

E-Consult: The Potential of Onshore Financial Centres for Africa-focussed Investment Funds and Vehicles

This is the second in a serialisation of work coordinated by FSD Africa over the past 18 months exploring the definition and purpose of financial centres. The research was carried out in collaboration with the [Emerging Markets Private Equity Association \(EMPEA\)](#) and the [UK's Department for International Development](#).

Specifically, the research focussed on answering: what scope there is for building a successful onshore financial centre in Africa, capable of attracting international capital at scale, as well as growing numbers of financial firms and their technically skilled employees? An onshore centre would be expected to be competitive with Mauritius which is recognised as a leading conduit for domiciling investment funds looking to access opportunities in Africa. While Johannesburg and Casablanca are “on the map”, what is the potential for other cities such as Nairobi, Kigali, Lagos and Accra to similarly become globally significant financial centres?

This second part of the conduits of capital serialisation is by [E-Consult](#), a Botswana-based consultancy specialising in research, economic commentary and policy-related analysis in a variety of fields.

By providing a detailed overview of African players with focus on sub-Saharan, East and West Africa, E-consult reviews the key factors that fund managers look for when deciding on a jurisdiction for domicile in Africa. Several African countries have taken the steps to develop specific legal and regulatory structures aimed at attracting financial and business services although none is yet playing host to a fully international financial centre.

The most compelling financial centre jurisdictions for international funds are Mauritius and South Africa (Johannesburg). The former is attractive for reasons of tax efficiency, increasing international awareness, a good reputation for regulation and corporate governance, skills and infrastructure. South Africa is attractive due to its size, financial sophistication, and infrastructure, but is let down by onerous exchange controls, high taxes, immigration restrictions and its high crime rate.

Rwanda is actively considering moving towards establishing a financial centre and could challenge other jurisdictions in the next few years with the introduction of **competitive tax and regulatory regimes**. Elsewhere in East Africa, Kenya is well-advanced in its plans to establish the Nairobi International Financial Centre – Kenya offers advantages simply due to the **size and sophistication of its financial sector**.

In East Africa, there are issues for consideration and areas requiring attention. Plans, for example, to actively pursue **regional integration** with the East African Community (EAC) could be a mixed blessing, according to E-Consult, because a regional currency **without political and fiscal integration could undermine the stability of financial markets**.

E-Consult recognises that although private equity investors can play an important role in bringing structured financial packages including equity, specialised skills, and the ability to identify investment opportunities **technical assistance is required and this is where donors could be useful.**

For a country intending to develop as a centre for international financial services, donors can play a role in meeting part of the costs and ensuring that international best practice is built into the structures, laws, and standards that emerging financial centres pursue. E-Consult also highlights that **although a financial centre poses regulatory challenges, it can also be used as an opportunity to develop regulatory expertise;** something that may be in the interest of donors.

Read the first part of the Conduits of Capital serialisation by [Z/Yen Partners Limited](#) [here](#).

You can read the full [Conduits of Capital report here](#).