture-capital funding, up from US\$277m in 2015, according to US venture-capital firm Partech Ventures.**

Entrepreneurs targeting financial inclusion are attractive to investors. In 2016, African tech startups tapped US\$367m of venture-capital funding, up from US\$277m in 2015, according to US venture-capital firm Partech Ventures. Fintech and insurance technology together took US\$206m of the funding, the bulk of which went to startups in Nigeria, South Africa and Kenya. Flutterwave, a payments company founded in 2016 by Nigerian entrepreneur Iyin Aboyeji, has already processed US\$1.2bn-worth of transactions, according to the firm.

In South Africa, a group of young entrepreneurs sees fintech as a way to boost small and medium-sized enterprises (SMEs). Their firm, Yoco, notes that almost three-quarters of South African adults own a credit or debit card, yet fewer than 10% of businesses in the

country have card terminals to accept payments. Banks overlook SMEs as being too small and having unpredictable revenue. "We see software playing a fundamental role in helping to formalise and grow [SMEs]," says Katlego Maphai, CEO of Yoco. "In Africa, on average these businesses are driving 50% of GDP and 90% of employment, but [they] lack access to tools. The beauty of fintech is that it plays in the inclusion game when it addresses a previously ignored segment of the population."

Yoco's technology combines a traditional card machine (to process payments) with a smartphone (to process transaction data), and gives business owners useful information. The company tries to keep it simple: "Our oldest merchant is 85 years old," laughs 33-year-old Mr Maphai. Yoco says that it has attracted 10,000 merchants in South Africa since 2015 and processes US\$100m a year. Its aim is to expand to other countries; it is already running pilot projects in East and West Africa. The expectation is that it will reach 100,000 merchants across Africa by the end of 2019.



Most of Yoco's early funding came from abroad. The company raised US\$4m from angel investors, about US\$2m of which came from the UAE, including some from VentureSouq. Going beyond South Africa, and Africa as a whole, for capital was crucial to the firm's growth, believes Mr Maphai. Foreign investors allowed Yoco to tap into a different pool of expertise. "Local capital is expensive and inexperienced. This can be very dangerous for a company," he says. "We tried to raise money [in South Africa], but the level of discussion, the engagement, the thinking was not in line with what we were trying to do."

Still, he acknowledges that Yoco is an outlier among African startups in terms of branching out to the Gulf for funding. Both Mr Maphai and a fellow co-founder of the firm had been management consultants in Dubai, which equipped them with the knowledge and contacts to access GCC funding.



## Case study: Gulf Capital

### Capital plans

Enthusiasm for Africa among GCC investors is starting to increase. In 2016, Abu Dhabi-based private-equity firm Gulf Capital launched its GC Credit Opportunities Fund II, a US\$250m private debt pot that aims to invest in mid-market companies in the Middle East, Turkey and Africa.

In a new strategy for the firm, roughly one-third of the fund was initially earmarked for sub-Saharan Africa, but that could easily tick up to one-half, says Walid Cherif, a managing partner at the company. "We are actually gaining much more traction in sub-Saharan Africa than in markets in the Middle East."

A lack of financing options at home for many African businesses, as local banks struggle, means that the pipeline of opportunities is significant, according to Mr Cherif. The fund is particularly interested in deals in pharmaceuticals, financial services, healthcare, and agribusiness or food-processing.

The timing may also be right for GCC money. The "Africa rising" narrative since the early 2000s



resulted in a surge in private equity. Private capital flows to Africa totalled US\$545bn between 2003 and 2012, according to McKinsey.<sup>13</sup> A lot of those funds are now looking to exit or reduce their exposure, observes Mr Cherif. "[Global investors] helped businesses address some of the issues around size, governance and transparency," he notes. "That creates a good opportunity for people who are looking at investing in Africa."

One challenge, says Mr Cherif, is that investors demand unrealistically high returns because they overstate the risks, many of which can be mitigated through a multi-country strategy. He estimates that only 5-10% of private capital in the Gulf currently flows to Africa. "The perception of risk is going to start to change, and you're going to start seeing more appetite for African risk," he adds. "But it will not be rapid growth."

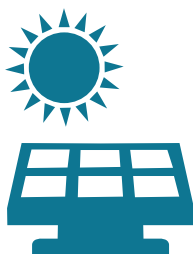
Still, Gulf Capital is betting on that upswing. The fund is likely to explore an Africa-focused strategy in the next 18-24 months, either with a dedicated fund or by ramping up the Africa element of an existing one, according to Mr Cherif. "I think we should be able to convince investors to give us money for that," he says.

## Energy: Green goals

Six out of ten people in sub-Saharan Africa lack electricity. According to a recent World Bank study, some 530m people in Africa will still be without electricity by 2040.<sup>14</sup> Nigerians and Ethiopians suffer most. Yet plummeting costs for renewable energy offer a “tremendous opportunity”, the Bank noted. The demand is clear: Kenya, for instance, wants to achieve universal access to power by 2020, up from the 40% of Kenyans who currently access the grid. Across Africa, renewables could account for 22% of total energy consumption by 2030, compared with 5% in 2013, if renewable-energy options are maximised, according to the International Renewable Energy Agency (IRENA).<sup>15</sup>

For one young Gulf business leader, Sami Khoreibi, CEO of Enviromena, the opportunity currently exists to make substantial progress in improving access to electricity, thus promoting sustainable development. UAE-based Enviromena designs and builds solar photovoltaic (PV) power plants in the Middle East and North Africa. In 2011 the company expanded southwards, adding a project in Mauritania to its portfolio. Backed by the Abu Dhabi Fund for Development, it built a US\$32m, 15-MW solar power plant in the capital, Nouakchott. At the time of completion, it was the largest solar PV plant in Africa, claims the firm. Next, Enviromena is considering Kenya and Zanzibar. High energy prices, a lack of grid power provision to many communities and demand for sustainable energy sources make Africa a huge opportunity, Mr Khoreibi adds.

“In the GCC and sub-Saharan Africa, solar is ultimately the lowest-cost [energy] option,” he says. Utility-scale solar PV costs US\$80-100/MWh, compared with about US\$100/MWh for conventional sources of energy, according to the World Bank. “We have so much potential in our backyard,” says Mr Khoreibi. “When we built the company, we always knew Africa would be a natural extension after the Middle East.”



GCC firms have the chance to provide services in a region that is typically considered to be part of the “rest of the world” by Western and Japanese companies, observes 37-year-old Mr Khoreibi. “People often don’t understand the nature of the prize, or they are reluctant to enter certain countries due to potential investment risks, or criteria set by shareholders and banks,” he notes. “I’m confident sub-Saharan Africa will be a significant growth area in the next ten years.”

## Social concerns: Education and healthcare

Education is one key area where the GCC countries can leverage resources and know-how. By some estimates, the need in Africa is vast: there are only 6m places currently available in post-secondary education and training for the 49m high school students who graduate each year, according to the Africa-America Institute. Giving those students the educational opportunities they need takes money—and smart solutions. Here, technology can help. Abu Dhabi-based investment firm DiGAME invested US\$5m in South African online education startup GetSmarter last year in 2016, says DiGAME’s principal, Emilian Popa. GetSmarter partners with top universities around the world so that students, wherever they are, can take and gain accreditation for online degree courses. In May 2017, GetSmarter was bought by US rival 2U for US\$103m.

As incomes rise, spending on healthcare is also predicted to grow. Spending on services including housing, healthcare and education accounted for 24% of African household expenditure in 2015, notes McKinsey. The consultancy expects the healthcare sector to grow by 4.3% a year on average to 2025. Over ten years, this translates into spending amounting to US\$8.1bn in Nigeria, US\$3.1bn in Angola and US\$2.7bn in Kenya.

**“We have so much potential in our backyard. When we built the company, we always knew Africa would be a natural extension after the Middle East.”**

**Sami Khoreibi, CEO of Enviromena**

**“Expansion to Africa could happen in two ways. GCC healthcare companies could physically expand operations in African countries, or they could market their facilities to African patients to be treated in the GCC.”**

**Dawda Jawara, legal director, Clyde & Co**

Given the scale of the opportunities that exist in many sectors, says Dawda Jawara of law firm Clyde & Co, "the question is: What have the GCC countries done well, and how can those industries be expanded into African countries?". He notes the GCC's success in



expanding medical facilities. Mr Jawara observes: "Expansion to Africa could happen in two ways. GCC healthcare companies could physically expand operations in African countries, or they could market their facilities to African patients to be treated in the GCC."

# Chapter 3: Hurdles to overcome

While opportunities for next-generation corporate leaders may be numerous, the practical challenges remain real for entrepreneurs who want to build GCC-Africa business ties. Young Gulf business leaders must contend with the difficulties of finding local partners, volatile currencies, reluctant investors and data gaps. In this chapter, we explore top challenges cited by regional entrepreneurs and experts.

## Partner troubles

Finding the right local partners to help navigate new markets is difficult—and can fast become a bottleneck. Enviromena's CEO Sami Khoreibi, for example, found his Mauritania solar power plant project slowed down by manpower issues. He advises other entrepreneurs to invest time in identifying and training local partners. Africa's diversity means that no "one size fits all" partner can help with multi-country expansions.

Getting local advice and knowledge on partners is crucial. Dubai Islamic Bank (DIB) offers one cautionary tale. The bank teamed up with a Kenyan counterpart that subsequently shut down, casting doubt on the soundness of the UAE bank's model in the eyes of the Kenyan authorities. "It took them two years to convince the government to grant them a licence," says Paras Shah of law firm Bowmans. DIB finally received its licence in April 2017.

## Currency volatility

Unstable currencies have already hindered expansion for some. Craig Moore, CEO of Beehive, a UAE peer-to-peer lending platform, pulled back last year from taking the firm into Malawi, Tanzania and Kenya due to currency devaluations. The crowdfunding platform has a pool of around 5,000 investors who lend to SMEs. Beehive has channelled AED100m (US\$27m) to small businesses since 2014.



The company had found a local adviser and potential liquidity partners, and was in the midst of compiling credit and risk assessments for the three countries. "We were pulling all the necessary pieces together," explains Mr Moore. "[Then] the currency we were looking at devalued by 15-20%. That makes it difficult to plan... you need a stable currency, particularly because we were looking at cross-border finance."

The experience has put expansion into Africa on hold—at least temporarily—for Beehive. "Certain countries are opening up more to international trade," explains Mr Moore. Technology helps. "A lot of these countries have been quite fast adopters of technology, particularly around business. That starts to become attractive for entrepreneurs, who start to see a compound effect."

For investors, finding businesses whose revenue is denominated in US dollars is one way to avoid undue currency fluctuations. Scale is also significant in mitigating risks. Investors need to help firms consolidate in their chosen industry and increase market share regionally, says Walid Cherif, a managing partner at Gulf Capital. "In East Africa, for instance, we are looking at a logistics business operating in Tanzania and Kenya," says Mr Cherif. "That business already has investors from the Middle East, and we are trying to help them grow and make acquisitions [in East Africa]. We are comfortable with the foreign-exchange story there because it is dollar revenues."



## Capital controls

Once a new business has been set up, repatriating profits is another challenge to consider, cautions Clyde & Co's Mr Jawara. "Number one on everyone's list at the moment is capital controls," he says. "It doesn't affect every country, [but] it will be an issue in places like Nigeria—anywhere that's been hit hard by the commodities slowdown."

Growth into Africa will be only modest while GCC investors and banks remain cautious. Banks in the Gulf may profess interest in exposure to African risk, but it is hard persuading them to put their money on the line, experts say.

Investors are also less enthusiastic about backing a company's expansion overseas until it has wrung the most out of existing—that is, Middle Eastern—markets, several entrepreneurs note. “What really helped us was having a slightly diversified investor and adviser base,” says Mudassir Sheikh, CEO of ride-hailing service Careem, referring to his company's experience of pushing into Turkey. Dubai-based fund Abraaj was one of Careem's backers until recently. “If we didn't have those investors on board, we would be a bit hesitant going to the markets we ended up in,” explains Mr Sheikh. “Having the right investors expands your perspective.” Although the example comes from within the Gulf region, Mr Sheikh notes that a lack of investors and expertise from Oman was a problem for the company when it came up against regulatory issues shortly after entering the Omani market. In November 2016, Mr Sheikh was quoted in the media parsing Careem's ambitions to expand into East Africa. He cites the “usual suspects” – Kenya, Tanzania and Rwanda – as potential new markets, although there is no timeframe yet for an Africa push. “We'll make a play at the right time,” he adds.

### The information gap

From an investor perspective, reliable and timely data can be hard to come by. Patience is required. “Whereas in the Middle East it might take three months to get information from a business and do



due diligence, it requires around twice that to get that same information [in Africa],” notes Mr Cherif.

More fundamentally, insufficient information means that misconceptions about doing business in Africa persist, with GCC banks, investors and entrepreneurs underestimating the region's level of development. On the other side, African entrepreneurs' expectations of Gulf investors may be unrealistic. African firms had high hopes of a big financial windfall from the GCC—expectations that went unmet, says Uday Bhasin, a partner at Dubai-based advisory firm Tradeways. “The fear is [on] both sides,” he explains. “If I'm an African firm faced with a GCC investor and a European business, I understand how Europeans work; I don't really know how Arabs work.”

African companies are also wary of GCC investors taking over. “There is a fear of being eaten up and swallowed by the GCC partner, who might not understand the local market and who ends up destroying the business,” says Mr Shah of Bowmans.

More cultural contacts and information would help. Governments in the Gulf have started to plug the knowledge gap. In 2015 Oman's State General Reserve Fund opened a Tanzania office, with another mooted for Mauritius. Nurturing the business relationships that have started to blossom, and increasing marketing so Africa's entrepreneurs know that the GCC is open for business and investment, will be crucial, argues Mr Jawara. Beehive's Mr Moore agrees that more can be done to promote mutual education. “That could be trade missions, or getting [African government representatives] over

### Glass ceiling

What may come as a surprise to many, experts point out, is that Africa and the Middle East have proportionally more women entrepreneurs than mature markets such as the US and Europe. For example, more than half of all entrepreneurs in Ghana, Nigeria and Zambia are female, notes the French Business Council.<sup>16</sup>

Africa and the GCC may have more women in business, yet support for female entrepreneurs, particularly in Africa, tends to focus on the bottom of the pyramid, notes Yasmin Belo-Osagie, co-founder of Nigerian-based startup accelerator, She Leads Africa. “There are women in Africa who want to build big, innovative, exceptional [businesses],” she says. “But we found women were almost always seen as victims, through a charitable lens.”

Challenges accessing finance and business-oriented networks mean that most women struggle to scale up operations nationally, let alone globally. Women need better business education and prominent role models to emulate. “Access to finance is a problem for people across the continent. But if it's bad for guys, typically it's much worse for women,” she explains.

to the Gulf to explain how you do business in those countries," he says. Offering student exchange programmes so that future entrepreneurs can become familiar with each other's markets was yet another suggestion.

Equally importantly, research conducted on the ground is imperative. Vishaal Shah, CEO of food packaging company Panache International, explains how his family background in Kenya helped him to understand the African market. He urges other young business leaders to get personally involved. "I've come across entrepreneurs who want to do business in Africa, but they're not willing to travel and see the market



themselves," he says. "My advice is get your hands dirty—go to the market and [find out] what they want."

For all the challenges, most experts agree that the only way is up for Africa-Gulf business links. "African countries have concentrated for far too long on America and the West. Trading links, proximity and the availability of capital from the GCC will force African corporates to do more business with the Gulf," concludes Paras Shah of Bowmans. "A lot of groundwork has been done. It is a relationship on a springboard, waiting to take off."

# Conclusion

The shift in the economic landscape in Africa and the GCC is coinciding with the emergence of the next generation of business leaders in those regions. The growth of the middle class is driving demand for consumer-focused products and services in a diverse set of sectors including retail, food, finance, education, healthcare and energy. This provides a host of new opportunities for regional investors, especially from the GCC, which have traditionally associated Africa with opportunities in commodities and infrastructure.

Millennials across the Gulf and Africa find entrepreneurship an attractive career choice. Young people are looking for powerful narratives. “[Millennials] would much rather invest in an exciting startup with a story they can tell than a basket of bonds or equities,” notes Tammer Qaddumi of VentureSouq. “People love to talk about companies, more than cinema and more than culture.” They are excited about the latest technological advances, and this influences the businesses they choose to back, according to Mr Qaddumi.



The advance of technology is running in parallel with young entrepreneurs' growing confidence. This boosts the potential to create homegrown solutions as well as South-South collaboration, rather than just importing ideas from the West, notes Amy Jadesimi, CEO of Lagos Deep Offshore Logistics Base (LADOL). “There’s a psychological element here,” she says. “There is a clear confidence among low-income, high-growth countries and middle-income, high-growth countries that we can develop solutions and collaborate among ourselves.” Examples range from the UAE-based payments app Payfort to South Africa’s Food Fund International.

In turn, that paves the way for investment ties between the GCC and Africa, not least because there is a common understanding of risk among investors and business leaders in the two regions that more developed markets lack, adds Ms Jadesimi. “If you look at Africa from China or Singapore or Dubai, you understand the business model of developing capacity to service the local market. You don’t see risk, you see opportunity,” she says. “It’s no surprise those linkages are now building up.”

## Notes

1. Millennials are defined as those born between 1980 and 2000.
2. The GCC countries are Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the UAE.
3. [http://www.ilo.org/global/about-the-ilo/newsroom/news/WCMS\\_513728/lang--en/index.htm](http://www.ilo.org/global/about-the-ilo/newsroom/news/WCMS_513728/lang--en/index.htm)
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15. IRENA, Africa 2030: Roadmap for a renewable energy future. [http://www.irena.org/DocumentDownloads/Publications/IRENA\\_Africa\\_2030\\_REmap\\_2015\\_low-res.pdf](http://www.irena.org/DocumentDownloads/Publications/IRENA_Africa_2030_REmap_2015_low-res.pdf)
16. <http://www.fbcDubai.com/en/single-news/n/the-rise-of-sub-saharan-african-women-entrepreneurs/>









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