

Investing in Africa: The role of international finance centres

Elise Donovan, chief executive of BVI Finance, talks on the benefits of international financial centres to facilitate trade and business.



Elise Donovan.

Image Credit: BVI Finance

The hundreds of global investors who arrived in Cape Town for the Investing in African Mining Indaba conference are proof that investing in the world's second-largest continent has never been more popular.

Representatives from 94 countries were at the event, alongside thousands of senior industry delegates and more than 900 government representatives. But while emerging markets, such as those in Africa, represent an attractive proposition to foreign investors there are often a number of factors to consider before investing.

Opportunity

The creation of the world's largest free trade bloc in 2018 – the African Continental Free Trade Agreement (AfCFTA) – agreed upon by 54 of the continent's 55 countries, showed the desire to drive the economies of Africa forward. With a collective GDP of US\$3.2 trillion, the opportunities for investment are endless and the United Nations Economic Commission for Africa estimates the trade agreement will boost intra-African trade by 52 per cent by 2022.

While the AfCFTA will undoubtedly help stimulate the different economies of Africa, international support and investment can also assist regional integration efforts; leading to larger markets, fewer barriers and greater economies of scale, ultimately leading to greater returns on investment.

Protection

Despite this undoubted potential, political and macroeconomic uncertainty can deter investors from following through on their desire to commit funds to a region. To this

end, investors often require reassurance that their money will be safe and not at risk from a sudden shift in the political or economic climate.

One of the simplest ways to help reduce the potential risks around investing into Africa is the use of international finance centres (IFCs) to act as independent hubs to facilitate trade and business. [Matthew Gilbert, head of Maples and Calder's British Virgin Islands team in the Maples Group's London office, attended Mining Indaba and estimates that almost a third of all international investment flows through IFCs.](#)

[“Problems include unfamiliar courts and judges and lengthy legal processes. Investors fear political interference in private property rights and dispute resolution. Potential problems include unpredictable changes in the law, asset appropriation and politically motivated disputes. The platforms provided by IFCs mitigate these problems.”](#)

[Gilbert adds that the UN has noted inter-developing country investment as a speciality of the British Virgin Islands \(BVI\) and names Nigeria, Ghana, South Africa, Uganda and Madagascar as nations that have all seen the benefits of investment via BVI structures.](#)

Trusted structures

Greg Boyd, partner at law firm Harneys, also attended Mining Indaba and reasons that the strength of the BVI's legal system is an additional plus point for international investors. “BVI law is based on English common law but it

and user friendly corporate laws than may exist in many other jurisdictions,” he says.

“Its dedicated commercial court and respected, independent judges have shorter waiting lists than their counterparts in the UK or US and a broader scope of available relief to offer when it comes to compliance (or lack thereof) with a BVI company's constitutive documents as compared with the usual relief available for contractual breaches. Investors are more protected when corporate and court risk can be mitigated. By providing investor neutrality, modern corporate laws and reduced risk, the likelihood of a project completing successfully increases.”

Jeffrey Kirk, managing partner of law firm Appleby's BVI operation, was also present in Cape Town last month and says private equity investment has overtaken bank funding as the real driver of growth in Africa. “Limited partnerships have become the preferred structure for investment funds and are often used as a vehicle for private equity funds and joint ventures; allowing investors who do not wish to play an active role in managing the fund to limit their liability,” he explains. “The Limited Partnership Act, launched in the BVI in February 2018, incorporates the best features of different structures and represents an innovative, user-friendly system for international investors.”

International neutrality

As well as offering increased security, the BVI also provides an impartial hub for investors coming together on a project from a number of countries. Gilbert adds, “IFCs, like the BVI, provide a neutral location for funds to be pooled from

multiple investors and collectively invested in developing countries. Pooling investment like this reduces the risk for private investors looking to make investments in higher risk areas, as those with responsibility for investing have a duty to balance risk and diversify.”

Facilitation of development finance

Providing an effective environment for shareholder protection may seem like a modest objective, but a report commissioned by BVI Finance from the Overseas Development Institute – an independent, non-profit global think tank – estimates that IFCs, like the BVI, galvanised additional finance to developing countries worth US\$1.6 trillion between 2007 and 2014, boosting their GDP by US\$400bn and tax revenues by US\$100bn during that period.

With South Africa often the gateway for investment into Africa, thanks in part to its proliferation of financial and legal firms, the possibilities for investors across Africa are endless, from telecommunications in Kenya, to commodities and resources in Zambia.

As with any business opportunity, investors should carry out proper due diligence and be cognisant of the potential risks involved, but with regard to investing in Africa, interested stakeholders should not let certain challenges become insurmountable obstacles. Using international financial centres, such as the BVI, mitigates the risk of investing across borders and provides all parties concerned with the protection and confidence needed to ensure harmonious, successful investment into the region. ■