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East Africa's Tide Of WEALTH

DESPITE THE ECONOMIC OUTLOOK IN THE REGION, THE HIGH-NET-WORTH SEGMENT HAS BEEN GROWING OVER THE LAST DECADE, REACHING A CRESCENDO WITH THE RECENT ENTRANCE OF NEW FOREIGN PRIVATE BANKS AND WEALTH MANAGEMENT SERVICES INTO THE REGIONAL MARKET. FORBES AFRICA TAKES A LOOK AT THESE MOVEMENTS ON HOW THE WEALTHY AND ULTRA-RICH IN EAST AFRICA ARE CHANGING THE WAY THEY MANAGE THEIR ASSETS.

BY MARIE SHABAYA

OVER THE LAST decade, five East African nations have seen a net-positive growth in total wealth, according to figures from New World Wealth. Leading the pack are Rwanda (60%), Ethiopia (52%) and Uganda (50%). Delving deeper into this picture, Kenya, a growing economic hub for the region, has the highest per capita wealth in East Africa, and ranks eighth on the continent, at $1,700.

This makes a strong case for the new financial services now available to high-net-worth individuals (HNWIs) in the region. In fact, East Africa is now a growing market for wealth management services and experts.

This is echoed by the changing trends in how this segment has been holding their wealth. Traditionally, investment options for the wealthy and ultra-rich were concentrated predominantly in land, real estate (property and buildings) as well as cash. Over the last few years, there has been a marked shift with this capital being held in sovereign bonds or fixed income securities.

Why the shift? Charles Mwaniki, a business journalist who has been covering the regional financial markets for over a decade, notes that what we're seeing now is the result of movements from the past decade, whose effects are now being compounded.

"The big shift I've seen is the move towards the professional management of wealth. Previously a lot of [wealthy] people were having to manage their own wealth in private family offices or as private individuals but over the last seven years, we were coming out of a period of plenty, between 2004 and 2015, when there was ample opportunity to make money," he says.

The overall economic climate during this time was one of a financial boom, allowing for the expansion of the HNWI segment in the region.

"It was a two-fold thing. One, it introduced a lot of new money into the economy and a lot of people got wealthy or got money that was investible within that period. Secondly, the people who already had money were making it more easily. It was easy to multiply wealth. So, you didn't need much help to make money; there were opportunities everywhere…in trade, in the stock market, in bonds. But, from around 2014-15, it suddenly became a lot more difficult to make money here."

What followed was an extended period of decline in both the stock market and the banking sector. Beginning in 2016, banks restricted their lending to the private sector due to a legislative cap on commercial lending rates.

"Trade also became more difficult. People started realizing [that they] needed help to unlock opportunities, to see where the money is and that is where they increasingly turned to professionals, especially those who had made new money in the decade before. Suddenly, there were no opportunities in the stock market, they didn't know how to invest offshore, they didn't know how to play the property sector so they turned to professionals," posits Mwaniki.

This has seen a rise in dedicated wealth management units in some of the more established banks and lenders in the region, with new entrants joining the market as recently as this year. Stanbic Bank Kenya, formerly known as CfC Stanbic, is one of the larger service providers in the region, providing a private bank offering to both individuals and corporate clients with at least $1 million in investible assets. New entrant, Old Mutual, from South Africa, opened its doors to high-net-worth clients with at least KES 10 million ($83,130) in investible assets in July this year while I&M Capital, a fund manager, launched in mid-2021 and famously raised $5.8 million in its first six months, indicating the growing demand for such services in the region.

A majority of wealth in the region is family-led and organized by kin either in business structures or by ownership. This allows for wealth management efforts to be compounded over the generations, a model which has worked well in other markets. Tsitsi Mutendi, who

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– TSITSI MUTENDI

consults for private family offices in the region draws a line between the services offered by the new private banks and the niche services required for those over a certain wealth threshold.

"A family office is particularly created for ultra high-net-worth individuals and families. It makes sense to open a single family office, dedicated to one family and the management of its wealth and investments. It's usually families that are worth a $100 million or more that can afford a single family office. Where you start off with your 'Mom & Pops' store growing to bigger business, you can still have an accountant managing finances or a private bank managing income. When it gets to $100 million and above, in terms of net worth, a dedicated office has a better overview of what the asset holding looks like, what the available wealth in terms of finances looks like and what investments are being made. Family offices tend to hire investment managers as investments at this level tend to be larger."

According to this year's Africa Wealth Report, Nairobi is one of Africa's wealthiest cities, anchoring the region with $48 billion in total private wealth with an estimated 5,400 HNWIs. Those over the $100 million net worth bracket, however, only number 12 with a healthy crop of multi-millionaires (net worth of over $10 million) at 260 individuals. Mombasa, Kenya's coastal second city, plays host to 800 HNWIs with a combined wealth of $7 billion. Dar-es-Salaam, the Tanzanian capital and home to Africa's preeminent billionaire, Mo Dewji, has the region's second-largest HNWI community with 1,300 individuals holding a total of $24 billion in private wealth. The Ugandan capital, Kampala, which has seen marked growth in total wealth over the last decade is home to 900 HNWIs worth a cumulative $16 billion.

Many of these developments are being led by family wealth either through burgeoning businesses or the expansion of pre-existing wealth. Mutendi contends that this may be due to new perspectives on wealth building.

"We have a melting pot of different family businesses and different drivers to wealth [that is] being built. The movement of the world as well as the different generations and how [they] perceive wealth, manage wealth and [their] history within the wealth pocket [is a contributor]. The nouveau riche is usually centered on one demographic but it is one that is coming into wealth after many years of being disadvantaged with financial status. With funds moving out of the continent, you have different push and pull factors."

These factors are the back-end of much of the wealth growth that we're observing in the region. According to the 2022 Africa Wealth Report, investment migration is fast becoming a popular option for the continent's affluent families. In fact, it's a proven wealth management and legacy planning tool with 19 of the G20 countries already implementing policies that encourage inward investment in exchange for citizenship or residence rights. Henley & Partners, a London-based investment migration consultancy who authored the report, noted that they saw an 18% rise in inquiries about these programs from African clients in 2021.

Jon de Jager, Managing Director of C|T Group UK, an advisory firm working with African HNWIs, explains that the movement of capital goes beyond wealth migration and has been a prominent trend.

"There has been a trend of East Africa capital being consolidated outside of the continent although, equally, there has been significantly more wealth generated within the region. Jurisdictions outside Africa have historically been a more attractive base from which HNWIs can invest internationally across developed economy capital markets. Putting it simply, moving capital outside of Africa can often mean direct access to cheaper debt financing and a greater array of personal and financial services to invest back into the region or continent," he says.

> "DUBAI IN PARTICULAR HAS RECENTLY BECOME A POPULAR DESTINATION ON A GLOBAL BASIS, NOT JUST FROM AFRICA. THIS HAS PARTLY BEEN FOR PROTECTION; WHILE KENYA HAS NO DOUBT BECOME A MAJOR ECONOMIC HUB."

However, access to these foreign financial markets isn't always guaranteed for African investors. Enhanced due diligence checks, Know-Your-Customer (KYC) standards among other regulations often bar HNWIs from the continent from transitioning to some of these offshore locations. Whilst this has happened in the past, now it is more difficult to achieve due to regulatory requirements.

"There is often a fundamental lack of understanding of the East African region, and of Africa as a whole. HNWIs originating from the continent of Africa are often classified in the same bucket and lazy assumptions can be made as to their source of wealth or political connections, for example. We have worked very hard the last few years in establishing a credible and detailed fact pattern for individuals looking to move their capital into different markets. It is often assumed that documents are lacking for the region to meet enhanced KYC requirements, but that is not the case. What many African HNWIs need is an opportunity to explain, transparently, the facts behind their background and business history," notes de Jager.

Scrutiny aside, HNWI capital from the region is still finding its way to more stable settings, offshore.

"Dubai in particular has recently become a popular destination on a global basis, not just from Africa. This has partly been for protection; while Kenya has no doubt become a major economic hub, and I believe will gain further momentum as such, there has been some political instability that can trigger capital flight. Another market that we see movement to is Singapore. It is perceived by many as a stable and fast-growing economy in Asia and we are seeing this trend not just from businesses in East Africa. Singapore does offer tax advantages to offshore non-resident companies and as a result is becoming the gateway to Asia's banking and investment markets," notes de Jager.

However, capital flight is not the only trend we're seeing within this segment. A movement towards reinvestment in the region, and continent, may be due to a rise in locally-based wealth

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