# New Trade Routes

## Middle East-Africa

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# Deep roots foster a new commercial relationship

On the hoof: Somali camels are hoisted at Berbera port for export to Saudi Arabia (see story page 4) Katrina Manson

Barriers to business in Africa may be daunting, but groups are optimistic trade will grow and diversify, writes *Shawn Donnan*

Trade between Africa and the Middle East has deep historical roots. The Egyptian pharaoh Necho first commissioned Phoenician mariners to circumnavigate the continent in 600BC, while centuries later Muslim traders from the Middle East brought Islam to Africa.

And the highly prized camels of Sudan and Somalia, first brought west from Arabia to carry loads across the African deserts, have for centuries been traded back to the Gulf to be raced, milked or eaten at banquets.

The historical relationship remains strong. Go to Jeddah, Saudi Arabia's port on the Red Sea and before long you will encounter traders from the Horn of Africa. Go shopping in Dubai and you will inevitably find yourself alongside Nigerian entrepreneurs. Venture into Africa's hinterlands and there are strong odds you will run into a Lebanese trader whose family has done business for generations.

Yet, as Africa's economy surges, the nature of commerce between the two is changing. If Africa is at a crossroads, then so, too, is its relationship with its oldest trading partner.

The traders of the Middle East have history – and capital – on their side. But in recent decades they have been supplanted: China, Europe and the US now dominate the trade in goods with Africa. And new entrants such as Turkey are making bold forays into the continent: last year, Turkish Airlines launched a twice-weekly service from Istanbul to Mogadishu, the first for more than 20 years.

But although agricultural commodities and raw materials still dominate Africa's exports to the Middle East and oil the return journey, the traders from the Gulf, north Africa and the Levant who have for centuries built links with their African partners, are focusing on new investments and opportunities.

Gulf private equity groups are buying up African companies with an eye on the future. Banks are seeing opportunities in the rising economies of Africa. Dubai's DP World has been investing in African ports while Middle Eastern airlines are staking claims on the continent: Emirates, Etihad, and Qatar Airways have all increased the frequency of their flights to Africa in recent years.

They are also positioning Gulf hubs, including Dubai and Doha, as the natural linking points on the flights from Asia to Africa. And Flydubai, a low-cost start-up, is offering direct services to secondary destinations such as Djibouti and South Sudan.

At the heart of the new relationship are the changing fortunes of Africa. The IMF now predicts the region will be the fastest growing in the world in 2014, behind only Asia. Some of its more dynamic economies – such as Ghana and Nigeria – are growing at rates comparable to the big emerging economies of the world.

> Governments are reducing waiting times at borders and cracking down on corruption

When Jim O'Neill, the former Goldman Sachs economist who coined the acronym Brics to characterise the economies of Brazil, Russia, India and China, addresses audiences these days he often uses another acronym: the Mint economies – those of Mexico, Indonesia, Nigeria and Turkey.

To leave Africa out of the mix now would be unthinkable.

One of the key features of the changing relationship between the Middle East and Africa is the way African business people are using bases in the Gulf such as Dubai, or Middle Eastern banks, to finance their operations, especially as those banks increase their presence in Africa to serve a growing list of clients from China, Europe and beyond.

However, anyone arriving at an airport in Africa will be painfully aware that the continent still faces challenges and has a long way to go before it catches up with the rising economies of Asia. The ride in from the airport in Lagos is still a more tortured affair than the one investors experience in Jakarta, let alone in Beijing.

But the attraction is strong. Africa is now home to a rising middle class that is beginning to consume with gusto.

When the Dubai-based Abraaj Group in June paid a reported $350m for Fan Milk, which operates in seven west African countries, Arif Naqvi, Abraaj's founder and group chief executive, was clear on the lure. Africa is "witnessing the rise of a burgeoning middle and consumer class", Mr Naqvi said, making it "an extremely exciting and compelling investment opportunity".

Leading the Gulf private equity push into the region, Abraaj has already sunk more than $2.2bn into 70 companies across Africa. And it sees further opportunities, says partner Jacob Kholi, a Ghanaian who is a former KPMG accountant based in Accra. "The African market is still underpenetrated and valuations are good," says Mr Kholi, who sees the food sector as particularly attractive, but also "fantastic potential" across various other sectors and countries.

For other Middle Eastern investors the appeal goes beyond the increasingly empowered consumer: they are looking to Africa's infrastructure.

DP World, one of the world's leading groups, now operates eight marine terminals in five countries, including Djibouti, Senegal and Mozambique. Such port facilities are transit points for the growing volume of agricultural goods exported from Africa to the Middle East, reflecting the growth in Arab investment in African land.

Somalia and its breakaway territory of Somaliland exceeded records last year when they jointly exported about 3m sheep to the Middle East. With goats, cattle and camels added to that, total livestock exports from those territories, which have been recovering from a shattering civil war, rose to 4.8m in 2012.

Africa remains a challenging environment and the barriers to trade are often daunting, even though the mood is one of optimism. Paul Brenton, trade practice leader for the World Bank in Africa and co-editor of the recent book *De-fragmenting Africa*, says: "People are perceiving a much wider range of opportunities in Africa. A much more diverse set of interests is now thinking of trading with Africa."

Efforts are being made to address the problems that for so long have made trading with Africa difficult. Governments are reducing waiting times at borders and cracking down on corruption. Yet those efforts are often faltering at best and one of the biggest challenges is to break down barriers within the continent that limit intra-regional trade.

For Africa, even as new partners join long-time players, the real promise lies in trading within the continent, Mr Brenton points out. "Increasing regional trade is still the best way into diversification and away from a dependence on resources," he says.

More than two millennia after the Middle East and Africa began to trade, the signs are that there is scope for deepening those historical links to make the most of the new conditions.

## Inside »



# Emirate moves with the times

**Profile**
**Dubai**

Location and ease of operating win out, says *Simeon Kerr*

Ashish Thakkar quit school in Uganda in 1996, aged 15. He took out a $5,000 loan, half of which he used to buy a ticket to Dubai.

The UK-educated Indian, and former Rwandan refugee, used the rest of the loan to buy IT equipment from Dubai's informal computer market.

As business grew, he was told the only way he could raise credit was to set up a company in Dubai.

Now known as Mara Group, his creation has evolved from IT into a pan-continental conglomerate, spanning real estate and call centres, consumer goods packaging, glass manufacturing and agriculture.

Mara has offices across 21 countries and 8,000 employees, some 60 of them in its three Dubai offices, including a group headquarters in the shadow of the Burj Khalifa skyscraper.

For Mr Thakkar, who spends on average 20 days a month travelling, the emirate is the ideal location to co-ordinate a business spanning Africa and India.

"Dubai," he says, "is a brilliant transit point that connects Africa so well to Asia and Europe."

Africans face difficulties in securing visas to travel elsewhere on the continent, while foreign businessmen travelling into Africa can also face bureaucratic headaches.

London and South Africa act as Dubai's main competitors, while Nairobi is also emerging as an east African hub.

But tax-free Dubai wins in terms of ease of business, Mr Thakkar says. "Getting visit or work permits is a hassle in a lot of these countries," he adds. "Here, we take it for granted. With notice of three days, I know it will happen. The last thing you need as a bottleneck."

In the early 1990s, Dubai was still largely an entrepot centre. Traders would purchase goods wholesale from Asia, breaking up the large shipments and re-exporting them or selling them to businessmen such as Mr Thakkar.

Now, he says, the city has evolved into a financial and operational hub, moving from "goods to people". Global businesses, especially Chinese companies, are also settling on Dubai as the ideal launch pad for African operations.

Four of China's largest banks have set up in Dubai International Financial Centre, while trading houses are also using the city as their headquarters for Africa.

Dubai, while increasingly the location where global businesses headquarter their regional operations for Africa, remains a shop window to the world for traders from Africa, as well as its other target markets in the Middle East, central and south Asia.

Ashish Thakkar

African traders have long recognised the city's wholesale markets as an ideal location to source goods for the continent.

Dubai's trade with Africa grew to $30bn in 2012, up 27 per cent on the previous year. Sub-Saharan countries leading the growth include Ghana, Tanzania and Angola.

Over the past five years, bilateral trade has risen from 6 per cent of Dubai's overall trade, at about $10bn, to 10 per cent of the city's overall trade.

"This makes Africa the fastest-growing market as a group for Dubai," says Hamad Buamim, chief executive of the Dubai Chamber of Commerce and Industry. "It is a very important export market for consumer goods."

The DCCI last year opened a trade office in Ethiopia, helping to drive

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# Airlines race to conquer the last bastion of sky-high yields

**Flight** Gulf hubs benefit from their position between Asia and Africa, writes *Rose Jacobs*


Flight plan: fastjet is a low-cost airline based in Tanzania and backed by easyJet's Stelios Haji-Ioannou that has ambitions to provide a pan-African service

Middle Eastern airlines' readiness to facilitate increasing travel between China and sub-Saharan Africa is easy to understand. Strong GDP growth in Africa promises rising demand not just from business fliers, but leisure travellers too. And the rewards lie not just in rising sales but fat margins.

"Africa is one of the last high-yield markets in the world," says George Dimitroff at Ascend, an aviation adviser, referring to the money an airline makes per mile from its passengers.

While deregulation has opened airspace to a greater number of carriers in the US, Europe and, increasingly, Asia, driving down yields significantly, it remains a far-off risk to airlines' profits in Africa.

Moreover, geography appears to be destiny. The hub airports of the Gulf provide convenient stopping-off points on the long journey between east Asia and Africa, giving the likes of Emirates, Qatar Airways and Etihad a flying start over their competitors outside the region.

And that should, in turn, translate into first-mover advantage when it comes to connecting other markets to Africa. "Whoever gets there first, wins," says Mr Dimitroff.

Donal O'Neill, an aviation analyst with Dublin-based Goodbody Stockbrokers, suggests that African airports could eventually become hubs for traffic en route to Latin America, where opportunities in Brazil, in particular, have excited the aviation industry.

The race is clearly on. Flight Global, an aviation industry researcher, reports that Emirates – the leading Mideast airline flying to and from sub-Saharan Africa – has increased seat capacity for the region by more than 62 per cent since 2008. Qatar Airways, the number two five years ago, has pushed up its capacity by 44 per cent and yet still fallen to the number three spot – overtaken by Turkish Airlines, which tripled the number of Africa seats available and doubled the number of destinations. Etihad has also doubled its Africa capacity but trails its competitors.

"Turkish Airlines presents a pretty big challenge to the Gulf carriers," says Mr O'Neill. "These guys can fill their aircraft at point, whereas the Gulf carriers don't have a source market."

Data from Amadeus, the IT provider to airlines, show that 70 per cent of passengers travelling between sub-Saharan Africa and Dubai, Doha and Abu Dhabi are merely connecting in the Middle East rather than making it their final destination.

Moreover, Istanbul offers less of a diversion east for travellers between Europe and Africa; and the company's smaller aircraft allow it to try out new routes with less risk.

And Turkish Airlines's offering – high service levels, new aircraft – is comparable with that of the Gulf carriers, in contrast to the Chinese airlines, which could otherwise prove a source of significant competition by offering direct routes to and from Africa.

Still, as the Chinese carriers buy new aircraft, they could become a greater threat. Cathay Pacific, under pressure in Europe, might consider launching direct flights between Hong Kong and sub-Saharan Africa.

But the Middle East should continue to dominate flights from secondary Chinese and African cities that require connections, since Asian airlines' hubs tend to sit in the east and southeast of the region – not exactly convenient for flights to Africa.

The European carriers, meanwhile, have lagged behind, in part because of their focus on cost-cutting at home and in part because of regulation: African governments are sometimes reluctant to allow the flag carriers of the former colonial powers to increase the numbers of flights to and from their capitals, whereas they are more open to Middle Eastern airlines, says Mr Dimitroff.

Air France-KLM's relatively strong and profitable network into Africa is one of the most threatened by the Middle Eastern carriers, RBS analysts suggested in a 2011 note. Of the big three European carriers, IAG, the parent of British Airways, Iberia and Vueling, is the weakest in Africa.

As for homegrown African competitors, the pickings are slim because of scale: Ethiopia Airlines and Kenya Airways fly to China, but will struggle to offer the number of departures and connections available through their Middle Eastern rivals.

Moreover, the fast-growing intra-Africa market may keep them busy, although Mr Dimitroff predicts much of this growth will come from low-cost carriers. One example is fastjet, a

> African airports could, eventually, work as hubs for traffic to Latin America

project backed in part by easyJet's Sir Stelios Haji-Ioannou, which delivers travellers from small cities in Tanzania to the likes of Dar es Salaam and Johannesburg, from which all the big Middle Eastern carriers fly.

In fact, a fourth Mideast airline is aiming to cut out that step. Flydubai, another low-cost start-up, is serving the secondary markets that its bigger peers have ignored. Today, it offers 130 annual departures to six destinations in Africa, including Djibouti and South Sudan.

It is adding two rows of first-class seating to some of its aircraft, demonstrating that even the budget carriers recognise the high yields that are available in African skies.



# Gulf financial groups revive ancient links

**Banks**

Global players benefit but locals are also on the march, says *Simeon Kerr*

Banking district: Dubai International Finance Centre Reuters

Trade flows between the Middle East and Africa stretch back centuries but, in modern times, the real money has been made elsewhere. Middle East exports are skewed towards crude oil to Asia, while Africa's main trading partners have been in Europe.

But the rise of African economies and the emergence of Dubai as a trading and operations hub, are reviving ancient links.

The growth in trade and commerce mainly benefits the big global banks that have strong operations across both regions, such as Standard Chartered Bank and Barclays.

Over the past five years, banking revenues for business into Africa quadrupled, while revenues from Africa have almost doubled, says Haytham El Maayergi, head of transaction banking in the United Arab Emirates for Standard Chartered Bank.

With India and China leading the global charge into Africa, banks in the UAE say that an increasing number of large trading houses are using their Dubai operations as an invoicing and procurement hub for the continent.

Meanwhile, jewellery businesses are investing directly or via joint ventures in stones production, as they integrate downstream production into their trading and manufacturing operations.

The bulk of African exports to the region are commodities and precious metals, while machinery and other goods make the return journey. Last year, for example, diamonds, jewellery and precious metals were Dubai's biggest re-exports by value, according to trade statistics.

"The future for Africa will demand more on the retail side," says Mr El Maayergi. "Dubai will act as the re-export hub for consumer goods, especially autos."

Standard Chartered is focusing on products, such as warehousing finance, helping clients finance payments, receivables and inventory liquidity. The lender is also working with clients who are building regional treasury centres for cash management.

Dubai, whose banking sector has become increasingly sophisticated over the past decade, now competes with other offshore centres, such as Mauritius.

Mr El Maayergi says trade credit from the Middle East into Africa rose 3.4 per cent in the year to date, according to Swift statistics. Trade credit from sub-Saharan Africa into the Middle East and north Africa region rose 6.6 per cent in the same period.

Chinese banks are also using Dubai as a launch pad for operations into Africa. The Dubai International Financial Centre (DIFC) hosts regional offices for four of China's five biggest lenders. One is the state-owned Bank of

> 'We are optimistic about the whole continent. We are following clients to the opportunities'

China, which first dipped its toe into the regional market a decade ago with a representative office in Bahrain, before opening another in Dubai in 2010.

The lender last year set up a full commercial operation in the DIFC and now has a team of 27 bankers, four of whom focus on Africa, says Cai Chunyan, the bank's senior executive officer based in Dubai.

China's leading corporations are seeking opportunities in mining, oil and gas, construction and trading across sub-Saharan Africa. "We are optimistic about the whole continent," says Mr Cai. "We are following clients to the opportunities."

With Chinese companies a significant force across the continent, Gulf states are eyeing opportunities as investors branch out into hospitality and agriculture.

Middle Eastern banks, flush with liquidity, have also been on the march into north Africa, with Qatar National Bank and Dubai's Emirates NBD both acquiring the Egyptian operations of European lenders leaving the country.

Qatar's state-controlled QNB has over the past two years built stakes in the continent beyond its large Egyptian investment. It has opened 163 branches in Africa, including in post-revolutionary Tunisia and Libya. It is also one of the Gulf banks that have invested in Sudan, where it has six branches.

Bank of Khartoum, Sudan's oldest bank, has been expanding with the help of Emirati shareholders, including Dubai Islamic Bank, Sharjah Islamic Bank and Abu Dhabi Islamic Bank. The bank is targeting agricultural finance.

Africa's agricultural potential is one of the drivers of Middle East financiers' interest in the continent, along with hospitality and financial services.

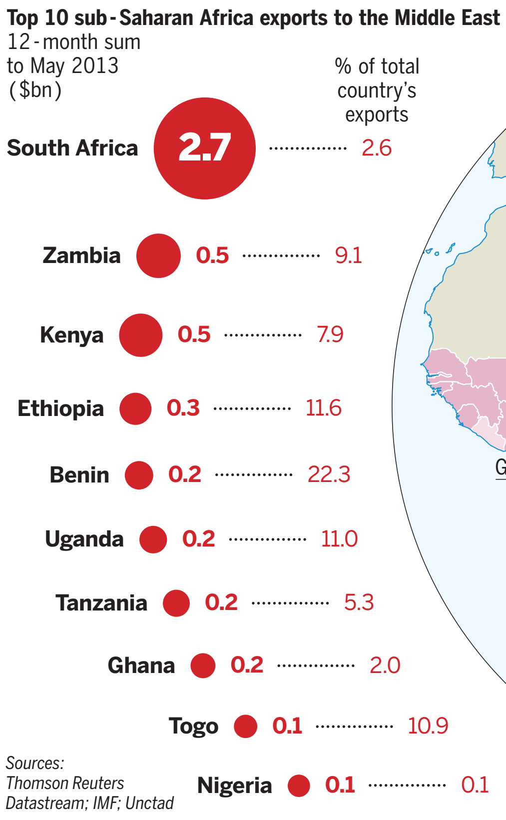
Telecoms have also been important, with the UAE's Etisalat moving into west Africa and Tanzania, while Kuwait's Zain operated in 13 African states before selling to Bharti Airtel in 2010.

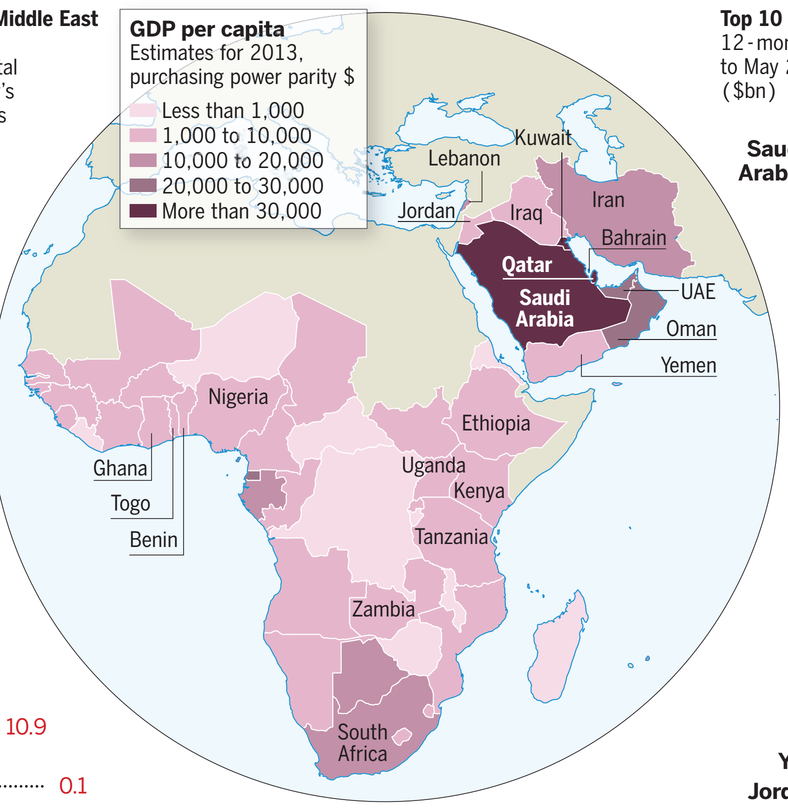
In their wake, financiers are seeking to help large Gulf family-owned businesses that want to expand into Africa, says Faisal Mikou of investment company AfricaGulf, which has bought an Ethiopian poultry business, Mekelle Farms.

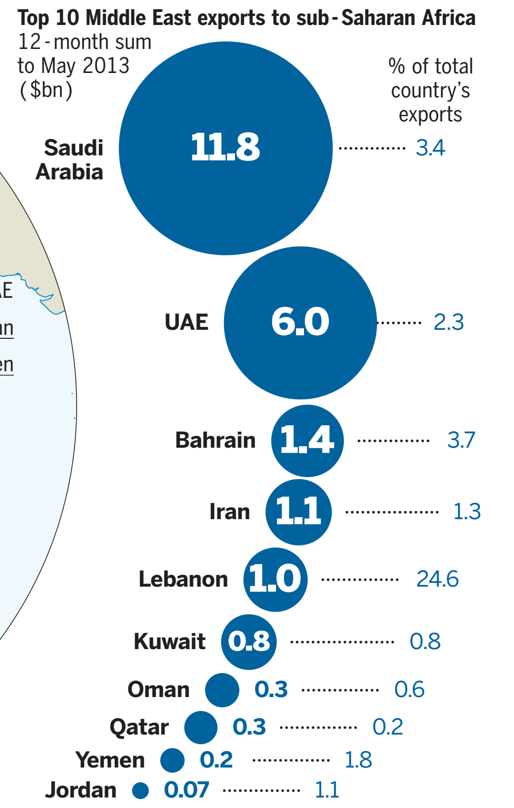
Dubai's conglomerate Al Futtaim, the Toyota distributor in the UAE, is taking over Kenyan car dealership CMC Holdings. SS Lootah, which distributes gas in the UAE, has expanded into east Africa.

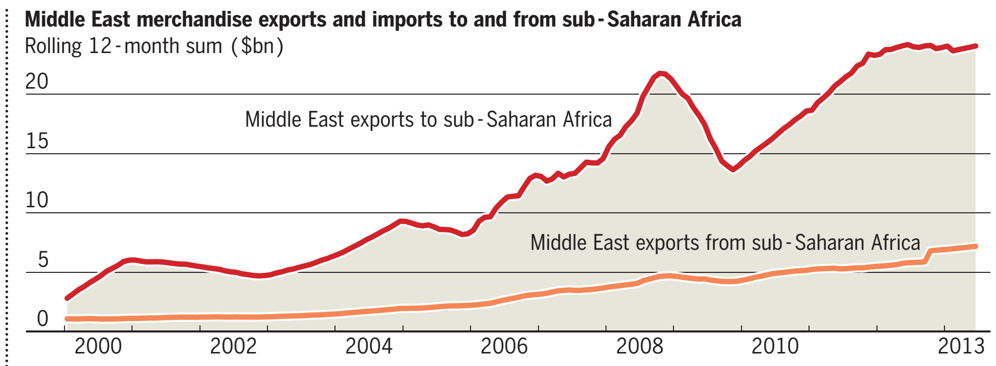
Says Mr Mikou: "Family businesses are considering expansion and buying distributors and looking at financial services."

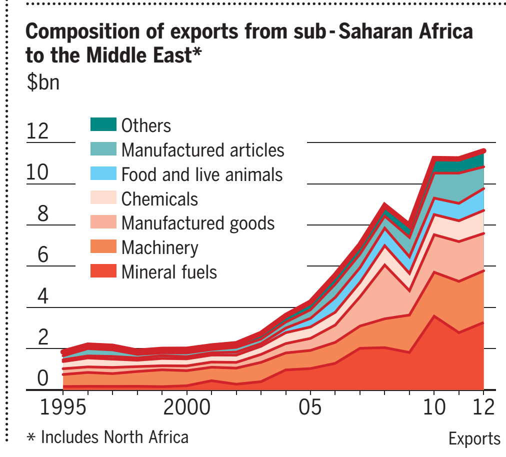
## New Trade Routes Middle East-Africa

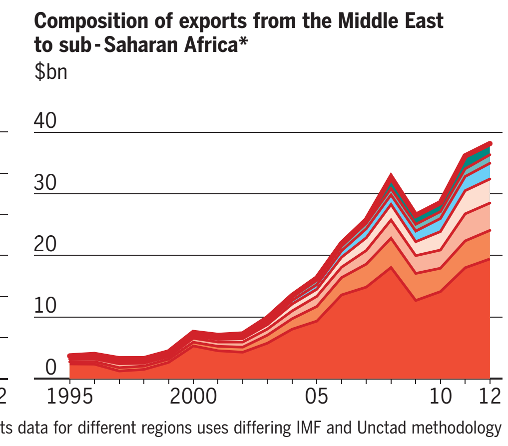



# Red tape and corruption snarl up flow of goods

**Bureaucracy** Governments need to take action to ensure that initiatives and agreements are properly implemented, reports *Shawn Donnan*

For many years economists have pointed to Africa's patterns of trade to explain why its share of the global total remains so small.

Look at almost any country on the continent and the chances are that it trades more with distant lands than it does with its neighbours. It is this factor that has dragged on the continent's development for decades.

The oft-cited reasons for this state of affairs – beyond the economic legacies of colonialism – are poor infrastructure, and the daunting bureaucracy, corruption and other barriers that business people find at borders on the continent.

Africa remains in desperate need of better road and rail connections. But there are signs that addressing the difficulties of crossing borders is at last coming into new focus.

When the world's trade ministers gather in Bali in December for the biennial ministerial meeting of the World Trade Organisation, they hope to sign off on a "trade facilitation" deal aimed at cutting red tape at state frontiers.

The goal is to standardise fees and paperwork, set clear, transparent and enforceable time-limits on how long goods can be delayed at borders, and put emphasis on such things as automation.

If it lives up to even part of the hype, the benefits could be huge for trade in Africa.

Dissecting the proposed package in May, analysts at the Organisation for Economic Co-operation and Development estimated that the deal would reduce the cost of trade by up to 14.5 per cent in low-income countries worldwide.

Each 1 percentage point reduction in costs globally would increase income worldwide by $40bn, with 65 per cent of that benefit going to developing countries, they found.

Those sorts of gains would be very large for Africa, according to Raed Safadi, the former Dubai government chief economist who is now one of the OECD's leading trade experts. A protrade industrial policy might reduce costs by 3-5 per cent, Mr Safadi says.

Cutting the costs of business by "14-15 per cent will define the difference between those who participate in global supply chains and those who don't," he says.

Also important is reducing the delays that both exporters and importers face at many borders in Africa.

"Time is money," says Mr Safadi. "We live in a 'just in time' world . . . Time is what determines if the contract goes to Romania or to a supplier in Africa."

In a report last year, the African Development Bank (AfDB) offered a daunting view of the challenges to intra-regional trade on the continent.

In Africa, the average customs transaction involved 20-30 parties, 40 documents, 200 data points, and the re-keying of 60-70 per cent of all data at least once, the AfDB report's authors wrote.

Moreover, "in most African countries, there are two complete sets of controls to be completed – one on each side of the border post".

African leaders have certainly latched on to the need for better regional integration. The 15-nation Economic Community of West African States (Ecowas), a bloc of some 300m people, agreed in October to implement a single customs tariff regime from 2015 to speed integration.

> 'Time determines whether a contract goes to Romania or Africa'

So too has the private sector. Created in 2011, the Borderless Alliance in west Africa is a private sector advocacy and education group that also monitors the practical costs of trade along the region's roads and at its ports.

Its quarterly reports, which detail the cost of bribes per 100km travelled and stops and delays faced by truckers along important corridors, make for daunting reading.

In 2012, for example, drivers taking goods from the port of Abidjan in Ivory Coast to Bamako, the capital of Mali, could expect to pay $66 in bribes along the road and a further $25 in bribes at the border, according to Borderless Alliance reports.

But Justin Bayili, Borderless Alliance's managing director, says that the main obstacle to reform in west Africa remains one of implementation. Over the years, leaders and ministers have committed to many ambitious goals at summits, he says, and delivered few results on the ground.

"We are all convinced that trade can benefit our region provided some of the barriers are eliminated," he says.

"It's easy for our ministers of trade to sign documents about facilitation. But concrete measures are needed."

# City moves with the times

**Continued from Page 1**

a 100 per cent increase in bilateral trade with the east African nation.

Mr Buamim is now in talks to open similar trade-promotion bureaux in Nigeria, South Africa, Angola, Kenya and Ghana.

Dubai-based business people are also increasingly looking to invest in Africa. Mohamed Alabbar, the chairman of Dubai real estate group Emaar, in 2011 set up a commodities-oriented pan-African group, Africa Middle East Resources, with partners including Malaysian billionaire Syed Mokhtar al-Bukhary.

Targeting commodities business in Guinea-Conakry, Niger and Mauritania, Mr Alabbar is also now looking to move into real estate development in countries such as Ghana, Nigeria and Uganda.

But the fundamental building block of Dubai's economy has always been trade, first serving as a tax-free port at the turn of the 20th century.

Even after the city slipped into recession as its real estate bubble burst in 2008, its trading infrastructure – from massive ports to busy airports – allowed the entrepôt to bounce back relatively quickly.

Dubai, after progressive expansion of its seaport capacity, is now transforming itself into an "aeropolis", with two airports joining the emirate's ports as the economy's main drivers.

African air traffic into Dubai's growing city-centre airport grew at 18.2 per cent over the past year and now accounts for about 10 per cent of passengers.

Fast-growing Emirates Airlines, which serves 17 sub-Saharan African destinations,has over the past decade made a particular effort to reach new African and Asian destinations, most recently linking Guinea's economic hub of Conakry to its Dubai-Dakar service.

The rise in Asian, especially Chinese, investment in Africa has therefore driven passenger traffic on Emirates, via Dubai.

"Dubai has really been able to provide quality of connectivity to the continent of Africa as a natural hub," says Paul Griffiths, chief executive of Dubai Airports.

"For many years, Emirates has had a healthy share of the market from Europe into Africa.

"Even though that is not logical in terms of distance, it has been very competitive and managed to take market share away from direct services."

Mr Griffiths says the density of connections on offer from Dubai Airports, which just last month opened its second airport to passenger traffic, is helping to boost air traffic from Africa.

"We can sustain services to remote locations, allowing people to come to Dubai and fan out to 260 destinations," he says.

"This stimulates economic activity, so Dubai is a catalyst for growth of trade between African nations and the rest of the world."

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# Saudi appetite for meat puts food on Somali families' tables

**Livestock** Exports are at record levels, and there is scope for more, writes *Katrina Manson*

There are few business areas in which a failed state might hope to challenge the developed world, but in recent years Somali livestock exports to the Middle East have overtaken those from Australia.

While Australia exports about 2m sheep a year to the Middle East, Somalia and its breakaway territory of Somaliland broke all records last year when they together exported about 3m sheep.

Including goats, cattle and camels, total livestock exports from the civil war afflicted territories rose to 4.8m in what is the world's largest on-the-hoof movement in the live animal trade.

"There's no single time that they ever exported such large numbers before," says Ernest Njoroge, livestock expert at the EU's Somalia Unit. "If the ports in Berbera, Bosaso and Mogadishu become very, very efficient, then that will even increase."

The Gulf's appetite for Somali livestock is down to three factors. Since the oil boom of the 1970s, Saudi Arabia and other states in the region have been able to afford a meat-heavy diet. Somali goat is also said to be sweeter and less fatty than goat from Australia. But the most important factor, and one that sends orders, and prices, rocketing, is the season when Muslim countries celebrate Eid al-Adha, the Feast of the Sacrifice.

Every family is meant to slaughter a sheep in memory of the prophet Abraham, and every one of the 3m pilgrims who make the annual Hajj to Mecca before the festival is also supposed to slaughter an animal, while the Hajj itself creates extra mouths to feed in Saudi Arabia throughout their stay. As a result, there is big demand for livestock across the region.

The latest export figures from the UN-backed Food Security and Nutrition Analysis Unit for Somalia show Berbera and Bosaso alone exported 2,069,007 head in the seven months to July, figures that do not include the two-month run-up to Eid al-Adha and Hajj in mid-October.

Meanwhile, the Australian Bureau of Agricultural and Resource Economics and Sciences says that the country's A\$200m (£116m) export trade in live sheep, 99 per cent of which heads to the Middle East, has been declining by 10 per cent a year since 2006 "because of increasing competition in export markets from African and eastern European sheep exports".

The change in fortunes is partly down to growing stability in the region as it emerges from more than two decades of civil war. As a result, the revival of port operations as well as improved health standards, all of which collapsed during the war, have helped boost trade and secured the repeal of a series of import bans triggered by diseased livestock.

A nine-year health ban on Somali livestock imposed in 2000 by Saudi Arabia, the biggest buyer, not only brought the sector close to standstill and led to the collapse of domestic livestock prices, it drove down the currency. Camel exports from Berbera fell to 3,473 a year after the ban, but had rebounded to 107,281 by 2011.

Mohamed Bihi Yonis, Somaliland foreign minister, says: "Livestock is extremely important: it's one of our lifelines and we are trying to see how we can increase the livestock that goes to Saudi Arabia. They say they need many millions more." He adds that managers of a Saudi food company visited recently to try to boost imports closer to the 10m mark.

"A lot of Ethiopian livestock is also coming through Berbera. It's a very big market for us and it's time for us to increase the capacity of Berbera port," says Mr Yonis, who hopes planned investments will deliver a terminal dedicated to livestock for export to the Middle East.

Established properly, such a terminal has the potential to transform the lives of some of the region's poorest nomads. Nearly two-thirds of them depend on livestock, generating 40 per cent of GDP and 80 per cent of foreign currency earnings.

Sheep and goats go for up to \$200 in the Gulf, while camels can sell for \$1,200, more than double Somali prices. On average, 20 families are involved in the chain from production to export, including brokers, transporters and feeders. Mr Njoroge says: "While the profit margins for both the live animal and meat trade are low per animal, traders make profit on volume rather than per animal, with small-scale traders making up to \$10,000 in a year."

Rising prices are already helping African exporters, he says, but much more value could be extracted by developing local abattoirs and refrigeration plants for meat to be exported by air, creating better cuts and allowing separate sales of hides and offal, which together can add 10 per cent to the value and, more importantly, employ far more Somalis.

Recent efforts to spruce up the sector include the donor-funded IGAD Sheikh Technical Veterinary School and Reference Centre and two quarantine centres that certify livestock safe for export. But progress will not be easy.

"The buyers remain in the driving seat," says Paul Crook of the International Labour Organisation. "There are very few middlemen who are able to control vast areas of production."

**Matter of taste: Somali goat is said to be sweeter and less fatty than goat from Australia**

# Abraaj shows way for acquisitions

**Private equity**

The Dubai group is big in mortgages and milk, says *Xan Rice*

When it comes to private equity investment in sub-Saharan Africa, the positive talk about the opportunities on offer is often at odds with the paucity of completed transactions.

So it was with some excitement in the industry that the sale of west African frozen dairy products company Fan Milk was announced in June.

Dubai-based Abraaj Capital reportedly paid more than \$350m, making it the largest-ever private equity transaction for a fast-moving consumer goods company in sub-Saharan Africa, outside South Africa.

Other private equity firms, including Actis, had been circling Ghana-based Fan Milk, which was still majority-owned by the Danish family that founded it in 1950. The interest was unsurprising. Fan Milk sells more than 1.8m dairy and juice products daily across west Africa, and demand is expected to grow by up to 9.9 per cent a year.

The name of the purchaser was also no shock. Abraaj is one of the most active PE investors on the continent, sinking more than \$2.2bn into 70 companies across Africa, including Brookside Dairy, the largest dairy in east Africa, and Athi River Steel Plant Limited, in Kenya.

At the time of the Fan Milk deal, Arif Naqvi, Abraaj's founder and group chief executive, said the continent was "witnessing the rise of a burgeoning middle and consumer class, so the acquisition is an extremely exciting and compelling investment opportunity".

Even so, running the business will be a challenge. As Preben Sunke, chairman of Fan Milk, acknowledged, "changing legislation, daily power cuts and economic uncertainty are all part of everyday life" in west Africa.

Some of Abraaj's competitors thought the price paid for Fan Milk was a bit steep, but the firm was able to share the risk quickly.

In October, Danone, the world's biggest yoghurt company by sales, announced that it was buying a 49 per cent stake in Fan Milk and would gradually acquire a controlling interest from Abraaj. Since that deal, Abraaj has continued to lead the way for Middle Eastern private equity groups operating in sub-Saharan Africa – and west Africa in particular.

In October, the firm, which typically makes investments of between \$10m and \$100m, announced it was taking a stake in African Industrial Services, an engineering, manufacturing and distribution company in Ivory Coast.

It also purchased Ghana Home Loans (GHL), a young company that offers mortgages to first time buyers, as well as buy-to-let and refinancing products. Jacob Kholi, a Ghanaian partner based in Accra, says the deal reflects Abraaj's faith in the continent's "housing play".

Mr Kholi, who trained at KPMG as a chartered accountant and worked for Shell, says the firm relies on local networks to get deals done. "It's one thing to sign a deal, and another to be able to deliver on it."

One of Abraaj's strategies is to encourage companies to expand in the region. Brookside Dairy, for example, has operations in Kenya, Uganda and Tanzania, and sells in Rwanda, Burundi, Egypt, Mauritius and the Middle East.

# African telecoms markets ripe for mergers and consolidation

**Communications**

Mobile operators see region as next big growth opportunity, writes *Dan Thomas*

Connecting another billion people to the internet is an ambition for many mobile operators, which see the relatively untapped markets of Africa as the next big opportunity for growth.

With a lack of fixed-line infrastructure in many parts of the continent, people have embraced smartphones as their means of connecting to the web, which has placed mobile operators among the main providers of internet services in Africa.

The number of broadband connections over cellular networks is expected to top 250m by the end of 2015. A fifth of internet traffic in Africa will be carried by mobile broadband by 2015, according to Informa Telecoms and Media, compared with 3 per cent globally.

Demand for telecoms services is high, as parts of the continent are becoming increasingly affluent. However, poorer areas also represent a good opportunity for telecoms operators that offer plans designed to get users connected to social networking sites using mobile devices.

Mobile is at the centre of life in Africa, where it has applications from sending vaccination reminders by text to credit lines for farmers. The M-Pesa mobile payment system is so successful that it acts as a quasi-currency.

Telecoms executives regard Africa as one of the most dynamic regions for an industry facing low growth in more mature markets where many people already have multiple mobile devices.

Tony Worthington, global head of telecoms, media and technology at Standard Chartered, says Africa is "one of the final frontiers of top-line growth". "Companies such as Orange and Vodafone want to offset European losses with African expansion."

Middle Eastern telecoms groups are active in the region. Etisalat, the Emirates-based telecoms group, and Ooredoo, the Qatari telecoms group, were both bidders for heavily-indebted French group Vivendi's majority stake in Maroc Telecom, the largest telecoms operator in Morocco.

Ooredoo, which lost out to Etisalat, also saw Maroc as a springboard into the rest of north Africa.

Dr Nasser Marafih, chief executive of Ooredoo, says that Maroc Telecom would have brought a number of sub-Saharan assets into its portfolio. "If other opportunities arise, and we think they make sense, we will consider our options, but sub-Saharan Africa is not a key priority for us at the moment," he says.

Orange, the French telecoms group, estimates 3G connections will increase to 164m, from about 24m in 2010, while smartphone ownership is forecast to double by 2016.

With this in mind, mergers and acquisitions are expected to become more prevalent in Africa as telecom operators look for the next phase of growth in still developing countries.

Running telecoms businesses across such large territories can be expensive, which naturally leads to consolidation in countries that allow it.

"Africa is ripe for consolidation," says Mr Worthington, who adds that the last big transaction before Etisalat's takeover of Maroc Telecom was Bharti Airtel's \$10bn acquisition of African operations from Kuwait's Zain in 2010. Standard Chartered advised Bharti.

> Middle Eastern bidders saw a stake in Maroc Telecom as a springboard into north Africa

For Orange, the third-largest operator in Africa, its investment there has provided a means to offset a declining business in mature European countries with fast growing, albeit sometimes risky, growth in emerging markets.

Orange aims to double emerging market revenues to €7bn by 2015, with operations in many of the more frontier territories ranging from Tunisia, Ivory Coast and Guinea to Cameroon and Madagascar.

Marc Rennard, senior executive vice-president for Orange in Africa, Middle-East and Asia, says the region is the company's primary source of growth.

Orange has an investment programme focused on extending mobile broadband and innovative services such as Orange Money, a financial services platform developed specifically for African markets.

However, the group has also targeted expansion around a cluster of French-speaking west African nations, in particular Togo, Mauritania, Burkina Faso and Gabon.

There are few untouched markets now in the region, although operators such as Orange and Ooredoo would like to be involved in the state-controlled telecoms sectors in Libya and Ethiopia.

Meanwhile, Vodafone, which owns a majority stake in Vodacom in South Africa among other businesses, is focused on sub-Saharan Africa. The British telecoms group has been linked with expansion in the countries surrounding its operations in Tanzania, the Democratic Republic of Congo, Mozambique and Lesotho.

However, the most recent speculation has been about the ramifications of a possible AT&T bid for Vodafone, with Orange seen as the most likely buyer of the African assets that are less likely to be of interest to the US telecoms company. The telecoms sector appears poised for another wave of mergers and acquisitions as operators look to expand into neighbouring countries, and consolidate the markets in which they operate.


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