

EY's attractiveness survey
Africa 2015

Making choices



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EY's attractiveness surveys

EY's attractiveness surveys are widely recognized by our clients, the media and major public stakeholders as a key source of insight on foreign direct investment (FDI). Examining the attractiveness of a particular region or country as an investment destination, the surveys are designed to help businesses to make investment decisions, and governments to remove barriers to future growth. A two-step methodology analyzes both the reality and perception of FDI in the respective country or region. Findings are based on the views of representative panels of international and local opinion leaders and decision-makers.

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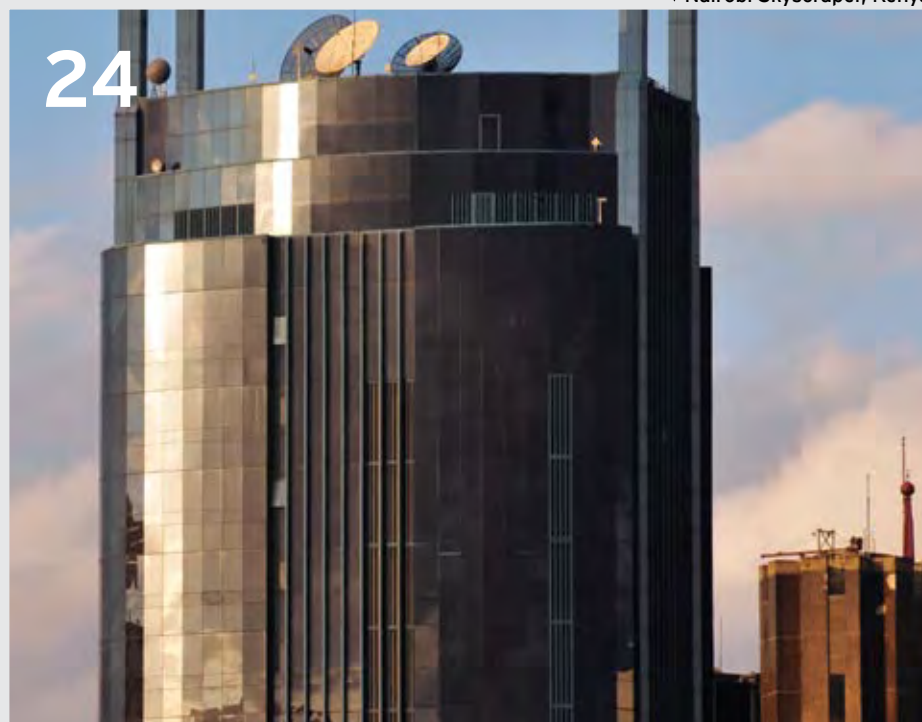
▼ Downtown Lagos, Nigeria



▼ Africa Union Conference Center and Office Complex (AUCC), Addis Ababa, Ethiopia



▼ Nairobi Skyscraper, Kenya



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Foreword

“We remain confident that, despite economic headwinds, the ‘Africa rising’ narrative remains intact and sustainable.”



Rajiv Memani
Chairman, EY Global Emerging Markets Committee

Welcome to the fifth edition of our annual *Africa attractiveness survey*. This milestone is an opportunity to pause and reflect on how Africa’s attractiveness has evolved. Our very first edition was released after a decade of strong economic growth, at a time when South Africa had just successfully hosted the football World Cup; a time of increasing optimism about Africa’s progress.

Our mission, from the outset, has been to provide factual substance to the “Africa rising” narrative. Over the past five years, we have helped tell new stories about Africa, stories of economic growth and opportunity, democratic progress and human development. However, in telling these stories, we have also not shied away from the challenges that remain if we are going to unlock Africa’s vast human and economic potential.

So where is Africa in its journey? That is a question of perspective.

In the past year, Africa has experienced stronger headwinds than in recent times. Economic expansion this year is likely to be at its slowest in five years, dragged down by the impact of lower oil prices on the Nigerian and Angolan economies, as well as South Africa’s sluggish growth. Our survey reveals that investor sentiment has softened somewhat, and that FDI projects are down for a second consecutive year.

Yet economic growth across the continent remains resilient. Despite the headwinds, growth in Sub-Saharan Africa (SSA) will beat the emerging markets average, and be outstripped only by developing Asia. Ethiopia, Kenya, Tanzania, Mozambique, Zambia and Cote d’Ivoire are among 22 economies in SSA that are expected to grow by more than five percent this year.



Ajen Sita
Chief Executive Officer, EY Africa



Our data also shows that, although the number of FDI projects fell this year, the value of those projects increased sharply, as did the number of jobs they created. Indeed, the capital value of FDI was, by far, the highest we have seen over the past five years. We do not know yet whether this is sustainable, but it is certainly cause for celebration.

This mixed picture is not surprising. It reflects the diversity and complexity of this great continent – there is never a one-size-fits-all answer. Perspective remains important. Ours has been, and remains, a glass-half-full viewpoint. We remain confident that, despite economic headwinds, the “Africa rising” narrative remains intact and sustainable.

However, Africa’s future will not take care of itself. Our view is that Africa and its leaders have reached an inflection point: deliberate and urgent choices are required to raise levels of productivity and competitiveness, accelerate structural transformation and make the shift toward an inclusive, sustainable growth path. In this context, we outline five priorities for action that we believe Africa’s leaders – across business and government – should focus on.

In our first edition, we declared “it’s time for Africa!” Five years on, we now assert “it’s time for Africa’s leaders!”

By working together we have the opportunity to make a real difference in realizing the dream of great African leaders like Nelson Mandela – to help build an Africa that is prosperous, where human potential has the opportunity to flourish, and where nobody is left behind.

We would like to extend our gratitude to the business leaders and EY professionals who have taken the time to share their thoughts with us, for their significant contribution in this report.

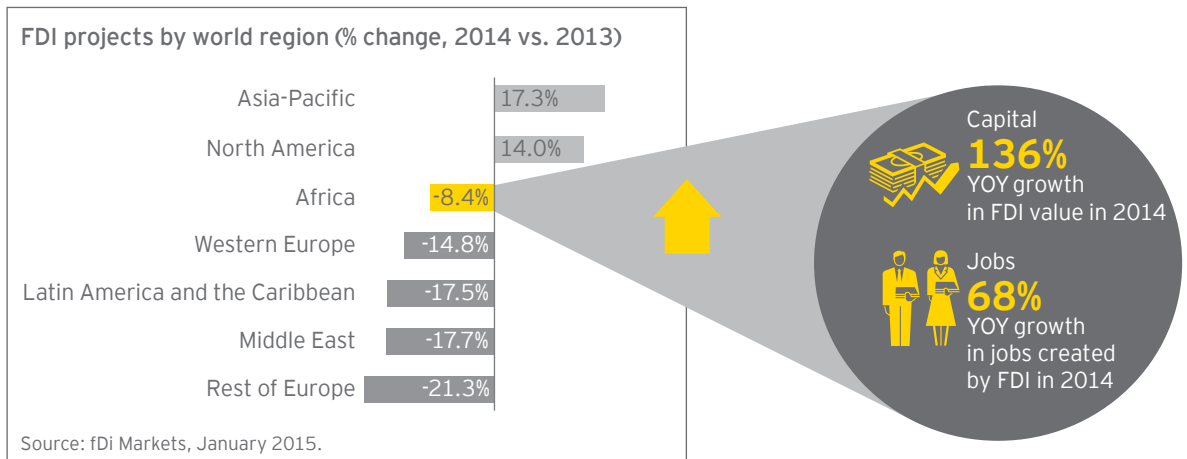
**In our first edition,
we declared “it’s
time for Africa!”**

**Five years on, our
view is that Africa
and its leaders
have reached an
inflection point.**

FDI project numbers fall, but capital investment and jobs surge

Geopolitical tensions and weak economic growth led to a 3.1% decline in greenfield FDI projects worldwide in 2014. FDI projects in Africa fell 8.4%, but remained well above pre-2008 levels. However, capital investment into the continent surged to US\$128b, up 136%. And FDI created 188,400 new African jobs, a 68% increase. Spurred by a handful of megadeals, the average investment increased to US\$174.5m per project, from

US\$67.8m in 2013. Africa's share of global capital investment and job creation hit an all-time high in 2014. Only Asia-Pacific attracted more FDI funds than Africa last year. Africa attracted more FDI funding than North America, Latin America and the Caribbean, and Western Europe, which historically draw significantly higher FDI flows than Africa.



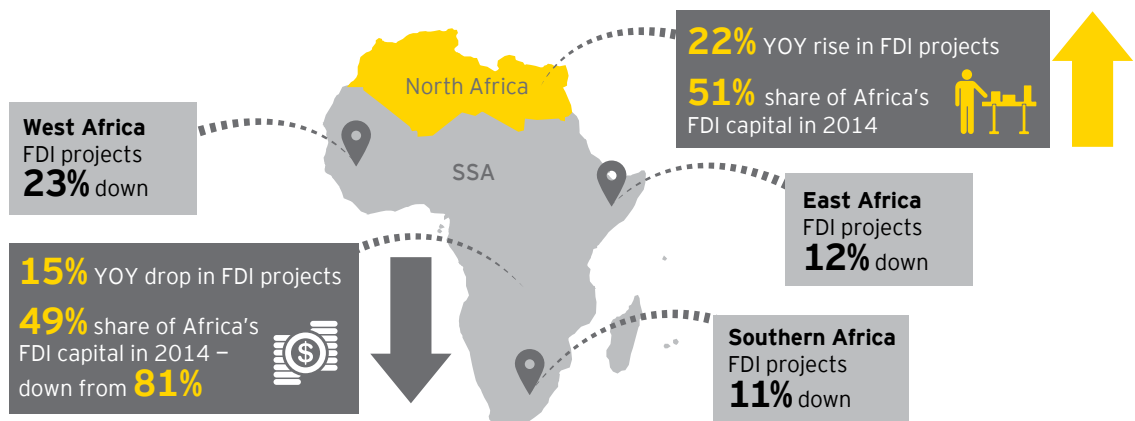
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North Africa rebounds, but FDI in SSA shows contrasting trends

Political uncertainty following the Arab Spring in 2011 is beginning to fade, and North Africa is becoming more attractive as an investment destination. FDI investors returned enthusiastically to Egypt and Morocco.

Project numbers in SSA reached their lowest point since 2010, however. Within SSA, some economies – including South Africa, Angola, Nigeria, Ghana and Kenya – received fewer FDI projects. But Ethiopia and Mozambique attracted growing inflows of projects.

FDI by destination region (% change, 2014 vs. 2013)



Source: fDi Markets, February 2015.

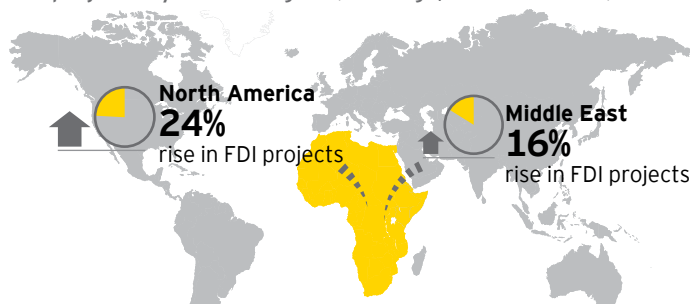
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Note: The analysis of FDI data in this report includes a program of 13 construction projects in North Africa, worth a total of US\$40b, announced in March 2014. However, as of May 2015, there is still some uncertainty regarding whether the program will go ahead.

Traditional investors regain interest

In 2014, traditional investors, including those from North America and the Middle East, refocused their attention on Africa. Investors from the US, France, the United Arab Emirates (UAE), Portugal and China were particularly active during the year. From a regional perspective, Western Europe and Africa remain the largest sources of FDI into the continent.

FDI projects by source region (% change, 2014 vs. 2013)



Source: fDi Markets, February 2015.

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Opportunities abound in infrastructure, consumer-facing and agricultural sectors

Two trends defining Africa's future growth path include rising urbanization and a growing consumer class. In line with these trends, FDI data reveals strong inflows into real estate, hospitality and construction (RHC) in 2014. Three consumer-facing sectors – technology, media and telecommunications (TMT); financial services; and consumer products and retail (CPR) again attracted the largest share of investor activity. Respondents to our survey are also excited about prospects in the relatively underexploited agricultural sector.

Rising urbanization has resulted in RHC becoming the fourth most attractive sector in Africa.

A growing consumer class in Africa continues to spell opportunities for financial services, TMT and CPR.

31% of respondents expect agriculture to drive growth in Africa over the next two years.

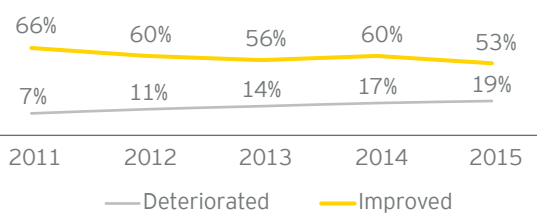
Sources: fDi Markets, February 2015; EY's 2015 Africa attractiveness survey (total respondents: 501).

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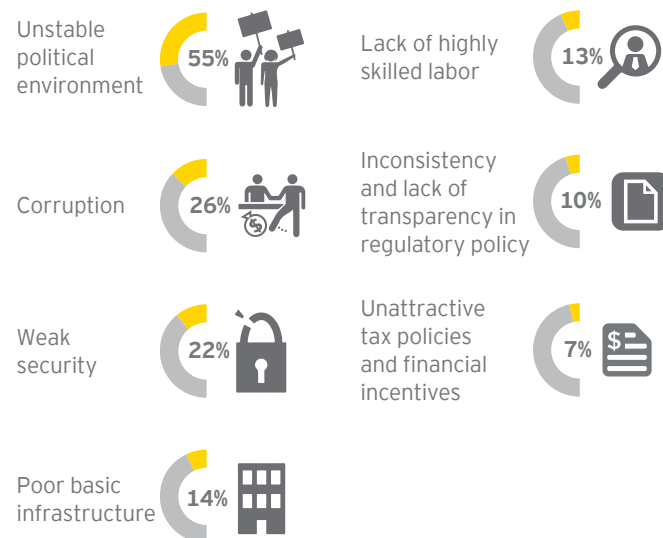
Marginal slip in investors' perceptions of Africa

This year's survey reveals that investor perceptions of Africa reached the lowest level since 2011. When asked about Africa's attractiveness over the past year, only 53% of the respondents said it had improved, down from 60% in 2014. There was also a slight drop in confidence about the continent's future investment attractiveness. As Africa's perceived attractiveness declined, it ceased to be seen as the world's second-most attractive region (after North America and joint-second place with Asia) and fell to fourth place. Political risk factors, such as instability and corruption, remain the main barriers that discourage investment in Africa.

Africa's past attractiveness at lowest level since 2011



Perceived barriers to investment in Africa



Source: EY's 2015 Africa attractiveness survey (total respondents: 501).

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Five priorities for inclusive and sustainable growth

EY believes that Africa now has the potential to bring about a future that would have been unimaginable a generation ago. But to realize this potential, African leaders will have to drive the structural transformation necessary to achieve the goals of inclusive and sustainable growth. Here, we highlight the five priorities for action that we believe will be most critical to a successful African future.



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Glossary

AfDB: African Development Bank

AGOA: African Growth and Opportunity Act

CAGR: Compound annual growth rate

CPR : Consumer products and retail

DIP: Diversified industrial products

DRC: Democratic Republic of Congo

EAC: East African Community

ECOWAS: Economic Community of West African States

FDI: Foreign direct investment

FTA: Free-trade agreements

GCI: Global Competitiveness Index

ICA: Infrastructure Consortium for Africa

IMF: International Monetary Fund

LNG: Liquefied natural gas

M&A: Mergers and acquisitions

ODA: Official development assistance

OECD: Organization for Economic Cooperation and Development

NEPAD: New Partnership for Africa's Development

NFNV: New Faces, New Voices

PPP: Public-private partnerships

RHC: Real estate, hospitality and construction

SADC: Southern African Development Community

SME: Small and medium-sized enterprises

SSA: Sub-Saharan Africa

TMT: Technology, media and telecommunications

UNCTAD: United Nations Conference on Trade and Development

UNDP: United Nations Development Program

UNESCO: United Nations Educational, Scientific and Cultural Organization

VAT: Value-added tax

WEF: World Economic Forum

Reality

FDI in Africa in 2014

US\$128b

FDI inflow in 2014, up 136% – Africa becomes the world's second-largest FDI destination

188,400 jobs

created, up 68% on 2013

8.4%

decline in FDI projects in 2014, though numbers are well above pre-2008 levels

Re-emergence of North Africa

with FDI projects up 61% in Egypt and 52% in Morocco

Mixed FDI activity

across Southern, West and East Africa, with fewer FDI projects in key economies: Angola, Ghana, Kenya, Nigeria and South Africa

Mozambique and Ethiopia

emerge as popular investor destinations in 2014

Traditional investors

including the US and France refocus on Africa

Real estate, hospitality and construction

becomes the fourth most attractive sector by project numbers in Africa, after telecommunications, financial services, and consumer products

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FDI: fewer projects, but surging jobs and investment

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Where investors go: North Africa rebounds as southern inflows falter

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Where they come from: diverse sources ensure ongoing resilience

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What they invest in: real estate, infrastructure and consumer-facing sectors



FDI: fewer projects, but surging jobs and investment

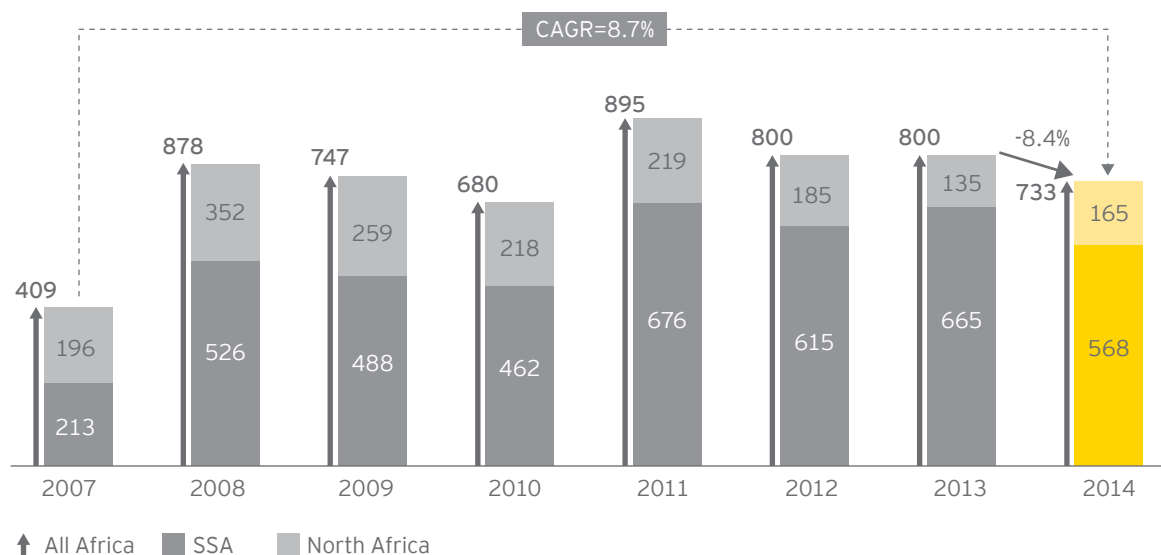
Global FDI stumbles – and African project inflows slide

In 2014, greenfield FDI projects in Africa were down 8.4% on 2013 levels. However, Africa was not alone. Worldwide, projects fell 3.1%, as the global economy slowed and regional conflicts in Eastern Europe and the Middle East added to

geopolitical uncertainty. As a result, in 2014 only North America and Asia-Pacific experienced growth in FDI levels. Despite this decline, Africa's FDI project numbers remain substantially above pre-2008 levels.

Projects in Africa decline by 8.4% YOY in 2014, though remain well above pre-2008 levels

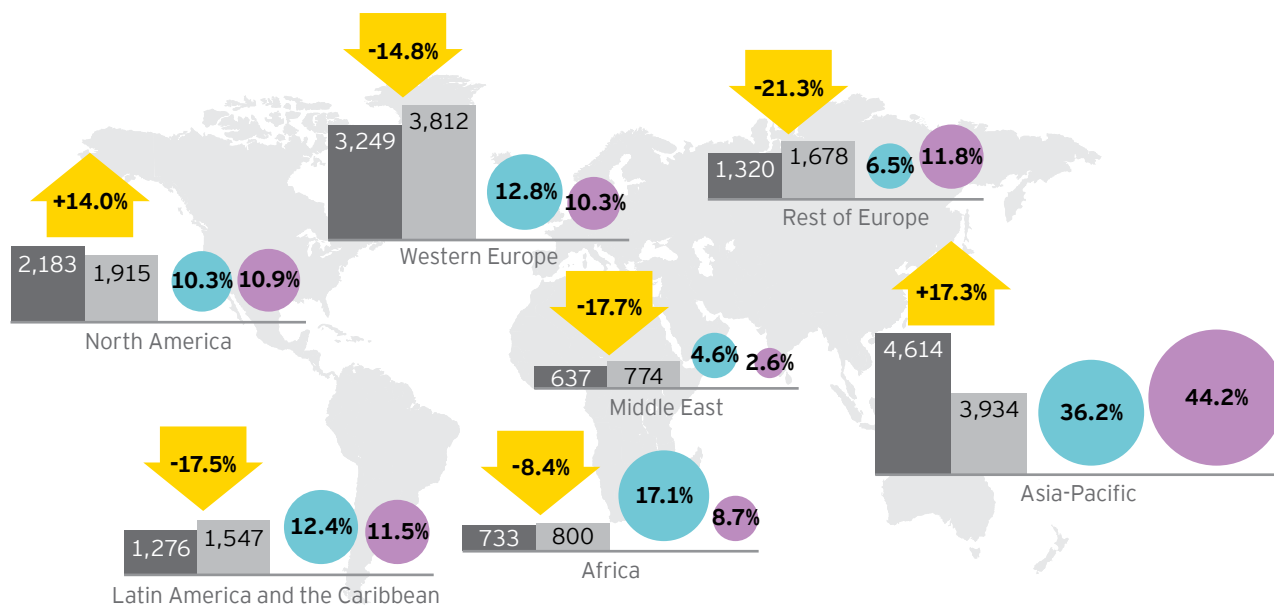
Number of FDI projects



Source: fDi Markets, February 2015.

Africa recorded the smallest decline among regions reporting fewer FDI projects in 2014

FDI projects, value and jobs created by FDI per region



■ Number of FDI projects in 2014 ■ Number of FDI projects in 2013 ● Change (2014 vs. 2013)
 ● % share of global capital investment (2014) ● % share of global jobs created by FDI (2014)

Source: fDi Markets, January 2015.

Africa becomes the world's second-largest destination for FDI capital inflows

After a dip in 2013, the flow of FDI funding into Africa recovered sharply. During 2014, FDI inflows to the continent more than doubled to US\$127.9b (from US\$54.2b) driven by several large deals. Investment per project averaged US\$174.5m, against

US\$67.8m in 2013 and US\$169.9m in 2008, the previous peak. The upsurge was driven by large, capital-intensive energy extraction and real estate schemes, including:

A **US\$16b plan** by French oil major Total to develop the Kaombo offshore oil project in Angola (in a JV). This project is expected to produce

230,000 barrels per day from reserves estimated at **650m barrels**.¹

US\$10b in Egypt

US\$4.8b
US\$5.2b

An announcement by Greek-based Mac Optic to invest US\$10b in Egypt, including US\$4.8b to construct a new refinery with a production capacity of 250,000 barrels per day and US\$5.2b to construct a petrochemical plant. Both projects will be situated in the Gulf of Suez.²

An agreement with the Nigerian Government worth **US\$5b** signed by SkyPower FAS Energy, a JV between SkyPower Global and FAS Energy, to build

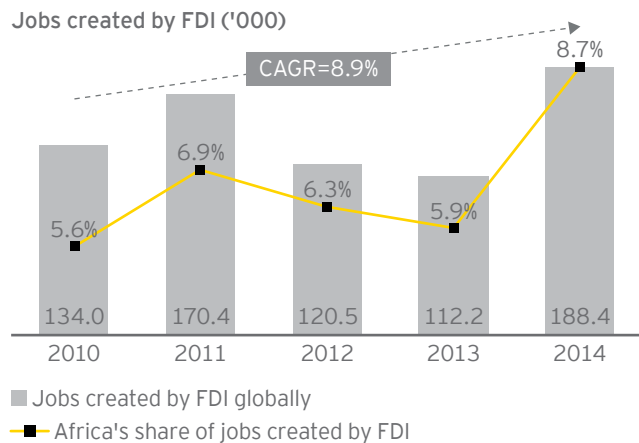
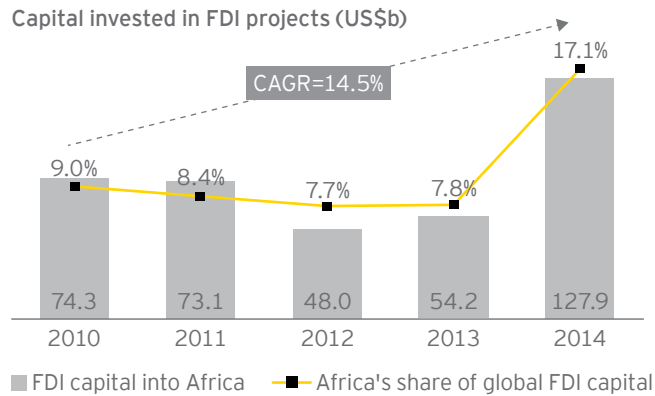
3,000 megawatts of solar photovoltaic (PV) projects in the country.³

1 "Angola: Total launches the development of Kaombo, an ultra-deep offshore project," Total website, www.total.com/en/media/news/press-releases, 14 April 2014.

2 "Three Chinese Companies to Execute Mac Optic Refining Project in Egypt," Okaz Financial Investments website, okazinvest.com, accessed 28 April 2015.

3 SkyPower Global and FAS Energy to build 3,000 MW of solar power in Nigeria at US\$5 billion," SkyPower website, skypower.com, accessed 28 April 2015.

Capital investment and job creation surge in Africa



Source: fDi Markets, February 2015.

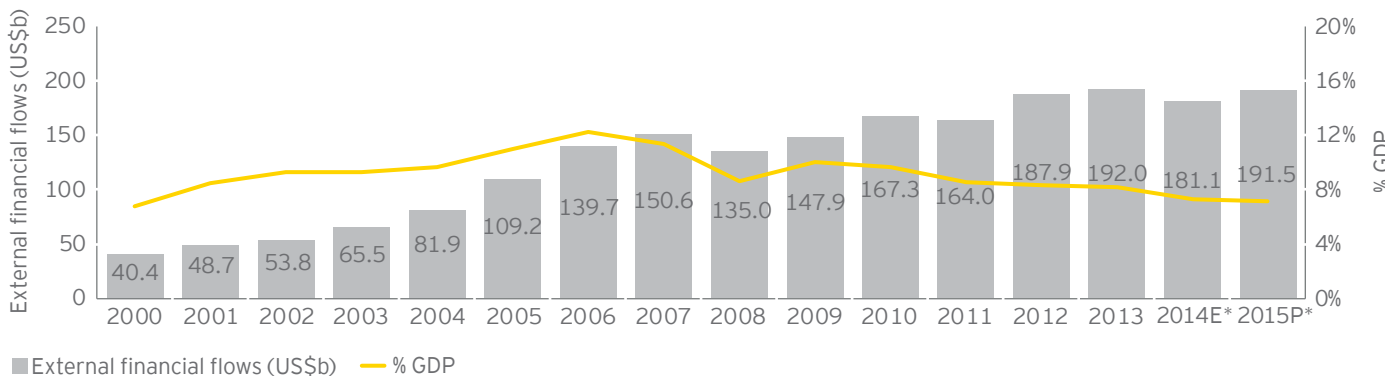
The continent more than doubled its share of global FDI flows, from 7.8% in 2013 to 17.1% in 2014. That made it the second-largest recipient of capital investment during the year, from sixth in 2013, and the fastest-growing destination for FDI funding.

Africa's relative share of FDI jobs also rises

FDI projects announced in 2014 will create 188,400 jobs in Africa – 76,200 more than in 2013. Africa's share of the jobs created globally by FDI rose from 5.9% in 2013 to 8.7% in 2014. However, from a job-creation perspective, African FDI remains a poor performer. Although Africa's population is growing fast and unemployment is high, its FDI projects provide more capital than employment. In 2014, Africa attracted 17.1% of global FDI inflows (only Asia-Pacific performed better) but got only 8.7% of jobs. Its increased share of global FDI jobs in 2014 is an improvement, but a much bigger rebalancing is needed.

External financial flows to Africa to exceed US\$190b in 2015

External financial flows to Africa (US\$b, % GDP)



*E=estimate, P=projection

Source: African Development Bank, OECD and UNDP.

African FDI inflows now exceed development aid

Africa has attracted substantial capital flows in the past decade, bolstered by strong growth prospects and better economic management. A joint study by the African Development Bank (AfDB), the Organization for Economic Cooperation and Development (OECD) and the United Nations Development Program (UNDP) estimates that external financial flows to Africa have quadrupled since 2000.⁴

External capital inflows are vital to the well-being of African economies. In 2015, they are forecast to equal 7.2% of the continent's GDP. Not only have these flows grown rapidly overall, but their sources have changed fundamentally. FDI has grown almost five-fold since 2000. It has overtaken official

development assistance (ODA), which more than tripled in the same period to US\$56.3b in 2014, but which is expected to slow sharply henceforth. Meanwhile, remittances from Africans working abroad have become the biggest source of foreign inflows to African states. After a six-fold increase, they are expected to have topped US\$64b in 2015.

While remittances help build homes, start businesses, and support consumption, FDI plays an equally vital role, helping to build infrastructure, supply necessities, reduce poverty, develop skills, and more. FDI is helping diversify the continent's economies, many of which are overdependent on extracting and exporting natural resources.

Foreign investments (both direct and portfolio) now largest source of capital flows to Africa (US\$b)

	2000	2002	2004	2006	2008	2010	2012	2014E*	2015P*							
Foreign direct investments	12.5	23.3	20.0	23.4	25.4	33.8	35.4	52.8	66.4	55.1	46.0	49.8	49.7	54.2	49.4	55.2
Portfolio investments	1.5	-3.6	-0.4	-0.7	6.9	6.3	22.5	14.4	-24.6	-0.3	21.5	6.8	25.7	21.5	13.5	18.4
Official development assistance	15.5	16.8	21.4	27.4	30.0	35.8	44.6	39.5	45.2	47.9	48.0	51.7	51.3	55.8	56.3	54.9
Remittances	10.9	12.1	12.8	15.4	19.5	33.3	37.3	44.0	48.0	45.2	51.9	55.7	61.2	60.6	61.8	64.6
% GDP	6.8%	8.4%	9.3%	9.3%	9.7%	11.0%	12.3%	11.4%	8.7%	10.0%	9.6%	8.6%	8.3%	8.2%	7.3%	7.2%
Total	40.4	48.7	53.8	65.5	81.9	109.2	139.7	150.6	135.0	147.9	167.3	164.0	187.9	192.0	181.1	191.5

*E=estimate, P=projection

Source: African Development Bank, OECD and UNDP.

Where investors go: North Africa rebounds as southern projects falter

Last year, we highlighted an increase of FDI inflows in SSA, while those to North Africa declined. 2014 saw a strong resurgence of FDI in North Africa, particularly in terms of capital inflows and jobs. Egypt and Morocco were the biggest winners. Meantime in SSA, where annual FDI project growth averaged 5.3% over the past five years, project numbers fell 14.6% in 2014. Each of the three key sub-regions (Southern, East and West Africa) attracted fewer projects, with declines in the hub economies of South Africa, Nigeria, Ghana and Kenya. However, Mozambique and Ethiopia attracted increased inward investment.

North Africa recovers lost ground

North Africa has regained traction after two sluggish years, attracting 22.2% more FDI projects than in 2013. It won a higher share of African FDI projects, capital and jobs for the first time since 2007. And the capital inflows were big: North Africa accounted for more than half of all African FDI inflows, against just 19.1% in 2013. And the number of jobs created, in a region where they are sorely needed, more than trebled to almost 80,000, with North Africa's share doubling to more than 42% of the total. Though Libya remains unstable, investors have

⁴ African Economic Outlook, African Development Bank, OECD and UNDP, 2015.

shrugged off concerns over insecurity and political uncertainty, which had earlier dampened interest in North Africa and led international companies to postpone or scale down their investments. Egypt and Morocco, the region's dominant economies, are benefiting most from the rebound in investor appetite.

► **Egypt**

Aided by a return to stable government, Egypt reclaimed its ranking as the second-most attractive FDI destination in Africa during 2014, attracting 71 projects, an increase of 61.4% on 2013. Securing inflows of US\$57.9b that created 51,634 jobs, it was Africa's champion for both investment and job creation. Investors from the UAE played a vital role, launching about twice as many projects as in 2013, with a focus on RHC. Attracted by the 90 million-strong population, food and beverage companies, including Nestlé and Almarai, also unveiled investment plans for Egypt.⁵

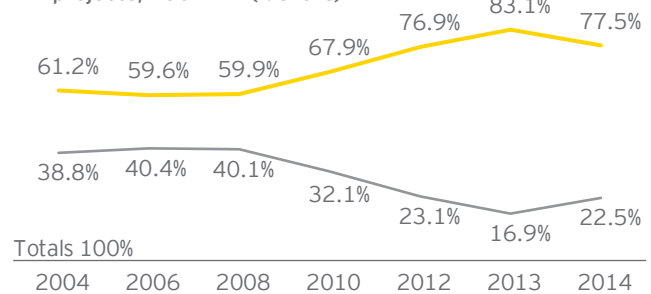
After years of political turmoil, the Egyptian economy is recovering. The Egyptian Government has enacted reforms, including slashing costly energy subsidies and introducing new taxes, with value-added tax (VAT) due later in 2015.⁶ Additionally, the Government's focus on infrastructure should add to Egypt's appeal for investors. Planned infrastructure projects include widening the Suez Canal and building an industrial zone alongside it, adding capacity to Cairo's metro system, modernizing and expanding the rail network and building new port facilities.⁷

► **Morocco**

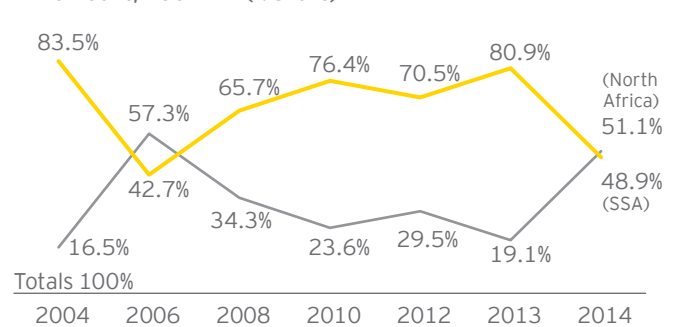
Morocco became the third-largest recipient of foreign investment in Africa in 2014, with 67 FDI projects, up 52.3%. French companies outpaced Spanish rivals to become Morocco's leading external direct investors in 2014. Financial services and TMT were the favorite sectors for investment. Morocco benefits from its historic ties and proximity to Western Europe, a proactive FDI policy, and availability of skilled workers at lower wage rates than those in most developed markets.⁸ The country has escaped much of the political turmoil that has affected its North African neighbors, and also benefits from stable government.⁹

North Africa sees FDI value grow, while share in job creation also increases

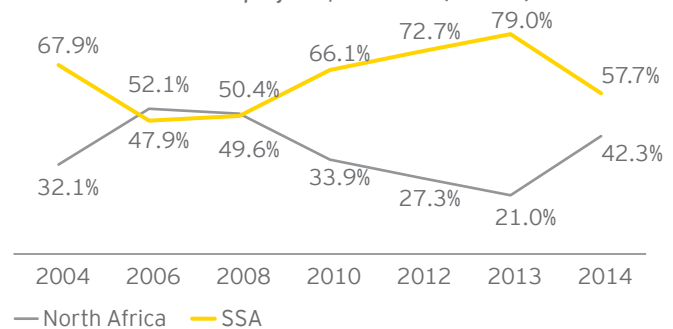
FDI projects, 2004–14 (% share)



FDI amount, 2004–14 (% share)



Job creation from FDI projects, 2004–14 (% share)



Source: fDi Markets, February 2015.

5 "Nestlé plans to invest \$138 million in Egypt in next few years," Reuters website, reuters.com, accessed 4 February 2015.

6 "IMF sends 'message of confidence' for Egypt's economic reforms," Financial Times website, ft.com, accessed 10 February 2015.

7 "Egypt's new era attracts GCC investment," HSBC website, globalconnections.hsbc.com, accessed 23 January 2015.

8 "Morocco economy: Morocco leads North Africa in terms of FDI inflows," EY Performance Portal website, performance.ey.com, accessed 3 February 2015.

9 "Morocco's economy on track for growth," Financial Times website, ft.com, accessed 10 February 2015.

Morocco is increasingly positioning itself as a gateway to the fast-growing African continent, particularly for investors from the US and Europe. These investors have the advantages of a relatively stable business environment and support services, combined with good air links to many other African countries. The national carrier, Royal Air Maroc, flies to more than 30 African cities.¹⁰

SSA: more investment capital and jobs, fewer projects

FDI capital inflows to SSA during 2014 reached their highest peak since 2008. The average investment in the region almost doubled to US\$110.1m and foreign investors created 108,688 new jobs, up 22.7%. However, the surge was partly driven by a handful of very large deals. Meantime, the number of incoming projects declined 14.6% to 568. It is too early to discern any new trends; thanks to its extensive untapped natural resources and growing interest in property and hotel development, SSA will continue to attract large projects.

The underlying trend in SSA remains one of steady FDI progress. The International Monetary Fund (IMF) expects growth in the

region to remain relatively robust, at 4.5% in 2015 and more than 5% in 2016 (making SSA the second fastest-growing region in the world).¹¹ Attracted by these strong fundamentals, international investors have paid mounting attention to SSA. Since 2007, the number of FDI projects in the region has grown at a compound annual rate of 15.0%, with growth in funding flows and job creation exceeding 10%.

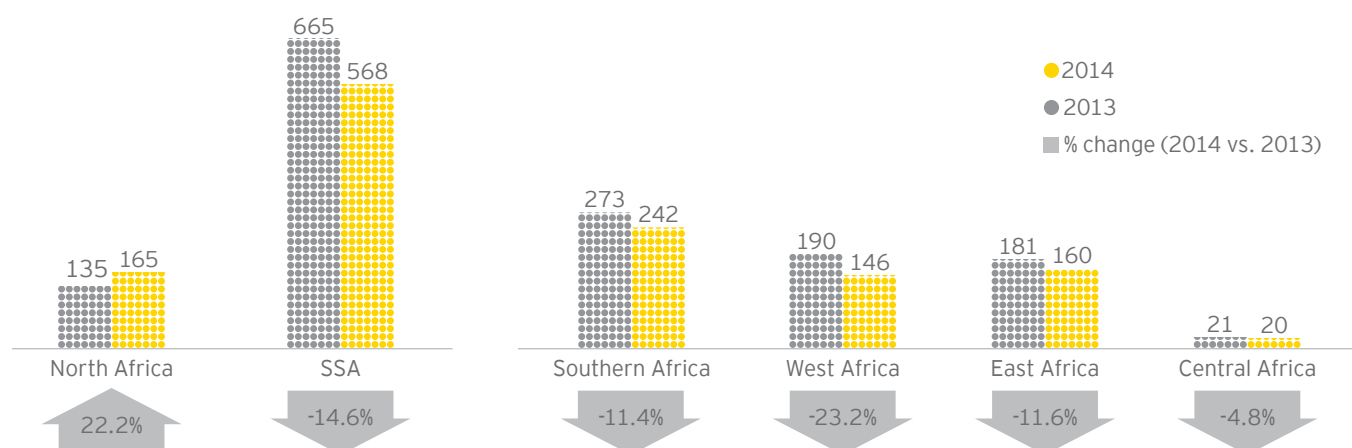
Further evidence of investor confidence is provided by the success of sovereign eurobond issues by Cote d'Ivoire, Kenya and Senegal. In the long term, we believe that the SSA region, which contains the bulk of Africa's population, will continue to act as the continent's growth engine.

Southern, West and East Africa: fewer projects, but more capital investment

For a second year, we have split investment in SSA into four sub-areas: Southern, West, East and Central Africa. In 2010, Southern Africa overtook North Africa as the leading sub-area for investment, and its investment attractiveness lead has continued to widen. However, during 2014, North Africa outstripped both West and East Africa to once again become the second most attractive sub-area on the continent after Southern Africa.

North Africa regains momentum, while Southern, East and West Africa see slower FDI

FDI projects by destination region



Source: fDi Markets, February 2015.

10 "Morocco looks south as Europe stagnates," *Financial Times website*, ft.com, accessed 16 February 2015.

11 *World Economic Outlook*, International Monetary Fund (IMF), April 2015.



Three areas (Southern, East and West Africa) experienced subdued project inflows in 2014. That is because FDI in the key hub countries of South Africa, Angola, Kenya, Nigeria and Ghana was weaker than last year. But we believe these countries will remain important regional hubs for FDI in Africa, because the factors drawing investors to them are stable and long-lasting.

► Southern Africa

Southern Africa attracts about one-third of FDI projects in Africa, and their numbers have been growing at a compound annual growth rate (CAGR) of 10.8% since 2007. This year, its inbound FDI projects fell 11.4%. Capital inflows more than doubled to US\$33.6b in 2014, thanks to a massive energy sector deal, but there was a marked fall in FDI projects announced in **South Africa**. The region's anchor economy netted 121 FDI projects, down 17.7% on 2013. Although the country remained Africa's FDI champion, the amount of investment and the number of jobs created per project were more modest. South Africa's project lead narrowed for the first time since 2010. Companies from both the US and the UK, South Africa's largest investors, announced fewer projects in 2014, like those from Germany and Spain. **Angola**, another key Southern African FDI destination, also attracted fewer projects last year. FDI in the country has gradually tapered after peaking at 52 projects in 2009.

► East Africa

Since 2007, FDI projects in East Africa have grown at a CAGR of 19.9%, the strongest in Africa. The region has also attracted growing FDI investment and jobs during this period, bolstered by the success of regional integration. In 2014, the number of jobs created by FDI in East Africa almost doubled, though it attracted 11.6% fewer projects. FDI into East Africa's largest economy, **Kenya**, softened during 2014, after growing by more than 30% a year (CAGR) since 2007. Though it captured 8.5% of African inflows in 2014, the average project was small, Kenya's share of investment was a mere 1.8% and of jobs created 2.4%. Investors from the UK and Japan, who were Kenya's largest investors in 2013, started fewer projects in 2014. Other East African countries, including Uganda, Tanzania and Rwanda also secured fewer FDI projects. Ongoing security problems and conflicts in Kenya and South Sudan have proved to be a concern, but investors are likely to remain interested in the region. Market opportunities, natural resources and accelerating regional integration will continue attracting FDI.

► West Africa

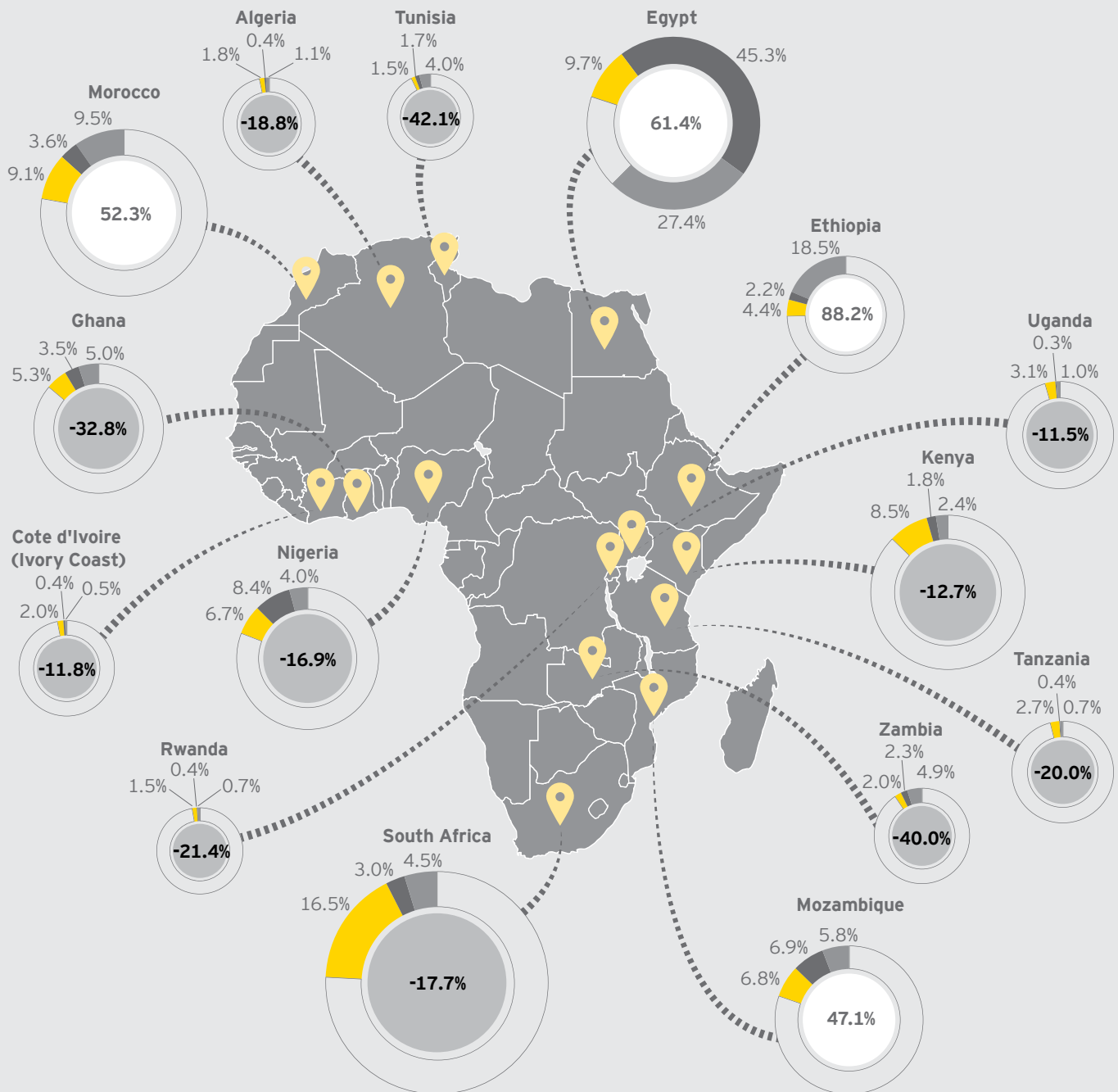
West Africa attracted 23.2% fewer FDI projects in 2014, though by capital, investment increased 21%. The shift to fewer, higher value projects came after seven years during which project numbers rose at a CAGR of 19.5%, the second-highest growth rate in Africa. Capital investment increased by 14.3% during the same period. However, investors were probably deterred from launching projects in parts of West Africa by the outbreak of Ebola that began in December 2013 in Guinea. According to the World Bank, Ebola cost Guinea, Liberia and Sierra Leone US\$500m in 2014, and may cost an additional US\$1.6b in 2015.¹²

Nigeria, now Africa's largest economy after rebasing its GDP last year, attracted 49 FDI projects in 2014, 10 fewer than during 2013. However, the average project involved more than twice as much investment, though job creation continued to lag. Companies from South Africa, the US, the UAE and Japan all launched fewer projects. Investment targeting Nigerian consumers slackened: investors announced only six projects in CPR, down from 23 in 2013.

This widespread trend to fewer, but higher value projects was also displayed last year in **Ghana**, the second-largest West African economy, where growth in project numbers has averaged 34.1% since 2007. In 2014, the number of inward investment projects fell to 39, from 58 in 2013, even as capital investment rose 61.3%. Ghana slipped to seventh position in our project ranking, from fourth in 2013. Consumer-facing investments (including TMT, financial services as well as CPR) fell out of favor. South African, UK and Nigerian investors all became more cautious about launching projects in Ghana.

¹² "Sierra Leone and Liberia fight with Ebola perceptions," *FDI Intelligence website*, www.fdiintelligence.com, accessed 16 February 2015.

Top 15 countries by FDI projects (2014)



■ Bubble size indicates share of projects (%)
 ■ Share of capital (%)
 ● % increase in FDI projects (2014 vs. 2013)
■ Share of jobs created by FDI (%)
 ● % decrease in FDI projects (2014 vs. 2013)

Source: fDi Markets, February 2015.

Emerging FDI destinations

2014 saw rising investment flows to Mozambique and Ethiopia, which both attracted more FDI projects in 2014 and moved up our ranking.

► Mozambique

The country garnered 50 FDI projects in 2014, moving up two places to become the fifth-largest recipient of FDI projects in Africa. The promise of large natural gas deposits has put Mozambique on the investment map. Yet the country is one of the few to win a balanced share of projects, funds and jobs. Financial services attracted the most projects in 2014 as three foreign retail banks moved in, opening a total of 16 branches.¹³ There was also a strong uptick in RHC and automotive projects. Profiting from historic links, Portuguese investors were particularly active during the year, as were Belgians.

► Ethiopia

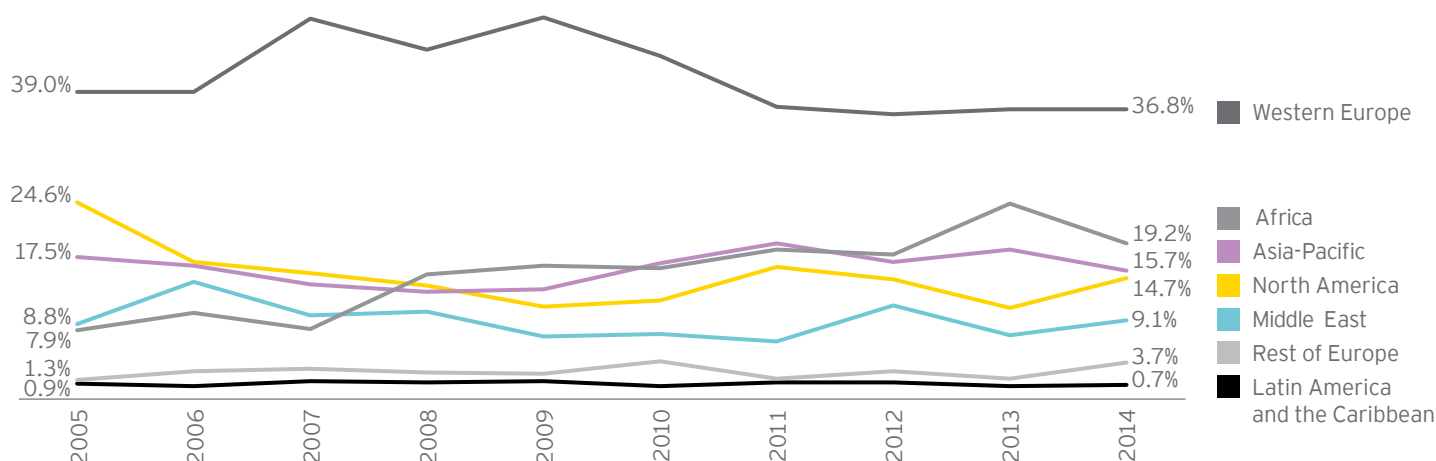
In 2014, Ethiopia emerged as the 8th-largest recipient of FDI projects in Africa, up from 14th position in 2013. FDI in Ethiopia is atypical: though the 32 projects launched there last year accounted for only 4.4% of the African total, and involved relatively small sums, they provided an astonishing 18.5% of FDI jobs in Africa. The inflow reflects the combined attractions of Africa's second-largest population, numbering 94 million, and an affordable workforce. Of the 32 projects Ethiopia attracted during the year, 14 involved CPR, targeting a population of which nearly two-thirds are aged 25 or under.¹⁴ Ethiopia, now Africa's fastest-growing economy, has slowly been opening up to foreign investment in manufacturing and retail. However, telecommunications and financial services remain the preserve of state-owned enterprises. Ethiopia's Government is seeking foreign investment to finance ambitious infrastructure projects, including its planned Grand Ethiopian Renaissance Dam on the Nile.¹⁵ In 2014, the country raised US\$1b through a debut sovereign dollar bond issue.¹⁶

Where they come from: diverse sources ensure ongoing resilience

Last year, the *EY attractiveness survey: Africa 2014*, highlighted the growing levels of intra-regional investment in Africa, spurred by optimism over growth prospects and African investors' deep understanding of regional dynamics.

This year, Western European and intra-African investors remained the top sources of FDI (measured by projects), while investors from North America and the Middle East showed renewed interest in the continent.

FDI projects by source regions (in %)



Source: fDi Markets, February 2015.

14 "FDI rises strongly," *Economist Intelligence Unit website*, country.eiu.com, accessed 12 February 2015.

15 "ETHIOPIA OPENS UP FOR FOREIGN INVESTMENT," *CNBC Africa website*, cnbcafrica.com, accessed 16 February 2015.

16 "Ethiopia Starts Marketing Debut Eurobond for Projects," *Bloomberg website*, bloomberg.com, accessed 11 February 2015.

13 "Mozambique becomes Africa's preferred banking hub," *fDi Intelligence website*, fdiintelligence.com, accessed 27 January 2015.



European investors continue to dominate investment in Africa as American interest rebuilds

Collectively, European investors, among the traditional investors in African markets, continue to launch, by far, the largest number of direct investment projects in Africa. A decade ago North Americans were their strongest challengers – and indeed, the US continues to top the table by nation, rather than region of origin. European nations, led by the UK, remain keen investors overall, though British companies eased back last year. Despite many claims to the contrary, data shows that the commitment to Africa from Asia-Pacific, in terms of FDI, has weakened over the past decade – though Chinese investment soared last year.

Reports of emerging opportunities in Africa and competition for influence between investors from emerging and developed countries have stirred

governments and policy-makers to action. The European Union (EU) is seeking to promote growth in Africa by negotiating economic partnership agreements (EPAs) with regional blocs in the continent. These EPAs are designed to deliver duty-free and quota-free access for African goods to the EU market. Three EPAs have been signed, with the Economic Community of West African States (ECOWAS), the East African Community (EAC) and with the Southern African Development Community (SADC).¹⁷ In April 2014, the fourth EU – Africa summit was held to discuss bilateral business relationships.¹⁸

Meantime, the *US Strategy Toward SSA*, unveiled in 2012, makes encouraging growth, trade and investment one of four strategic objectives for US policy-makers.¹⁹

It was followed by the launch of US government programs to facilitate trade and investment in Africa, most notable President Barack Obama's 2013 *Trade Africa* initiative, aimed at expanding US – Africa trade and investment, beginning initially with the EAC. The US' *Doing Business in Africa* campaign is backed by US\$7b of funding. Another key initiative is *Power Africa*, intended to add more than 30,000 megawatts of electricity generating capacity across the continent and double the number of people in SSA who have access to power. However, the country's strategy for Africa hinges upon the renewal of its African Growth and Opportunity Act (AGOA), which is due to expire in September 2015. The act grants qualifying African countries tariff-free access to the US market for some goods and services.²⁰

17 "East African trade ministers reached consensus on EPA, bringing the process near close," *International Centre for Trade and Sustainable Development website*, ictsd.org, accessed 12 January 2015.

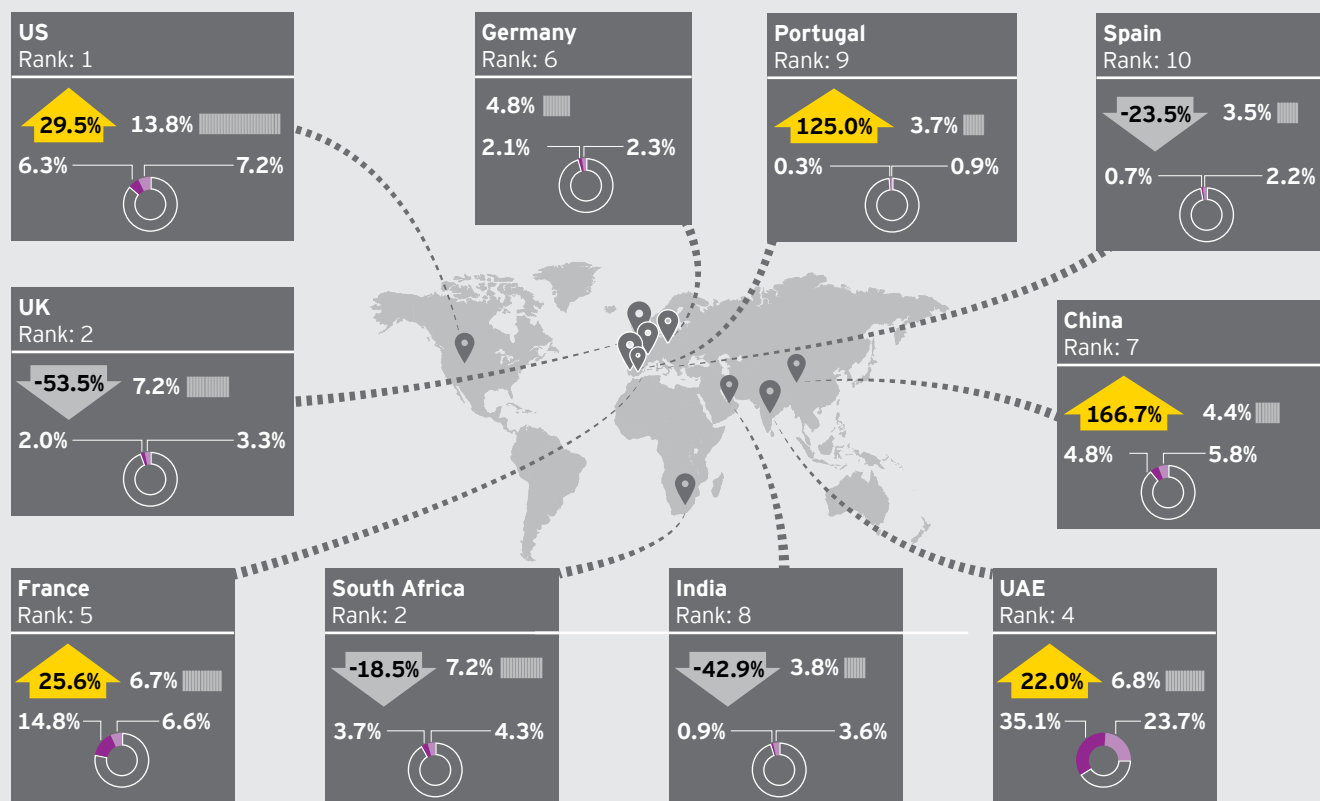
18 "EU- Africa summit, Brussels, 02-03/04/2014," *European Council website*, consilium.europa.eu, accessed 6 February 2015.

19 "Fact Sheet: The New Strategy Toward SSA," *The White House website*, whitehouse.gov, accessed 17 March 2015.

20 "African Leaders Sit Down With American Investors," *The New York Times website*, nytimes.com, accessed 10 January 2015; "US government launches Africa campaign," *FDI Intelligence website*, fdintelligence.com, accessed 4 February 2015; "All Eyes on Africa," *YaleGlobal Online website*, yaleglobal.yale.edu, accessed 8 February 2015.

The US becomes the largest investor, while the UAE, France, China and Portugal expand presence

Top 15 source countries by FDI projects (2014)



■ Increase in FDI projects (2014 vs. 2013)
 ■ Decrease in FDI projects (2014 vs. 2013)

▒ FDI projects in 2014 (share)
 ■ FDI capital in 2014 (share)
 ■ Jobs created by FDI in 2014 (share)

Source: fDI Markets, February 2015.

US investors lead the way in Africa

US companies have traditionally been the largest group of foreign investors in Africa. Since 2007, they have launched 700 FDI projects across the continent, pouring in US\$52.7b and creating nearly 98,000 jobs.

After a slight dip in 2013, US companies became the largest investors in Africa again in 2014, overtaking those from the UK. Launching 101 FDI projects, up 29.5%, US investors accounted for 13.8% of total FDI projects in Africa, an increase from a 9.8% share

in 2013. The number of US projects was almost double that from the next largest group of investors, coming from South Africa and the UK, in joint second position. US investments in TMT surged from 13 projects in 2013 to 28. US companies also initiated more projects in business services, cleantech and chemicals. South Africa remained the favorite investment destination, chosen for 23 projects, though they also invested more in the key hubs of Kenya, Morocco and Egypt. In August 2014, leading American companies including Coca-Cola, Blackstone Group and Carlyle Group announced more than US\$14b investments in Africa at the first US-Africa Leaders' Summit.²¹

²¹ "Coca-Cola Invests an Additional US\$5 Billion for Long-Term Sustainable Growth in Africa," *The Coca-Cola Company website*, coca-colacompany.com/press-center, 5 August 2014; "Blackstone, Carlyle Join Africa's Dangote for Investment," *Bloomberg website*, bloomberg.com, accessed 8 February 2015; "GE to invest \$2 billion to boost African energy, infrastructure," *Reuters website*, reuters.com, accessed 5 February 2015.



General Electric (GE)



Case study

GE, a US-based multinational manufacturer with products ranging from pumps to medical scanners, has been present in Africa since 1898. In 2013, it achieved sales of US\$5.2b in Africa. Responding to rising African demand, in August 2014, the company announced that it would invest up to US\$2b in Africa and double its workforce on the continent to 4,000 during the five years to 2018. Its investments would be focused upon three areas: developing facilities, improving its supply chain and training workers.

GE is benefiting from the drive to improve Africa's infrastructure. It has won substantial contracts to supply power generation equipment in Algeria, Nigeria and Angola. It is supplying railway locomotives in Angola and South Africa. GE has been working with the engineering arm of South Africa's national rail operating company, Transnet, to assemble locomotives in-country. It is also investing in health programs across Africa.

Sources: "GE Sees \$2 Billion Africa Spending, Doubling of Workforce," *Bloomberg website*, www.bloomberg.com, accessed 20 April 2015; "Building Africa's Growth Engine: GE to Invest Billions in Continent's People, Infrastructure, Manufacturing," *GE website*, www.gereports.com, accessed 20 April 2015.

Intra-African investment: fewer projects, more jobs

Intra-African investment was again the second-largest source of FDI, though its share of projects eased from 24.5% in 2013 to 19.2% in 2014. South African companies ranked as the continent's second-biggest investor group, launching 53 projects in 2014, down from 65 the previous year. Though they provided 7.2% of projects during the year, they invested only 4% of the continent's FDI capital inflow and provided relatively few jobs. Investors from Nigeria and Kenya, two other African FDI dynamos, were also less active in launching projects. Moroccans, on the other hand, became more prominent investors, initiating 13

intra-African investments last year – the highest in over a decade. Moroccan companies are looking toward SSA as the country becomes a platform for exporting to African countries. Moroccan champions, including Saham Insurance Company, Attijariwafa Bank, Groupe BCP and Maroc Telecom, are meantime expanding in Africa, rather than slow-growth Europe.²²

UK investors flag, while French and Portuguese recover

Whereas UK investors were at the forefront in 2013, they slipped to joint-second place in 2014, alongside those from South Africa. Projects from UK companies more than halved to just 53 in 2014. They made many fewer investments in consumer-facing sectors, particularly TMT, financial services and business services.

But European investors, profiting from historic business, cultural, language and transport ties, continued to dominate the African FDI scene. French investors were more active, initiating 49 projects (+25.6%), creating 12,373 jobs and providing a chunky 14.8% of African FDI capital inflows. Their projects were diverse, but centered upon TMT, transport and logistics and CPR. Eighteen of the French corporate projects were in Morocco, which remains a near and popular destination (though South Africa and Nigeria were their next favorite targets). French bank BNP Paribas set up corporate and investment banking activities in Casablanca, which is striving to develop as an African financial hub.²³

Portuguese companies more than doubled the number of FDI projects they launched in Africa to 27 in 2014. More than 70% of their investments were in financial services, with Mozambique the primary destination, aided by strong cultural and language ties. Other projects were in automotive and diversified industrial products (DIP).

²² "Morocco looks south as Europe stagnates," *Financial Times website*, www.ft.com, accessed 17 February 2015.

²³ "Finance: Casablanca Finance City announces BNP Paribas Regional Investment Company CFC Status," *Casablanca Finance City website*, www.casablancafinancecity.com, accessed 11 February 2015.

Resurgence of investment from the Middle East

The UAE became the fourth-largest source of FDI projects in Africa in 2014, moving up a place. UAE companies now invest more money in Africa than those of any other nation, and create the most jobs. Indicative of a major investment are the moves by UAE retailer Majid Al Futtaim to invest US\$2.3b in Egypt over the next four to five years.²⁴ Gulf investors played a key role in the re-emergence of North Africa as a leading FDI destination in 2014. Companies from the Middle East have historically enjoyed close cultural and business ties with North Africa, particularly Egypt and Morocco. Companies from the oil-rich Gulf states increased their share of African FDI projects to 9.1% in 2014. Saudi Arabian companies took on a bigger role, launching 11 FDI projects in Africa last year, up from just 3 in 2013. Middle Eastern investors were especially strong in RHC (26.9% of their projects), financial services (20.9%) and CPR (19.4%).

Chinese investment is modest, but spreading

In 2014, Chinese companies announced 32 FDI projects across the continent, just 4.4% of the total, entailing a total investment of US\$6.1b and creating 11,015 jobs, 5.8% of those created across Africa by FDI. By project numbers, Chinese companies ranked seventh among Africa's foreign investors and have overtaken those from India.

South Africa was the favorite destination for Chinese projects, securing 34.4% of them. Tanzania, Ghana and Kenya were also popular, each taking a 9.4% share. Nearly a third of Chinese FDI projects were in TMT, though Chinese companies also stepped up investment in coal, oil and natural gas, mining and metals, and aerospace and defense.

China's economic ties with Africa continue to strengthen. In 2009, China overtook the US to become Africa's largest trading partner.

Gulf companies' increasing investments in African infrastructure



Case study

Investors from the Middle East have been increasingly active in infrastructure projects in Africa, including ports and telecommunications, with a growing focus on power generation. According to the *Economist Intelligence Unit*, Gulf companies have invested at least US\$30b in African infrastructure over the past decade. Going forward, their investments are now expected to average US\$5b a year.

Saudi Arabia-based ACWA Power and its partners have won contracts to build two concentrated solar power plants in Morocco and are building a third in South Africa. Meantime TAQA, an energy group based in Abu Dhabi, is building the Takoradi 2 gas-fired power plant in Ghana.

Sources: *Risk and reward: The Gulf's push into African infrastructure*, Economist Intelligence Unit, September 2014; "Our Investments," ACWA Power website, www.acwapower.com, accessed 20 April 2015.

In recent decades, Africa has become a source of raw materials to fuel China's economic growth, and a market for its manufactured goods. Now it is emerging as a low-cost manufacturing base for some Chinese firms. Chinese companies and state-related entities have financed and built many infrastructure projects on the continent, including ports, roads, railways, dams, telecom networks, power stations and airports.²⁵ In May 2014, Chinese Premier Li Keqiang made an eight-day tour of African nations, announcing several trade, investment, energy and development agreements.

²⁴ "UPDATE 1-Dubai retailer MAF to invest \$2.3 bln in Egypt," *Reuters website*, www.reuters.com, accessed 5 January 2015.

²⁵ *Playing the Long Game: China's Investment in Africa*, Economist Intelligence Unit, October 2014.

What they invest in: real estate, infrastructure and consumer-facing sectors

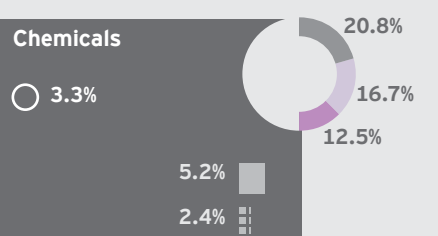
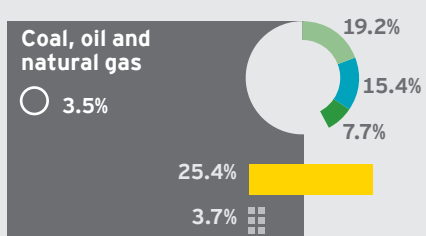
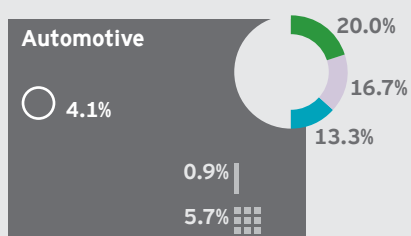
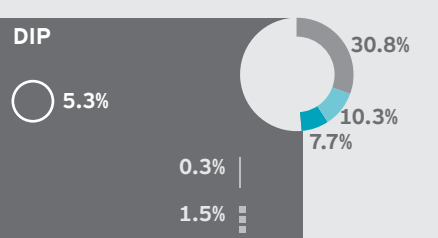
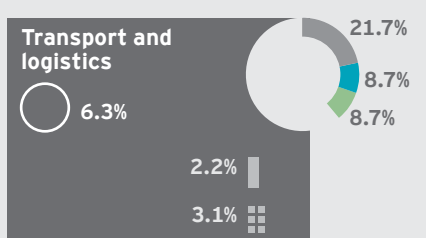
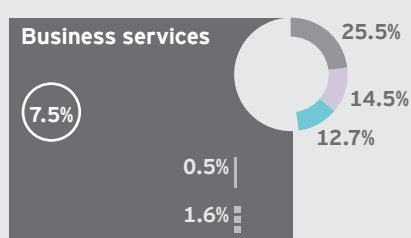
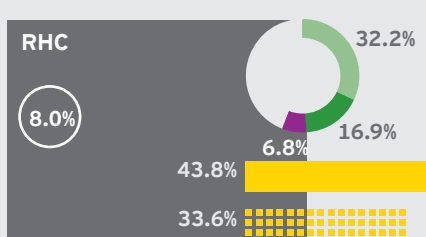
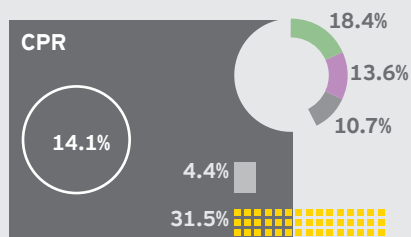
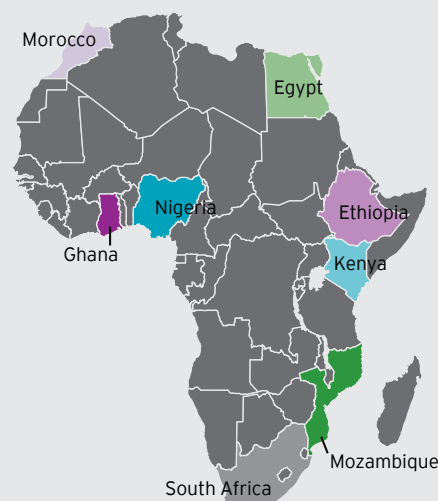
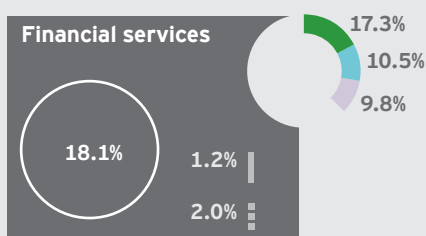
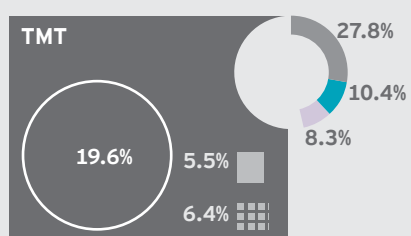
In 2014, the broadening-out of greenfield FDI projects in Africa beyond extractive industries continued apace. The needs of a large middle class (expected to grow from 32 million in 2009 to 57 million by 2020 and 107m by 2030)²⁶ and growing business and leisure travel are turning investor attention toward servicing consumers and filling the infrastructure deficit.

40% of FDI investment flows, and created a third of all FDI jobs. TMT, financial services, and CPR continued to dominate the ranking by project numbers, and to provide much new employment. These three sectors have led investment activity into Africa since 2009, a trend that accelerated further in 2014. But coal, oil and natural gas still accounts for a quarter of the funds poured into Africa by foreign direct investors.

This year, we are seeing a much sharper investor focus on opportunities in RHC. While only ranking as the fourth most attractive sector in Africa by projects, it accounted for more than

TMT, financial services and CPR together attracted 51.8% of FDI projects in 2014

Top 10 sectors by FDI projects (2014)



○ Projects (share in %) ■ FDI capital (share) ■■ Jobs created by FDI (share)
 ■ Top two sectors by % share ■■ Top two sectors by % share

Source: fDi Markets, February 2015.

²⁶ Hitting the sweet spot: The growth of the middle class in emerging markets, EY, 2013.

Africa's real estate and hospitality boom entices investors

In 2014, opportunities in RHC attracted 59 projects, up 11.3%. But the modest increase in project numbers masks the scale and importance of these investments, which now account for 43.8% of capital investment inflows and generate 33.6% of FDI jobs in Africa. The surge was especially evident in Egypt, which was the target of more than 30% of Africa's RHC investments in 2014. Investors from the UAE launched 30.5% of these projects, with South African companies also active.

Investment in the RHC sector is gaining traction. Demand for real estate is growing as Africans become more numerous, increase their spending power, and move to cities.²⁷ Oxford Economics projects that Africa's urban population will grow at least twice as fast as those of any other continent until 2030.²⁸ Africa is home to four of the world's megacities: Cairo, Johannesburg, Kinshasa and Lagos. Many others are expanding rapidly, including Abuja, Accra, Addis Ababa, Luanda, Lusaka, Maputo and Nairobi. Growing urban populations need homes and, as they travel more, hotels and restaurants also serve an influx of business travelers and tourists. As economies grow, and manufacturing and services expand, demand for industrial, distribution, and retail real estate expands, along with demand for modern offices.

Fixing Africa's infrastructure deficit and rising demand from its growing population offers ample opportunities for foreign investors in infrastructure development. Poor roads, ports, rail links and connections slows economic growth and hampers business productivity.²⁹

International hotel chains are also striving to meet burgeoning demand in Africa, where supply of hotels in all categories is often inadequate. With few properties or chains to buy, global hotel groups have largely to rely upon organic growth. According to the UN World Tourism Organization, international arrivals in Africa exceeded 50 million in 2012 and are expected to top 85 million by 2020. Increasing regional and international trade in Africa has buoyed

27 "High stakes for high reward? Real estate funds come to Africa," *Reuters website*, reuters.com, accessed 19 January 2015.

28 *Bright continent: The future of Africa's opportunity cities*, Oxford Economics, 2014.

29 "African Leaders, Business Community Push for Financing of Priority Regional Infrastructure Projects," *World Bank website*, worldbank.org, accessed 24 April 2015.

Marriott International



Case study

After completing the acquisition of the South-African based Protea Hospitality Group, Marriott International last year became the largest hotel company in Africa. In October 2014, the company announced plans to expand its African presence further, from 120 properties across 10 countries to 150 properties in 17 national markets by 2020. It also intends to add 10,000 more African associates to its workforce. These developments will involve an outlay of about US\$1.5b by Marriott and its real estate partners across the continent.

Sources: "Marriott International Completes Acquisition of Protea Hospitality Group; Becomes the Largest Hotel Company in Africa," *Marriott website*, news.marriott.com, 1 April 2014; "Marriott International's Commitment to Expansion Across Africa Gathers Momentum," *Marriott website*, news.marriott.com, 2 October 2014.

the number of business travelers, prompting leading hoteliers to develop ambitious plans.³⁰ For example French hotel group Accor has 20 projects totaling 3,600 rooms under development in SSA.³¹

Investors line up to service rising consumer demand

► Technology, media and telecommunications

Almost a fifth of African investment projects in 2014 were in TMT. South Africa was the top destination, followed by Nigeria, Morocco and Kenya. US companies more than doubled their FDI projects in this sector during 2014. Business technology group IBM announced in February 2014 that it will open innovation centers in Morocco and Nigeria, working on big data, analytics

30 "Africa is new battleground for global hotel industry," *Financial Times website*, ft.com, accessed 20 January 2015.

31 "South Africa," *Accor website*, accor.com, accessed 20 March 2015.

and cloud computing.³² Mobile subscriptions and data traffic are rising strongly in Africa, opening up opportunities to supply education, banking and health care via the internet, adding to the sector's appeal.³³

► Financial services

Financial services is the second-largest sector by project numbers, and increasingly driven by intra-African investment. Last year, about 40% of cross-border financial services projects were launched by African companies.

Regional banks and financial services providers are increasingly adopting a pan-African approach to capitalize on a very underdeveloped market: only 25% of adults in SSA have bank accounts, against a global average of 51%. Among intra-regional investors, South African firms led with 16 projects. The country's largest banks, Barclays Africa, FirstRand, Nedbank and Standard Bank have all pursued Africa-wide expansion strategies over the past several years,³⁴ as have Ecobank, headquartered in Togo, and Morocco-based Attijariwafa bank.

► Consumer products and retail

Foreign investors launched 103 CPR projects in 2014, making it the third-favorite sector for FDI. These brought about nearly twice as many jobs as those in 2013, with the average CPR project now creating 576 jobs, up from 237 in 2013. This year, Western European firms outpaced rivals from Asia-Pacific to become the leading initiators of CPR projects. Egypt was the leading destination, with 19 projects, but CPR projects in Kenya, Nigeria and South Africa declined.

³² "IBM Fuels Innovation and Entrepreneurship in Africa," *IBM website*, www-03.ibm.com/press, 7 February 2014.

³³ "Lower-cost handsets help drive internet revolution," *Financial Times website*, 5 October 2014, ft.com, accessed 5 February 2015.

³⁴ "Expanding financial sector draws interest from investors," *Financial Times website*, ft.com, 5 October 2014, accessed 5 January 2015.



Perception

How foreign investors see Africa

Agriculture

is seen as a future growth sector

Marginal slip

in Africa's attractiveness in 2014, chiefly due to concerns about political instability

Most attractive

destination in the world for established investors

50%+

of respondents say an unstable political environment is the main deterrent to investing in Africa

More than a quarter

highlight corruption as a key barrier

27%

of investors call for sustainable governance systems

25

Why here? Natural resources, growth and markets are the big draws

28

Why not? Africa's attractiveness slips

31

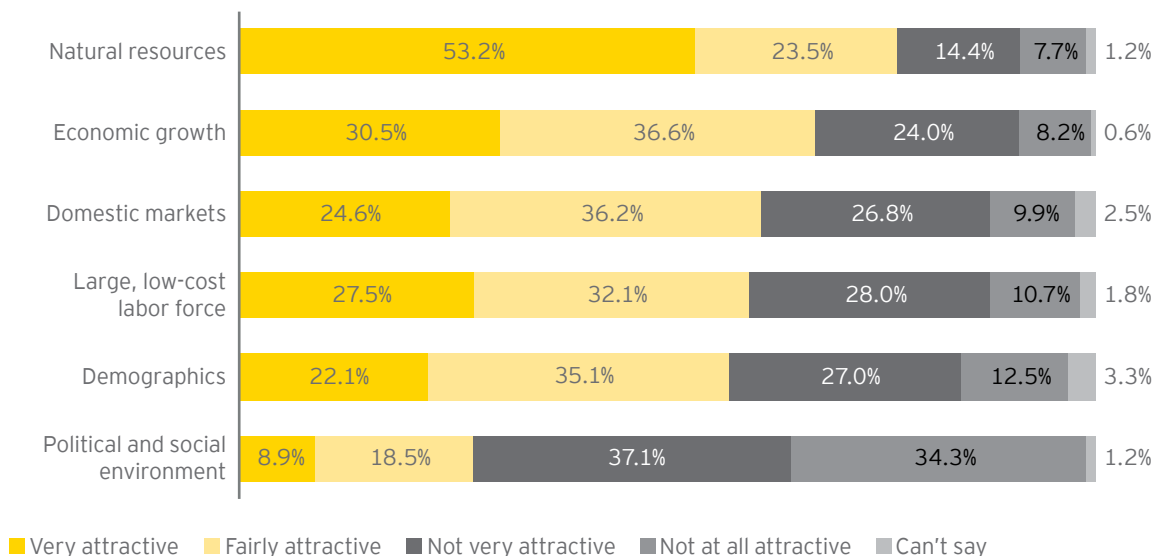
What next? Overcoming roadblocks to doing business in Africa

Why here? Natural resources, growth and markets are the big draws

This year's survey shows that Africa's investment appeal is built on a set of stable, fundamental factors. Natural resources remain a strong draw for foreign investors, despite the growing diversification of FDI in Africa. This suggests that natural

resources in Africa, including agriculture, still have considerable investment potential. At the same time, the strengthening investor focus on consumer-facing activities reflects strong economic and demographic growth.

Please rate the following parameters for investment in Africa as very, fairly, not very or not at all attractive



Sources : EY's 2015 Africa attractiveness survey (total respondents: 501).

Natural resources: digging and drilling

Africa is well endowed with natural resources and its mineral wealth has long made it a destination for resource-hungry investors. However, only a fraction of them are yet being extracted. The continent has 8.6% of the world's proven oil reserves and 7.2% of its natural gas.³⁵ Africa also has a hefty

share of the world's minerals – including bauxite, copper, chromium, cobalt, gold, manganese, phosphate, titanium and diamonds.³⁶ The African Development Bank forecasts that the continent's natural resources will contribute more than US\$30b a year to the revenues of its governments by 2033.³⁷

³⁵ Annual Statistical Bulletin 2014, OPEC, 2014.

³⁶ Minerals and Africa's Development: The International Study Group Report on Africa's Mineral Regimes, United Nations Economic Commission for Africa (UNECA), November 2011.

³⁷ "Africa's mineral wealth: A blessing or a curse?," African Development Bank Group website, www.afdb.org, accessed 6 February 2015.

Growing potential: investors believe in agriculture's future

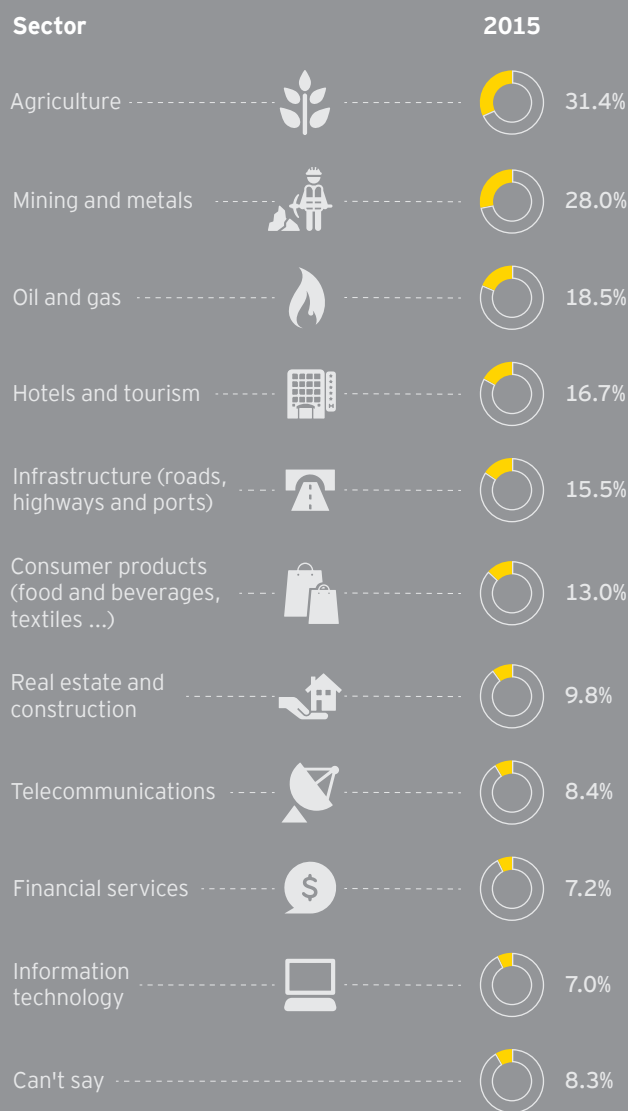
Investors believe agriculture is the most promising growth opportunity in Africa, ahead of mining and metals. Almost a third of business decision-makers identified agriculture as a vital driver of future growth.

Investors recognize the importance of farming to Africa's economies. Today, agriculture generates a quarter of GDP in SSA as a whole, and significantly more in some countries.³⁸ Africa already has extensive plantations producing palm oil, rubber, cocoa, coffee and other commodities. It exports bananas, beans, fruit and flowers to European tables. But much of its agriculture is still subsistence-based.

Africa has nearly a quarter of the world's arable land, but produces only 10% of global agricultural output.³⁹ And its diverse climates can produce almost any conceivable crop. The World Bank predicts that African agriculture and agribusiness will generate sales of US\$1t by 2030. A United Nations report predicts that FDI in African agriculture will grow more than fourfold in the decade to 2020, to reach US\$45b a year.⁴⁰ There is ample scope for improvement. Africa has considerable water resources, but less than 5% of cultivated land is irrigated.⁴¹ Despite its potential, the continent is obliged to import food to top up inadequate local production. Yet, as African populations grow and become more prosperous, they will buy more protein, more processed foods and high-value commodities, and fewer staples. The agricultural sector is ripe for development.

Today, farmers in Africa are hampered by wretched transport links, inefficient markets, and inadequate facilities for packaging and storing production. Wastage is high. Investing in the agricultural value chain, which employs over half of the population, can solve a raft of problems: enhancing nutrition and health, providing the resources to improve rural education, slowing migration to cities, and aiding the development of rural industry. Good examples of best practice in farming and food-processing can be found across the continent. But scaling them up across the full range of potential crops will take massive investment spread across myriad projects.

Which three sectors offer the highest growth potential for Africa in the next two years?



Source: EY's 2015 Africa attractiveness survey (total respondents: 501).

38 *Agricultural value chains in SSA: From a development challenge to a business opportunity*, Deutsche Bank, April 2014.

39 *Agribusiness and Development: How investment in the African agri-food sector can help support development*, European Commission, 2013.

40 "Denting youth unemployment through agriculture," *UN website*, www.un.org, accessed 20 March 2015.

41 *Agricultural value chains in SSA: From a development challenge to a business opportunity*, Deutsche Bank, April 2014.

Grow Africa



Case study

Co-founded by the African Union, the New Partnership for Africa's Development (NEPAD) and the World Economic Forum (WEF) in 2012, Grow Africa aims to transform African agriculture through the Comprehensive African Agriculture Development Programme (CAADP). The second Annual Report, released in May 2014, said that investment commitments by partner companies of the Grow Africa program more than doubled to US\$7.2b in 2013, and US\$970m of this had already been invested. This helped create 33,000 jobs and assisted 2.6 million smallholders across Africa.

Source: "Grow Africa Partners Double Investment Plans for Agriculture to \$7.2 billion," *World Economic Forum website*, www.weforum.org/news, accessed 2 May 2014.

Appealing economic growth

In 2014, Africa accounted for 9 of the 15 fastest-growing economies globally.⁴² Today, 26 of Africa's 54 countries have achieved middle-income status.⁴³ The last decade saw sustained growth across Africa, with GDP growth rates of 5% or more for most countries. These were achieved despite slow growth in

developed economies and softer growth in demand for many commodities, leading to weaker prices and hence export earnings. Increasingly, Africa's development has been powered by rapidly expanding private consumption and a gradually improving business environment. In the past nine years, the costs of starting a business in Africa have typically reduced by more than two-thirds, while delays in time taken to start a business have been halved.⁴⁴ Prospects for continued growth in Africa remain strong.

Burgeoning domestic markets

Africa's population is expected to more than double from 1.1 billion to 2.4 billion by 2050, the biggest increase of any continent.⁴⁵ Its people are the youngest in the world, with a median age of just 19.4 years. And their youthful demographic profile is expected to endure. By 2050, their median age will still be a mere 24.7 years, compared with 39.8 years for Asians and 40.6 years for residents of Latin America and the Caribbean.⁴⁶

The combination of economic and demographic growth is creating an expanding consumer class with spending power. According to the African Development Bank, the number of people in Africa earning between US\$2 and US\$20 a day, in real terms, is expected to triple from 313 million in 2010 to about 1 billion by 2060.⁴⁷ Consumer spending in Africa reached US\$600b in 2010, and is expected to hit almost US\$1t by 2020.⁴⁸ The continent's domestic markets are among the most compelling attractions for foreign investors, compounded by rapid urbanization across Africa. Domestic demand will drive private sector growth, especially in consumer-facing industries and business and health care services, accelerating diversification of FDI in Africa.

42 *Annual Development Effectiveness Review 2014: Towards Africa's transformation*, African Development Bank Group, 2014.

43 The World Bank defines middle-income countries as those with GNI per capita of more than US\$1,045 but less than US\$12,746.

44 *Annual Development Effectiveness Review 2013: Towards sustainable growth for Africa*, African Development Bank Group, 2013.

45 "World population projected to reach 9.6 billion by 2050 with most growth in developing regions, especially Africa – says UN," *United Nations website*, esa.un.org/wpp/Documentation, 13 June 2013.

46 *World Population Prospects: The 2012 Revision*, United Nations, June 2013.

47 "The African Consumer Market," *African Development Bank Group website*, www.afdb.org, accessed 12 February 2015.

48 *Annual Development Effectiveness Review 2013: Towards sustainable growth for Africa*, African Development Bank Group, 2013.

Why not? Africa's attractiveness slips

Despite Africa's strong fundamentals, investors' retrospective views on how the region's attractiveness has changed in one year, indicating an increase among those who believe that it has remained constant, and a drop in those who saw an improvement. Even though optimism for the coming years has also faltered compared with one year ago, the total percentage of positive responses remains high.

A decline in Africa's perceived attractiveness

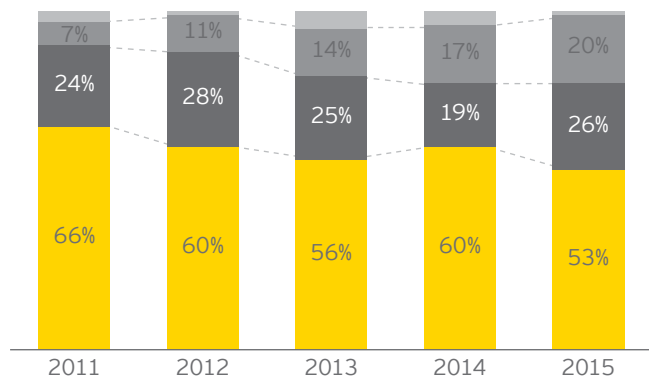
Fifty-three percent of respondents to our survey say Africa's attractiveness as a place to do business has improved over the past year. Yet this result is down seven percentage points on the findings of our last survey, published in 2014. By this measure, Africa's attractiveness, though still strong, is at its lowest since our

survey began five years ago. Perceptions differ according to where investors are based. This year, fewer decision-makers in Asia (49.6%) and Europe (54%) believe Africa's attractiveness is improving. But executives from North America (49.9%) were more positive than last year – optimism reflected in the increase of FDI projects launched by North American companies.

Declining optimism about prospects for doing business in Africa is also apparent when investors are asked about Africa's future attractiveness. Although a strong majority (69%) of respondents remain positive about the continent's investment appeal over the next three years, the proportion of optimists has fallen four percentage points since our 2014 survey.

Africa's past attractiveness down by seven percentage points

Over the past year, has your perception of Africa's attractiveness as a place to do business ...?

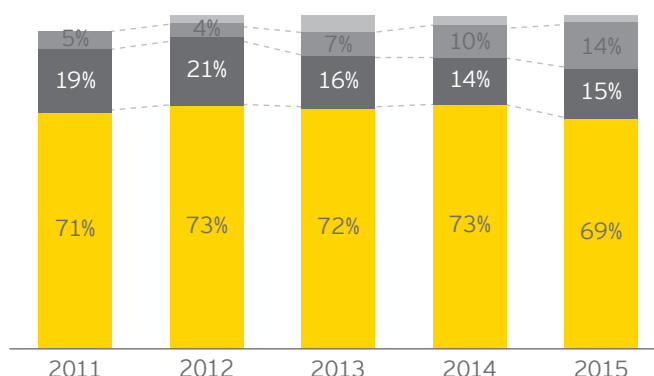


■ Improved (includes responses for significantly and slightly improved)
■ Deteriorated (includes responses for significantly and slightly deteriorated)
■ Neither improved nor deteriorated
■ Can't say

Source: EY's 2015 Africa attractiveness survey (total respondents: 501).

Africa's future attractiveness declines by four percentage points

Over the next three years, do you think the attractiveness of Africa as a place for companies to establish or develop activities will ...?



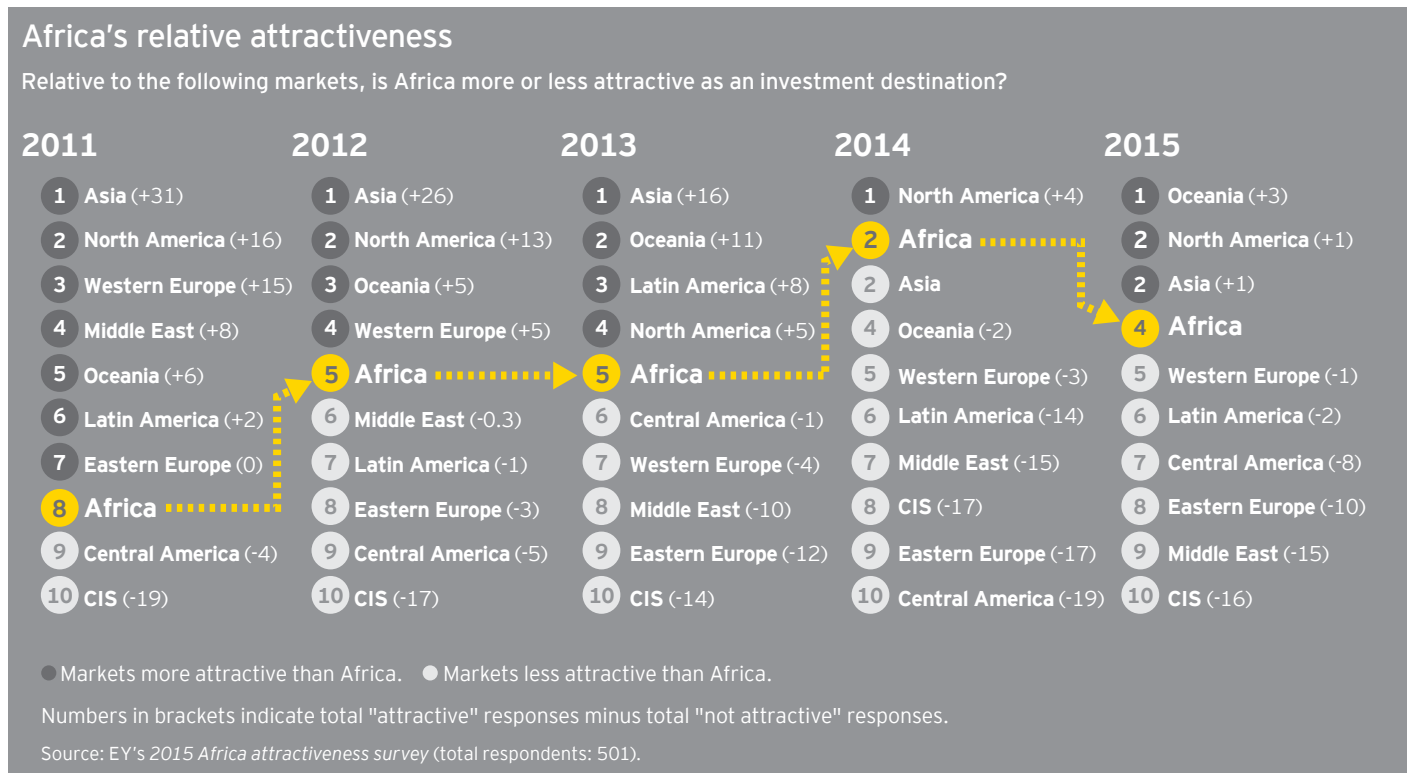
■ Improve (includes responses for significantly and slightly improve)
■ Deteriorate (includes responses for significantly and slightly deteriorate)
■ Neither improve nor deteriorate
■ Can't say

Source: EY's 2015 Africa attractiveness survey (total respondents: 501).

Even so, Africa remains one of the top investment regions

In last year's African attractiveness study, we highlighted strong progress in Africa's attractiveness relative to other regions. This

year, the continent has slipped from being joint second with Asia to fourth place in investors' favor, behind Oceania, North America and Asia. Nonetheless, the continent is well up the ranking, and its perceived attractiveness remains ahead of levels recorded during the years 2011-13.



Present optimists, absent doubters

A wide perception gap remains between established and potential investors.

Investors who already have operations in Africa believe it is the most attractive investment destination in the world, has become more attractive in the past year, and that its appeal will strengthen further in the next three years.

Investors looking in from afar see Africa as the world's second-worst investment destination. Only 30% of them reckon it has become more appealing over the past year, though half believe its attractiveness will improve in the coming three years. Doubts are much stronger in the minds of those who have yet to experience the realities of investing in Africa. This pattern is not surprising. Our European survey finds that investors present in Europe are more optimistic about Europe's prospects than those based overseas. These perception gaps demonstrate the need for better communication to investors about the realities of investing in particular regions.

Perception gap in Africa



Source: EY's 2015 Africa attractiveness survey (total respondents: 501).



Nick Thompson

Chief Executive Officer, Tony Blair Africa Governance Initiative

Viewpoint

African governance is overcoming some big challenges

Nigeria has achieved a smooth democratic change of power

This year's *Africa attractiveness survey* picks up on a new mood among investors. There's still strong consensus around the potential in the markets emerging across Africa but optimism is tempered by concerns over political stability, security and the outbreak of Ebola in West Africa.

So are investors right to be more cautious over Africa's prospects in 2015? I'm not so sure. There are challenges of course, but already this year, Nigeria, Africa's biggest economy, has confounded the skeptics, holding a successful and peaceful election leading to a smooth transition of power. With a number of other elections on the horizon, Nigeria's example of democracy at work should serve as an inspiration and confidence boost both within and beyond the continent.

Ebola, meanwhile, has taken a serious toll on the countries at the heart of the outbreak. But with the virus now coming under control, attention will turn to rebuilding. My team have worked alongside the governments of Liberia, Guinea and Sierra Leone through the crisis, and we've seen a new sense of unity, purpose and leadership in the affected countries as they set out on the road to recovery. Investors should remember that just 12 months ago, each of the affected countries was expected to record strong growth. The same opportunities to invest in their economic development in areas like agriculture and infrastructure are still there today.

The road to prosperity is never smooth. Many African economies still face major challenges but where committed local leadership meets smart, patient investment, real progress can be made. The Africa Governance Initiative is working with leaders across the continent who are committed to development and reform. We encourage you all to do the same.

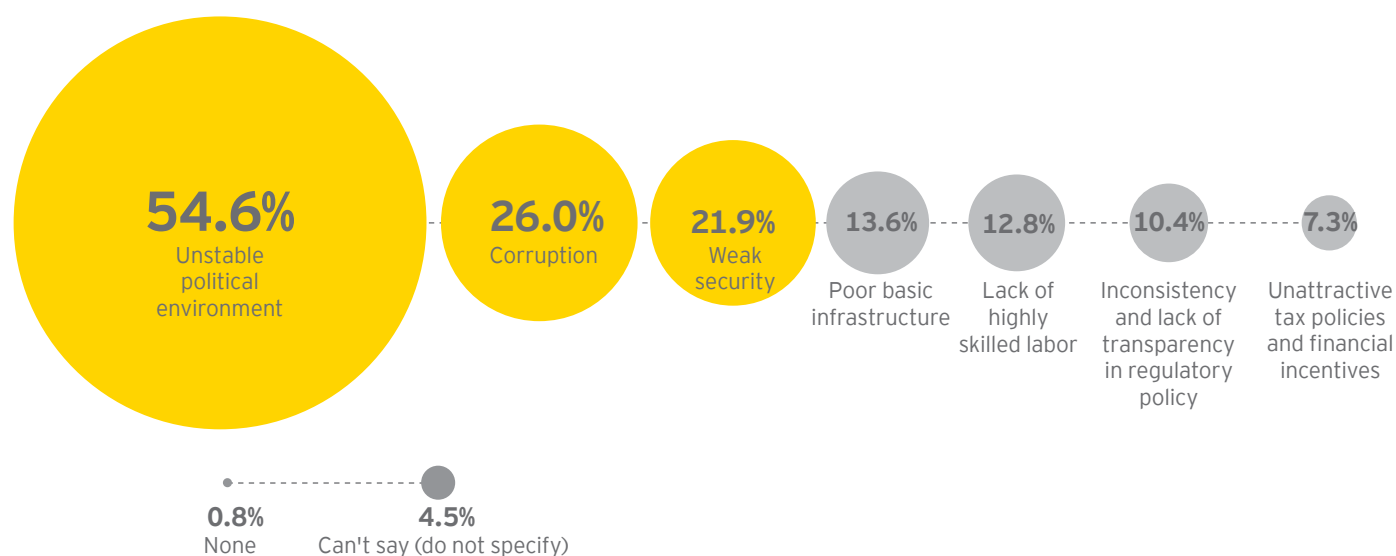
What next? Overcoming roadblocks to doing business in Africa

Despite the “Africa rising” narrative and steady growth in FDI inflows, there has been no quantum leap in FDI into Africa. The global context is less supportive, as growth slows in emerging markets, commodity prices fall, debt levels rise, and unrest and instability has become more commonplace. This year, we have

also seen investor optimism about Africa decline a little. This is perhaps an opportune time to pause and take stock of factors that have impeded Africa's progress to date, and consider how they can be addressed.

Combating political uncertainty with better governance

Which do you think are barriers for investing in Africa?



Source: EY's 2015 Africa attractiveness survey (total respondents: 501).

Respondents to our survey have identified political instability as the biggest obstacle for companies doing business in Africa. While Africa's political landscape has changed dramatically since the 1960s, unpredictability still remains a challenge for the continent. A Democracy Index published by the *Economist Intelligence Unit*, designed to measure the “strength” of democracy in a region, shows a decline in SSA's score during 2014.⁴⁹ Similarly, the *2014 Ibrahim Index of African Governance*, which measures the quality of governance in African countries, showed that while governance improved between 2009 and 2013, the pace of improvement was slightly slower than during 2005-09.⁵⁰

During 2014, a number of African countries – including the Central African Republic, South Sudan, the Democratic Republic of Congo (DRC), Burkina Faso and the Gambia – experienced

political and social unrest. Insurgency was a factor in Nigeria and parts of East Africa. Yet despite these setbacks, 12 elections were held across the continent last year, and 7 resulted in a change of leadership.⁵¹ This year's elections in Nigeria, Africa's most populous country, notably achieved a peaceful transfer of power.⁵² Perceptions that political uncertainty has increased could be exacerbated by increased geopolitical tensions across the world in 2014, including the Russia-Ukraine conflict, upheaval in the Middle East and intensified territorial disputes between China and its maritime neighbors, among others. With these tensions around the world and a still-fragile global economy, investors are understandably cautious. It seems likely that these concerns have had a knock-on, cumulative impact on perceptions of Africa, encouraging investors not yet present in the continent to view it as “high risk.”

49 *Democracy Index 2014: Democracy and its discontents*, Economist Intelligence Unit, 2014.

50 *2014 Ibrahim index of African governance summary report with key findings*, Mo Ibrahim Foundation, September 2014.

51 “2015 a ‘complicated’ year for elections across Africa,” *FDI Intelligence website*, www.fdiintelligence.com, accessed 23 March 2015.

52 “Nigeria elections: Muhammadu Buhari hails peaceful handover of power,” *The Guardian website*, theguardian.com, accessed 4 May 2015.



Mo Ibrahim

Founder and Chair of the Mo Ibrahim Foundation

Viewpoint

The strong case for Afro-realism

There is an inextricable link between governance and doing business

Creating an environment conducive to sound investment and sustainable business is a core governance issue. This is why it is one of the four pillars of the *Ibrahim Index of African Governance (IIAG)*, produced by the Mo Ibrahim Foundation (MIF). Last year's IIAG results, published in October, challenged perceptions about the state of African governance, specifically with regard to the prevalent "Africa rising" narrative. It stated that the conditions for pursuit of economic opportunity were stalling, in contrast to their previously impressive positive trends. Specifically, the indicators measuring the environment for business in Africa showed recent decline. The IIAG findings are reinforced by *EY's 2015 Africa attractiveness survey*.

Respondents to the survey recognize the inextricable link between governance and doing business. Only governance progress will further Africa's prospects as an investment or business destination. A data-driven approach to monitoring this progress is vital, with the IIAG and the EY survey as two key resources that are pivotal to decision-making.

MIF has promoted the concept of Afro-realism in recent years. Afro-realism means adopting an honest outlook on our continent, celebrating its achievements but also making an informed assessment of the challenges that lie ahead. Neither Afro-optimism, a prevalent mind-set of recent years, nor Afro-pessimism, does justice to modern Africa. Enormous potential exists, but a balanced appreciation of Africa's many assets in conjunction with its challenges is required, alongside a more granular approach to analysis of the continent. The most recent EY survey consolidates the growing importance of an Afro-realist perspective.

On the whole, more inclusiveness is needed in Africa. This includes not just maintaining political stability, but also improving the quality of government policies, enhancing the efficiency of institutions, encouraging respect for the rule of law and citizens' political rights, and promoting rules to foster accountability and transparency. Inclusiveness has to be built. And the process

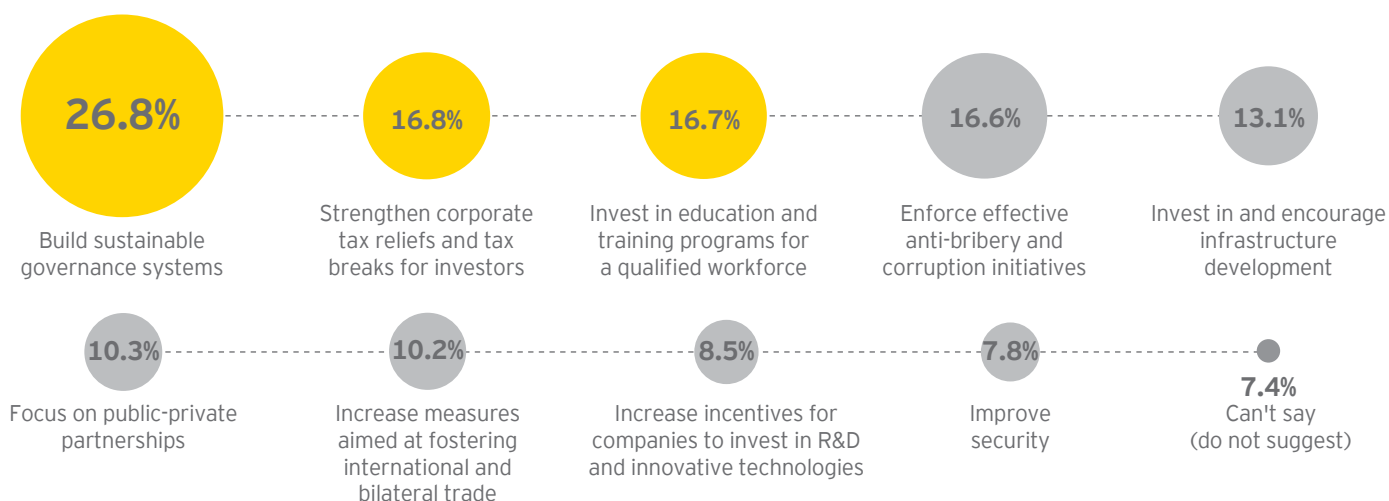
requires concerted efforts by African countries themselves, and also their partners. But, it is equally important to remind investors not to assume the entire continent is unstable. Business decision-makers must remember that Africa is made up of 54 nations with differing economic and political dynamics.

Responding to investor appeals to reform Africa's business environment

Foreign investors continue to highlight Africa's operating environment as an ongoing challenge to doing business on the continent. African countries generally lag other emerging markets in the World Bank's *Doing Business 2015* ranking. Only three countries, Mauritius, Rwanda and South Africa, are among the top 50. Business incorporation continues to be more costly and expensive in Africa than in any other region. However,

it is important to note progress by SSA countries in reducing burdensome business regulations. Since 2005, all SSA nations in the rankings have implemented reforms to make it easier to do business, led by Rwanda, and followed closely by Mauritius and Sierra Leone.⁵³ These initiatives are continuing. However, some of SSA's largest economies (including Nigeria and Angola) still remain very complex environments for business.

What do you think are the main measures that African governments can take to improve the region's business environment and increase its attractiveness for investment?



Source: EY's 2015 Africa attractiveness survey (total respondents: 501).

⁵³ "SSA Implements the Most Business Regulatory Reforms Worldwide," World Bank website, www.worldbank.org/en/news, accessed 29 October 2014.

A quarter of respondents to our survey highlighted corruption as a big barrier to investment in Africa. Many African countries perform badly in Transparency International's *Corruption Perceptions Index 2014*. This highlights the need to enforce stringent anti-bribery and corruption initiatives in Africa. Likewise, companies need to establish robust monitoring of processes and decisions to identify and manage potentially corrupt practices.

Tax administration also needs to be simplified, with a focus on harmonizing procedures across the continent as much as possible. An average company in Africa has a total tax rate of 46.6%, considerably higher than the global average. Tax-filing typically takes 317 hours per year, the second-highest of any region and, again, well above the global average. To comply with tax obligations, an average company makes 36.2 payments in Africa, compared with 25.9 globally. While the taxation environment has improved over the last 10 years, with the total tax rate declining by 22.5% and average time-to-comply down by almost 30 hours, there is still scope for improvement. Only 9% of African economies already have electronic systems for filing and paying taxes.⁵⁴ Many governments in Africa are considering strengthening corporate tax relief and incentives to woo investors.

Finally, Africa's employers and employees need more flexible employment rules. Labor laws in many African countries are restrictive in comparison with other regions. According to the WEF's *African Competitiveness Report 2013*, the SSA region scores 4.26 indicating that laws are more restrictive than in Southeast Asia, which scores 4.61. Labor regulations are particularly rigid in North African countries, with labor markets in Egypt (146th) and Algeria (147th) ranking among the least efficient in the world.⁵⁵

Investing in education and training to enhance workforce skills

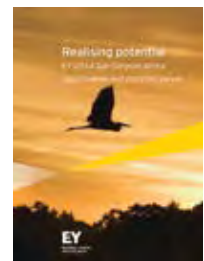
By 2040, Africa is expected to have the world's largest labor force, ahead of both India and China. However today, companies operating in Africa still find it difficult to find suitable workers. Education levels remain relatively low: in SSA, the secondary school enrollment rate is only 40%.⁵⁶ The United Nations Educational, Scientific and Cultural Organization (UNESCO) forecasts that Africa will be home to half of the world's illiterate in the years ahead, and that resulting constraints on skill development will harm business and wealth creation.⁵⁷ There is also a large mismatch in skills that job seekers offer and those sought by employers.

African governments need to reshape curricula at secondary and tertiary institutions to ensure they meet the needs of the labor market. More technical and vocational training programs are required to equip African workers with high-quality skills that business needs.

In turn, firms will need to take responsibility for skills development by investing in workforce training. To reduce overdependence on expatriate workers, companies must foster skills transfer from expatriates to local staff. Sourcing employees strategically, managing a diverse talent pool spread across a large area, and being able to move talent efficiently across the continent will be critical for success.

Learning to manage people

A growing war for talent is emerging in Africa. Some 70% of African firms surveyed by EY are recruiting to support their growth ambitions on the continent, yet vacancies are taking longer to fill and employee turnover is high. These are among the key findings of the second edition of EY's *Sub-Saharan Talent Trends and Practices Survey*.



The survey found that technical and professional skills are especially in demand. Over a third of companies said their need for technical and professional skills was likely to grow over the next 12 months.

Over 300 companies across 23 African countries, together employing more than 400,000 workers, participated in the survey – giving a unique and comprehensive view of human resource trends across the subcontinent.

Even as competition for talent intensifies in Africa, labor markets are expected to become more rigid. Three-quarters of companies expect labor market regulation to increase, yet only a third of organizations find labor market institutions effective. Nearly two-thirds of respondents believe that trade union activity or collective employee action is increasing in their country.

Clearly, organizations need to become more deliberate in how they plan for, attract and retain staff. To secure the talent they seek, they will need to make training and career development part of their brand, developing processes to monitor and reward employee performance and ensure management continuity.

⁵⁴ *Paying Taxes 2014: The Global Picture – Africa*, World Bank, November 2014.

⁵⁵ *The Global Competitiveness Report 2013-14*, World Economic Forum, October 2013.

⁵⁶ "Global Agenda Council on Education 2014-2016," *World Economic Forum website*, www.weforum.org, accessed 17 March 2015.

⁵⁷ "Education and skills development challenges to hurt Africa's business and wealth creation," *CNBC website*, www.cnbc.com, accessed 18 March 2015.

Viewpoint

Despite setbacks, Africa is still rising

Aubrey Hruby

Visiting Fellow, Africa Center at The Atlantic Council.

Aubrey Hruby is a long-time advisor to companies and funds investing in African markets, co-author of the forthcoming *The Next Africa* (Macmillan, June 2015), and Visiting Fellow at the Africa Center at the Atlantic Council.

Rapid economic growth is neither linear nor smooth, and there will be many detours and bumps on the continent's road to prosperity

Despite all the excitement about the Africa Leaders Summit hosted by President Obama last summer, 2014 ended in a smattering of negative headlines for Africa. Plummeting commodity prices, increasing insecurity in regional hubs (Nigeria and Kenya) and a popular uprising in Burkina Faso all significantly dampened the exuberance of the "Africa rising" narrative. In addition, the humanitarian crisis of the Ebola outbreak also affected investors' confidence. The fall in the perceived attractiveness of Africa in 2015 reported in this survey reflects these setbacks, in addition to concerns about political uncertainty, given the elections this year in 10 African countries.

Companies already working in the continent, as well as those looking to explore African opportunities for the first time, should resist the swing of the pundit's pendulum between "Afro-optimism" and "Afro-apocalypse." Instead they should take a realistic, medium-term view. Rapid economic growth is neither linear nor smooth, and there will be many detours and bumps on the continent's road to prosperity.

In making business decisions in African markets, it is best to gain a deep understanding of the broad trends – demographic, socioeconomic, technological and political – shaping specific subregions, and combine that with access to the best real-time, on-the-ground data available. Thankfully, there are now far more resources available for companies looking to do smart business in the region than there were a decade ago.

Also critical for success is an appreciation of the "soft" along with the more traditional "hard" skills required for doing deals in Africa. Complex financial models will rarely come close to assessing the real cost of regulatory uncertainty and underdeveloped governance systems. Companies will gain competitive advantage in Africa by integrating directly into commercial and deal teams, people with the ability to manage stakeholders, engage government officials, develop partnerships, and navigate emerging market realities.



Viewpoint

Underlying political instability and uncertainty are declining

Amadou Sy

Director, Africa Growth Initiative Senior Fellow, Global Economy and Development, Africa Growth Initiative at Brookings Institution

It is not difficult to imagine the collective sigh of relief from both African and foreign investors on seeing the ongoing peaceful power transition in Nigeria

The 2015 survey results indicate that perceptions of political instability or uncertainty are a major barrier to investment and doing business in Africa. Surprisingly, such perceptions are stronger for respondents already doing business in Africa than for those that do not. Two possible scenarios can help explain the results:

The “Nigerian Effect”: The number of scheduled elections in 2015 in SSA is more than twice the number in 2014 and includes the Nigerian elections, creating political uncertainty.

According to the National Democratic Institute at least 23 elections, including some constitutional referenda, are scheduled to take place in SSA in 2015, compared with 10 in 2014. More importantly, Nigeria, the continent’s largest economy, most populous country, and one of its largest recipients of FDI, held legislative and presidential elections in early 2015. It is not difficult to imagine the collective sigh of relief from both African and foreign investors on seeing the ongoing peaceful power transition in Nigeria, though other major countries still have elections this year. While the other African economic powerhouse, South Africa, held elections in 2014, expectations of post-election violence and increased political policy uncertainty were much lower than prior to the Nigerian elections, creating less worry for investors.

The Fragile State Effect: Investors perceive a broad set of risks as “political risks” in SSA.

Not surprisingly, geopolitical risks – such as failure of national governance (shown by corruption, impunity, and political deadlock), interstate conflict, state collapse and terrorist attacks are high in fragile states that are already poor, vulnerable to shocks, prone to violence, and lack effective, accountable and inclusive institutions.

The still-volatile situation in the Sahel and the current crisis in the Central African Republic are stark reminders that SSA is still home to a number of fragile countries. In addition, non-state actors (such as Boko Haram and al-Shabab) can easily cross borders, creating fragility within more robust countries too. The spread of infectious disease (e.g., Ebola) and social instability compound these risks. In this way, increased fragility in SSA may be increasing investors' perception of risk.

As far as foreign investors are concerned, however, the long-term trend shows that SSA has democratized progressively and that political and economic governance has improved. For instance, our African Leadership Transitions Tracker shows that the number of multiparty elections has been increasing consistently. In the short term, however, elections in the region are likely to be associated with higher political risk. However, different African countries have different risks associated with elections. In some, unfortunately, the risk of post-electoral violence and the risk of policy reversal will be significant, but in others, it will be lower. In sum, when it comes to political risk analysis, it should pay to discriminate among countries. But that would be just the first step. The three tenets of risk management: identifying, measuring, and managing risk would pay even more.

Real risks must be identified, measured and managed

Presidential and legislative elections in Africa in 2015



Note: Tanzania will also hold a constitutional referendum in April 2015 and Burundi was due to hold its parliamentary elections in May, and presidential elections in June.

Source: *Foresight Africa, Top Priorities for the Continent in 2015*, Africa Growth Initiative, Brooking Institution, January 2015.

Future

Assuring Africa's long-term growth

Africa is progressing ...

... But focus needs to be on inclusive, sustainable growth

This will require structural transformation

5 priorities for action



Shared value



Entrepreneurship



Regional integration



Infrastructure



Partnerships

39

Dealing with deteriorating perceptions

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Addressing the challenge of structural transformation

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Looking ahead: toward inclusive, sustainable growth

43

EY's view: five priorities for action

Dealing with deteriorating perceptions

Since we initiated our flagship attractiveness program for Africa in 2010, EY has energetically communicated the story of Africa's growth and been an advocate for increased investment. We have developed a robust data and knowledge base to provide quantitative substance to the broader "Africa rising" narrative and the business case for investing in Africa.

Over this period, our surveys have shown perceptions of Africa's relative attractiveness as an investment destination improving steadily; fairly robust and sustained levels of FDI, with SSA performing particularly well.

This year, however, our findings show something of a shift. Perhaps most worrying is that perceptions of Africa's attractiveness have deteriorated over the past year, and are arguably at their lowest since we began our surveys five years ago.

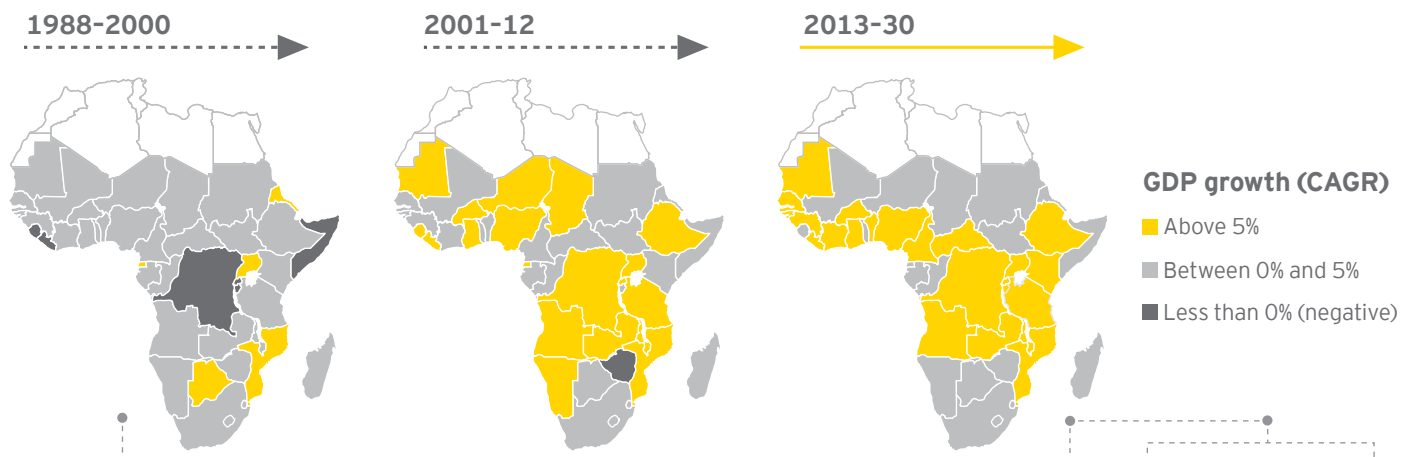
It is important not to overstate this deterioration. Overall, the majority of respondents were positive about the progress made in Africa over the past year, and they believe the continent's attractiveness as a business destination will improve over the next three. Africa continues to rank favorably compared with other regions, particularly among respondents who know Africa

well. But compared with past years, when we have seen steady progress, this year's results are a small step backward. Partly we can put this down to an uptick in political and economic uncertainty across Africa: the Ebola crisis, falling commodity prices, terrorism in West and East Africa, political conflict in places like Burkina Faso, South Sudan, the Central African Republic and now Burundi, and labor unrest in South Africa – all of which have been contributing factors.

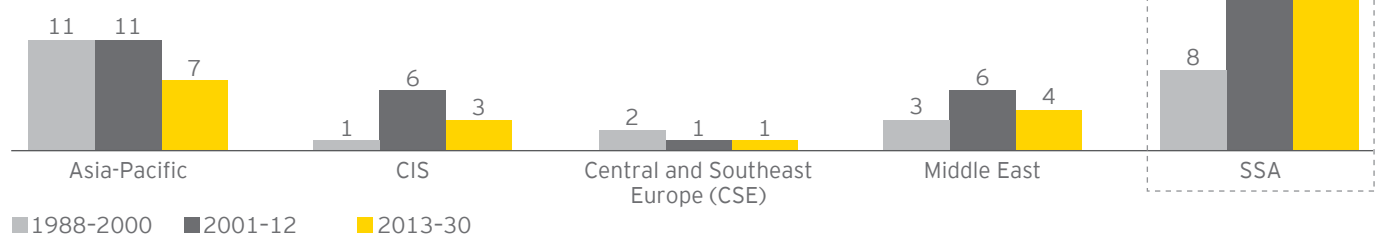
Strong fundamentals remain intact

After several years of growing optimism about Africa's progress and potential, are we seeing the start of a sustained decline in investor sentiment? We doubt that is the case. On the whole, African economies remain robust and their economic prospects strongly positive. The IMF has predicted growth in excess of 5% across SSA for 2015, "driven by sustained infrastructure investment, buoyant services sectors, and strong agricultural production, even as oil-related activities provide less support."⁵⁸ Looking further ahead, and considering the projections illustrated below, we anticipate that 24 countries in SSA will experience a compound annual growth rate of more than 5% through 2030. EY's report *Africa 2030: Realizing the possibilities* sets out the key drivers of what we believe is a sustainable economic growth path for Africa.

The African growth story is real



Number of economies growing faster than 5% a year



Sources: Oxford Economics database estimates, accessed in August 2014; EY analysis.

58 Regional Economic Outlook SSA: Staying the Course, IMF, October 2014.



So there is good reason to celebrate the progress of a region that only 15 years ago was dismissed by *The Economist* magazine as “the hopeless continent.” That said, it is important to see Africa’s progress in context. Given the continent’s history of underdevelopment and persistent structural inequalities in the global economy, there is still a long way to go before Africa emerges as an economic powerhouse. In many respects, Africa is today at a point where many East Asian economies were in the 1970s, and where India, Mexico and Turkey were in the 1980s.

In other words, Africa has made significant progress (from a relatively low base) over the last 15 years, but there is still a long way to go before we can consider a critical mass of African economies to be included among the leading emerging markets.

Africa’s continued rapid growth is not inevitable, and will not simply take care of itself. At the very least, the unsettling results of our perception survey this year remind us that we should not take belief in Africa’s rise for granted.

Addressing the challenge of structural transformation

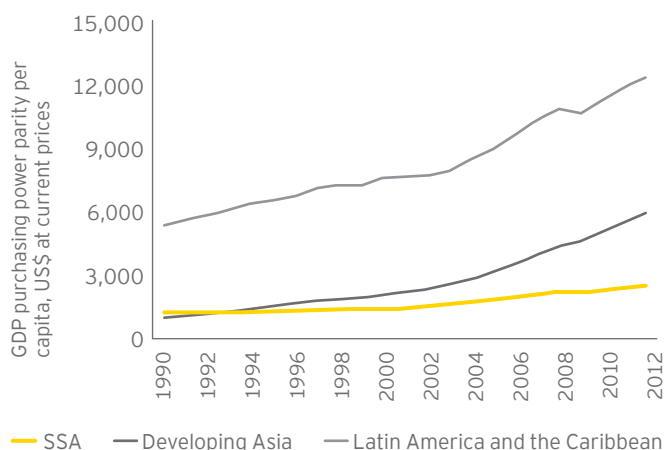
The apparent softening of investor confidence echoes a shift in mood that we noted last year at the *Strategic Growth Forum Africa* – an annual event hosted by EY. The tone of previous events in recent years had been more celebratory. While the challenges of doing business in Africa were acknowledged and analyzed, there was previously a distinct sense of optimism born of the clear progress that Africa had made over several years.

At our most recent event, while the sense of optimism was still strong, it was tempered by the reality of how much still needs to be achieved to realize a future in which, as Graça Machel, Nelson Mandela’s widow and founder of New Faces, New Voices (NFNV), put it, “we build an inclusive Africa, while leaving nobody behind.”

Although Africa’s economic growth has been impressive over the past 15 years, poverty and inequality remain intractable realities. With the fastest-growing population in the world, we face a very tough challenge to create the jobs and economic opportunities that will lift ever greater numbers of Africans out of poverty. SSA is lagging other developing regions, where populations are growing more slowly, in raising levels of GDP per capita – a broad indicator of rising income levels and better living standards.

GDP per capita growth

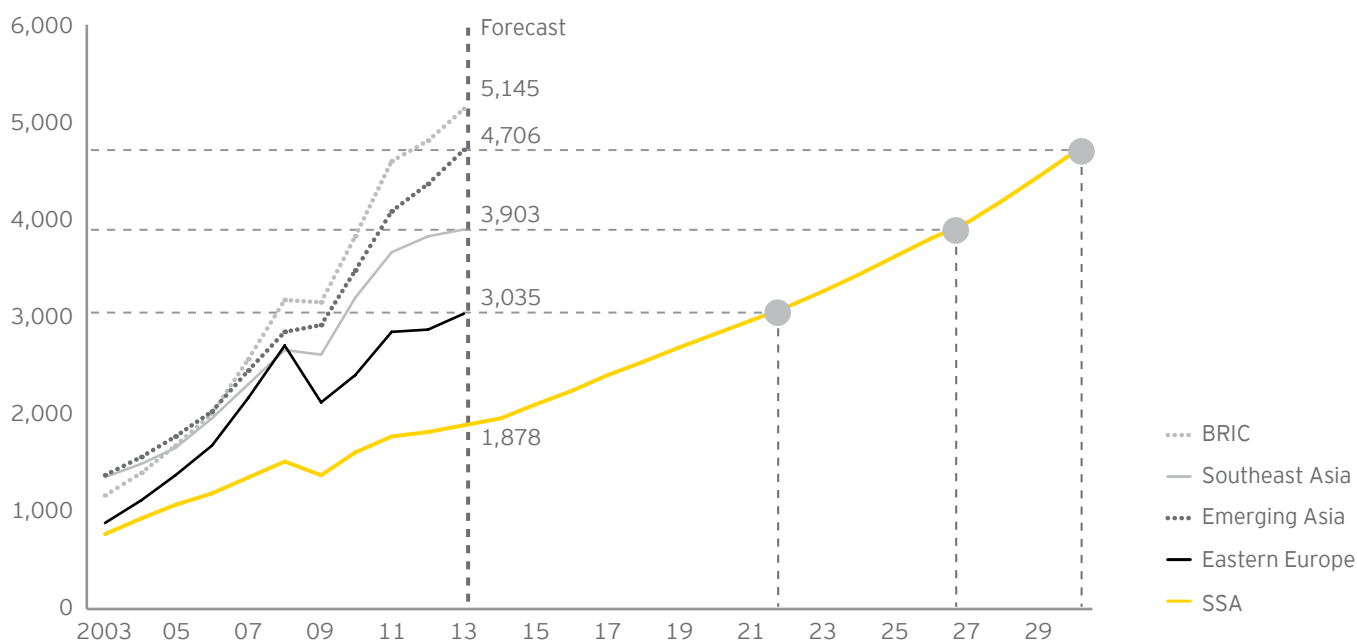
Living standards in SSA have not yet accelerated in the same way as in some other emerging market regions.



Source: IMF; *Africa Competitiveness Report 2015*, World Economic Forum, 2015.

We should not overstate the implications of the widening gap in GDP per capita, particularly between developing Asia and SSA. Growth in developing Asian economies started in the early 1980s, and in a global economic context that was more conducive to the export-driven growth that has characterized Asia’s rise. It was another 15 years before GDP per capita in Asia began to rise substantially, in the mid-1990s. Assuming a similar lag in SSA, we could expect that GDP per capita levels will begin rising markedly over the next 10-15 years.

By 2030, in terms of per capita income, SSA should reach the level where emerging Asia is today



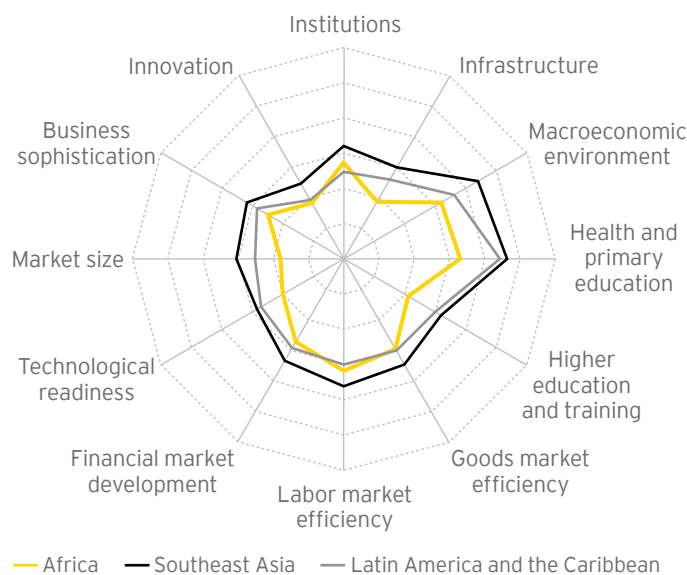
Source: Oxford Economics database, accessed in August 2014.

Yet looking forward, nothing is certain. Many challenges lie ahead, not least the robust structural transformation that is required by many economies. Although the commodities boom has not been the only engine of Africa's economic growth, many countries remain heavily dependent on revenues from natural resources and are vulnerable to external upsets. So they need to develop other strategic sectors urgently, such as manufacturing, construction and agriculture. This will not only lessen their dependence on commodities, but expand the private sector, increase productivity and, most importantly, create jobs and broader economic opportunities.

The WEF's *Global Competitiveness Index (GCI)* highlights the size of the task. In many respects, the GCI provides a yardstick for progress on structural transformation. It defines competitiveness as "the set of institutions, policies and factors that determine the level of productivity of a country, and identify as well as measure the sources of productivity gains needed to ensure rapid and lasting improvement in living standards."⁵⁹

As the graphic shows, African countries typically underperform other emerging market regions across most of the 12 GCI pillars. Of most concern is Africa's poor performance on some "basic requirements" including infrastructure, health and education. To build the solid foundation they need to improve productivity and competitiveness, and accelerate their structural transformation, most African countries need to resolve this underperformance, while maintaining a stable macroeconomic environment.

Africa's competitiveness performance relative to other regions



Source: Africa Competitiveness Report 2013, World Economic Forum, 2013.

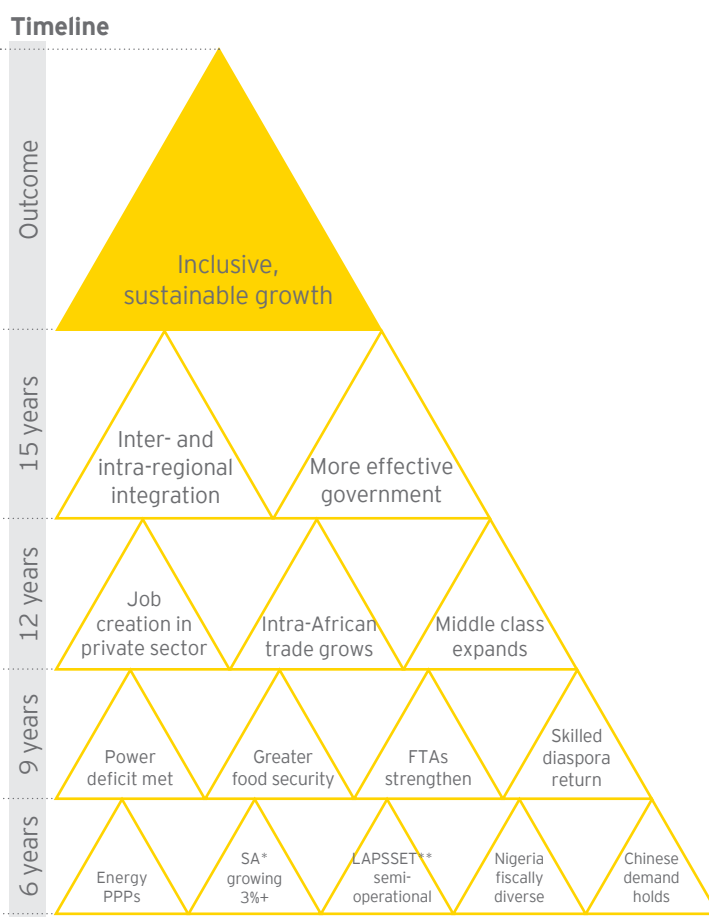
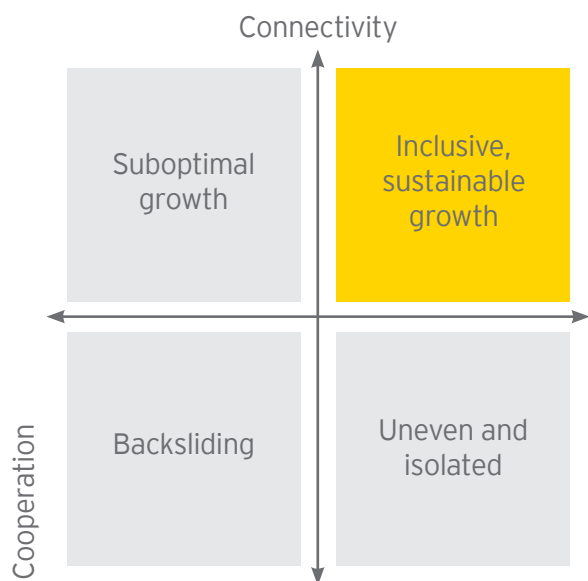
59 Africa Competitiveness Report 2013, World Economic Forum, 2013; Global Competitiveness Report 2014-2015, World Economic Forum, 2014.

Looking ahead: toward inclusive, sustainable growth

Looking to the next decade and beyond, EY's best-case scenario analysis suggests that Africa will be working toward inclusive and sustainable growth. This path must combine robust economic progress with a far greater emphasis on enterprise development, job creation and human welfare.

To enable lasting growth, African economies must close the competitiveness gap, get more people working, develop economic resilience, create more consumers and increase domestic demand. This "high road" scenario will build on the foundation of 15 years of economic, political and social progress, with Africa emerging as a significant global economic power with more diverse, sustainable economies and growing prosperity for its people.

Charting a path to inclusive growth



*South Africa
 **Lamu Port Southern Sudan-Ethiopia Transport (LAPSSET)

The "low road" is a scenario in which the economic success we have experienced over the last 15 years fails to deliver fundamentally improved lives for most Africans, and inequality continues to widen. This scenario would likely lead to political and social instability, and African economies might begin to stagnate or even backslide.

Based on our analysis, vital to Africa's success will be connecting and integrating markets across the continent, and nurturing the (related) cooperation between the public, private and social sectors. These twin vectors are necessary to encourage inclusive growth, and create the social, market and political conditions and institutions necessary to harness the potential demographic dividend.

By combining high levels of connectivity and public-private collaboration, we will start to assemble essential "building blocks" that will enable Africa to achieve inclusive, sustainable growth. In the near term, gains will be exemplified by Nigeria's ongoing economic diversification, South Africa's return to higher growth levels, and the proliferation of effective public-private partnerships (PPPs), notably in energy provision. An improving global economy and ongoing Chinese demand for Africa's resources have laid foundations for more progress in the medium term.



These positive developments will include strengthening regional free-trade agreements (FTAs), led by the implementation of the Tripartite FTA stretching from Egypt to South Africa. Improved trade relationships will combine with new technologies to boost farm productivity, strengthening food security and creating new jobs. Public-private cooperation in energy supply will reduce the electricity deficit, lower costs and power the growth in manufacturing that will support structural transformation. Together, economic development and well-planned government incentive schemes will draw back increasing numbers of the many

skilled Africans scattered throughout the world, who now see brighter prospects at home.

Longer term, these developments and factors will combine to stimulate the private sector, which will then create jobs, economic opportunities and higher tax receipts. Intra-African trade continues to expand, as does Africa's middle class, thus driving up domestic demand and producing a growth-multiplier effect across African economies. These factors will, in turn, enable greater levels of regional integration and more effective government, and underpin and sustain Africa's success.

EY's point of view: five priorities for action

Clearly, Africa has the potential to achieve a future that would have been unimaginable a generation ago. But the best-case scenario for Africa will not happen by itself, nor without strenuous effort by many stakeholders. What will it take to achieve inclusive, sustainable growth, and how will leaders in the public, private and social sectors realize Africa's potential?

There are many challenges and opportunities for Africa that we could focus on. We have chosen five priorities for action that we believe will be most critical to a successful African future.





Embracing shared value

The central premise behind creating shared value is that the competitiveness of a company and the health of the communities and economy around it are mutually dependent. It is a fundamental business philosophy that recognizes that profit and purpose can coexist and be mutually reinforcing. We have noted that the most successful organizations in Africa are taking a long-term view. They realize that there are no shortcuts and, more importantly, they understand that for their businesses to achieve continuing longer-term growth, the economies and communities in which they operate also need to grow sustainably. The bigger the skills pool, the more jobs and economic opportunities are created; the larger the spending power of consumers and government, the more the opportunities for business growth. A philosophy of shared value is fundamental to this win-win growth equation. For us to accelerate Africa's progress, it is critical that the public, private and social sectors embrace and act upon this philosophy.



Kuseni Dlamini

Chair, Massmart

Shared value has always been an indispensable part of my beliefs and my business philosophy. Massmart operates in 12 African countries and, wherever we go, we believe that the only way of sustaining our business is to make sure that we build and maintain partnerships that are mutually beneficial.

In South Africa, for example, Massmart has established a fund to provide capital and technical expertise for developing local suppliers. We have supported 193 of these entrepreneurs to become part of our supply chain, and an increasing number of locally manufactured products are now listed on Walmart's global supply list.

It is because of this kind of long-term commitment that when we face challenges in, for instance, Northern Nigeria, we will not pull out. We are focused on building sustainable local sources of supply close to the market. This not only makes economic sense for us, but also ensures that we are helping to create economic opportunities down the supply chain as well as greater numbers of economically active citizens, who will ultimately become our customers.

A philosophy of shared value is fundamental to this win-win growth equation

The concept of shared value is more for us than a nice-sounding buzzword: it is a strategic business imperative. We believe that it is important for the countries and communities where we operate to be economically viable and sustainable in order for our businesses in turn to be commercially viable and sustainable. The notion of pursuing profit with purpose is very much inherent to our business.

When Sam Walton founded Walmart over 50 years ago, he was driven by the purpose of helping people to save money so that they could live better lives. As we open more stores around Africa, we are really going there with the purpose of helping people to save money. We believe that if you have a purpose that resonates well with your customers you will be rewarded with loyalty. And our customers, are showing us loyalty. We are now the largest wholesaler in Africa and hence a trusted and committed partner to thousands of small and medium enterprises throughout SSA.

Massmart has established a fund to provide capital and technical expertise for developing local suppliers

Coca-Cola and Nestlé



Case study

Examples of shared value in action come in many shapes and forms. Initiatives designed to address some of the intractable challenges companies face in doing business in Africa, while creating economic opportunities in local communities, offer valuable lessons. For consumer products companies in Africa getting goods to the consumer can be far from easy. What makes the “route to consumer” so difficult to manage is that traditional trade (small dispersed outlets, open air markets, informal vendors, etc.) still dominates retailing across the continent. The dispersed and fragmented nature of many African consumer markets, combined with weak logistics infrastructure, requires innovative approaches.

A model that has worked well for bottling company Coca-Cola Sabco in parts of East Africa is the Official Coca-Cola Distributor (OCCD) approach, whereby the local bottling factory partners with a number of “micro-distributors” – local entrepreneurs, each of which is given responsibility for a particular territory (generally a 1km radius in an urban environment, servicing at least 500 outlets). These OCCDs have become a central element in Coca-Cola Sabco’s distribution strategy in several countries, and are responsible for 70% or more of sales volumes in Ethiopia, Kenya, Uganda and Tanzania. In this way, Coca-Cola Sabco has found an effective route to consumers, while simultaneously creating business opportunities for local entrepreneurs and their employees.

Nestlé, the foods group, has also tackled the route-to-consumer challenge by creating opportunities for micro-entrepreneurs in African countries. As part of its My Own Business initiative, Nestlé provides vendors with a Nescafé coffee dispenser they can strap on their back, enabling them to sell coffee by the cup in markets, at events and at the roadside. Launched in Nigeria in 2012, this initiative is now operational in Burkina Faso, Côte d’Ivoire, Cameroon, Ghana, Senegal and Kenya, and is being extended to the DRC, Ethiopia, Angola and Mozambique.

This case study is based on a compilation of publicly available information drawn from a variety of sources, including annual reports, investor presentations and reports, and other media releases.



Fostering entrepreneurship

A key element of the win-win growth equation will be the promotion of entrepreneurship across Africa. Entrepreneurs form one of the main engines of growth in any healthy economy. They act as vital agents of change by developing new products and services, implementing more efficient production methods, and creating new business models and industries. Small and growing businesses (SGBs) create the jobs that sustain families across the continent, and will be essential if Africa's burgeoning population is to be a source of economic growth rather than social unrest. As technology and innovation accelerate, a new breed of "social entrepreneurs" are creating low-cost, highly scalable businesses that tackle previously intractable problems such as lack of sanitation, clean water or affordable health care and education. For organizations genuinely committed to shared value, the promotion of local content and enterprise development should therefore clearly be a key business priority.



Jon Shepard

Director, EY Enterprise Growth Services

Enterprise Growth Services (EGS) is a "shared value" adaptation of EY's core business model: a corporate social enterprise charging low fees to operate sustainably on a not-for-profit, not-for-loss basis.

We work with impact investors, foundations, non-governmental organizations (NGOs) and multinational corporations to find high-potential SGBs and social entrepreneurs who are changing lives in low-income communities. EY teams work hands-on for three to six months on projects designed to help these new clients overcome obstacles to growth. We help them improve cash flows, enter markets, retain and develop staff; whatever's needed to accelerate our clients into the next stage of growth.

Some examples of EGS in action:

- ▶ Invest in Africa's African Partner Pool (APP) initiative, accredits and connects local small businesses as suppliers for multinational companies. An EGS team drawn from Ghana, the UK and Sweden worked with a local management team to design, set up and launch the operation. Growing quickly, the APP is helping local entrepreneurs expand their businesses, and multinational corporations invest in local economies.

We help them improve cash flows

- ▶ Every minute, a child dies somewhere in the world from the effects of drinking dirty water. Jibu works with local entrepreneurs in Rwanda and Uganda to set up profitable franchises that solar-sterilize water and then sell it to low-income customers at a fraction of normal prices. An EGS team from Switzerland and Uganda is helping Jibu develop the financial and operational infrastructure it needs to grow quickly and sustainably across the region.
- ▶ Stamp Out Sleeping Sickness is a public-private consortium that has built a network of veterinary businesses across Uganda. Lacking business skills, several were failing. An EGS team spent seven months turning these businesses around. They now create jobs, help subsistence farmers improve their livelihoods, and provide an essential part of the solution to a tropical disease that causes immense social and economic damage.

The entrepreneurs we support through EGS have incredible vision and work immensely hard. They are the lifeblood of Africa's economies and it is a privilege for us to help them.

A key element of the win-win growth equation will be the promotion of entrepreneurship across Africa

Anglo American and Tullow Oil



Case study

Multinational companies are playing an increasingly important role in helping develop local enterprises. Anglo American, one of the world's largest mining companies, has been doing this for more than 25 years. Anglo established Zimele, an offshoot dedicated to enterprise development, back in 1989. Zimele's aim is to help create and develop commercially viable and sustainable black-owned South African small and medium-sized enterprises (SMEs) by providing early-stage funding (equity finance or subsidized loans), as well as mentoring and hands-on support via a network of small business hubs throughout South Africa. Zimele initially focused on developing suppliers within its own supply chain, but has since broadened-out. Today it has six funds that provide support to diverse kinds of mining-related and non-mining entrepreneurial ventures. Over the past seven years, Zimele has supported 1,885 local entrepreneurial companies, employing over 38,000 people and, in 2014 alone, it provided over R1.3b (US\$110m) in funding for these businesses.

Tullow Oil, an oil and gas explorer active elsewhere in Africa, also has a strong focus on local enterprise development. Tullow uses the term "shared prosperity" to describe its commitment to aiding long-term social and economic development in the countries where it operates. Departing from the more traditional corporate social investment approach, it focuses on the developmental impact of Tullow Oil's core business. It helps develop local suppliers through capacity building and technical skills transfer. For example, Tullow's Closing the Gap program, together with initiatives such as Traidlinks and Invest in Africa, focuses on equipping local suppliers to provide goods and services to international standards. Tullow has also created an online supplier center, a hub aimed at supporting and developing local suppliers. Tullow is not only directing an increasing proportion of its procurement spend toward local suppliers – US\$225m across Ghana, Uganda and Kenya in 2014 – but also requiring international suppliers that want to work with it in African countries to detail in tender documents their commitment to developing local companies.

This case study is based on a compilation of publicly available information drawn from a variety of sources, including annual reports, investor presentations and reports, and other media releases.



Accelerating regional integration

Aided by shifting dynamics in the global economy, Africans have a unique opportunity to break the structural constraints that have long marginalized their continent. However, this will only be achieved by greater regional coherence among Africa's fifty-four states. Regional integration and stronger regional institutions (such as the African Union and regional economic communities) are essential if regional investment and trade are to prosper. They are needed to remove obstacles to cross-border business and create markets with greater critical mass, coherence and concentrated economic activity. Progress is being made, perhaps most promisingly with the Tripartite Free Trade Area. But there is still a long way to go: we need much more regional integration, more quickly.



Xolelwa Mlumbi-Peter

Chief Director, Africa Multilateral Economic Relations, Department of Trade & Industry, South Africa

Achieving greater regional integration is an important objective for the South African Government, but it is a complex undertaking. We have realized that a linear integration model – where we look at establishing free trade areas, then move to customs unions and common markets – does not address the fundamental constraints that affect why we are unable to trade with each other or build the necessary economies of scale. These constraints have more to do with a lack of productive capacity and supply-side constraints.

As a result, we have adopted a development integration approach that is based on three pillars:

1. **Market integration:** addressing trade barriers as well as non-tariff barriers.
2. **Industrial development:** looking at how we can develop regional economic value chains, so that we can promote higher-value addition and diversification that will enable African countries to move up the global value chain, as well as promoting intra-regional sourcing that will increase intra-African trade.
3. **Infrastructure development:** focused on connecting Africa with itself.

A critical issue is how we work together as African governments on the three pillars of developmental integration. There is widespread appreciation of the need to accelerate this process through effective cooperation at a regional level. It also requires the development of capacity-building programs in view of the differences in the levels of development of member states to, among others, improve quality and standards of products.

We can promote higher value addition and diversification

The work program also aims to foster economic transformation of member states to ensure that Africa is able to move away from exports of primary commodities. More than 60% of world trade is in intermediate products. Industrial development is therefore key to the growth and diversification efforts of member states. This is the trajectory that is required to address the key socio-economic challenges facing African economies. In addition, intra-Africa trade and real integration can only take place through improved interconnectivity between member states, and this necessitates a targeted effort to address the infrastructure bottlenecks and reduce the costs of trade.

Progress is being made on the ground. More specifically, good progress is being made with the Tripartite Free Trade Agreement (TFTA). The negotiations are already well advanced and we expect to launch the legal framework for the free trade area in June 2015. This will be followed by finalization of the tariff and rules of origin negotiations as part of the built-in agenda. The TFTA will combine a market of 26 countries with a population of over 600 million and GDP of US\$1t. Building on the progress achieved at regional levels and the TFTA, we are also scheduled to launch the Continental Free Trade Area (CFTA) negotiations in 2015, which will create a market of one billion people and approximately US\$2.6t GDP. These efforts are aimed at expanding market access and creating economies of scale necessary to attract investment. On industrial development, we welcome the development of the SADC regional industrial strategy. The key objective of the industrial strategy is to promote the development of value chains and production network linkages across borders. It recognizes that an integrated regional market is critical in generating economies of scale necessary to unlock the region's industrial potential and enhancing the competitiveness of domestic firms.

SIRESS



Case study

It is generally accepted that expanding intra-African trade is a critical factor in driving more sustainable and inclusive growth on the continent. There are several challenges that need to be addressed in this regard, not least of which are the infrastructure deficit, multiple overlapping trade agreements and various structural constraints. One of the less talked about challenges is the absence of a viable regional payments system. Without this, cross-border payments are risky, expensive and slow – and a real barrier to fostering intra-regional trade.

In practical terms, what this has meant is that if, for example, a company imports goods from a neighboring country, the transaction is generally settled in US dollars, with the payment being routed via a clearing bank in the US. Besides any other constraints to trade, this makes the process of simply transacting across borders more cumbersome, risky and expensive than it needs to be.

To help address this constraint, the Southern African Development Community (SADC) Banking Association was mandated to promote the development of interoperable systems, including an electronic payments platform. Named the SADC Integrated Regional Electronic Settlement System (SIRESS), this will standardize and simplify the way in which banks in different SADC countries are able to exchange financial transactions. It is designed to allow transactions among banks in member countries to be settled in real time and without the need for the funds to flow through third-party clearing banks. Among other things, this means that, whereas transactions could previously take days to settle, they will now be settled in real time. The system, which was launched in 2013, is now live in 9 of the 15 SADC countries, with over 60 banks participating.

The bottom line is that as this system is rolled out, cross-border payments in Southern Africa will become easier, less risky, more efficient and cost-effective, and be a key enabler of greater levels of intra-regional trade.

This case study is based on a compilation of publicly available information drawn from a variety of sources, including annual reports, investor presentations and reports, and other media releases.



Bridging the infrastructure gap

Ultimately, the success of regional integration will hinge upon the quality of Africa's infrastructure. Good transport, power and communication networks are essential to link markets, reduce the cost of delivering goods, help people move around, remove productivity constraints, generate enough electricity to support the development of manufacturing and other industrial sectors, and enhance overall competitiveness of the region. The Africa Infrastructure Country Diagnostic, released in 2009, confirmed that Africa has the weakest infrastructure in the world and needs investment of US\$93b a year for a decade to close the gap with other developing regions. A more recent analysis by EY and the Infrastructure Consortium for Africa (ICA) showed that, with funds now available and projects under way, the gap is being closed.⁶⁰ But we found that work had yet to begin on implementing two-thirds of the projects. Africa needs to remove barriers to project completion, fast.

⁶⁰ EY's 2013 Africa attractiveness survey: *Getting down to business*, EY, 2013. *Bridging the Gap: Ensuring Execution on Large Infrastructure Projects in Africa*, EY, 2014.

Note: ICA members include the G8 countries, the World Bank Group, the African Development Bank Group, the European Commission, the European Investment Bank and the Development Bank of Southern Africa. Their reports are available at: www.icafrica.org.



Anne Kabagambe

Chief of Staff & Director of Cabinet,
African Development Bank

At the African Development Bank, we believe that we have a US\$50b annual infrastructure deficit. The financial resources needed are well above what can be financed from Oversea Development Aid flows and other current development financial flows. It requires innovative financing instruments to channel the required additional resources. It is also clear that we cannot wait for somebody else to solve this problem for us: we need African initiatives and African solutions.

The AfDB has deployed a variety of targeted approaches to address specific investment gaps, as illustrated by various initiatives including the Africa50 Fund, risk mitigation instruments and co-financing facilities. The AfDB also amended its credit policy, creating opportunities to increase access of African Development Fund (ADF)-only countries to the bank's non-concessional resources, since its lending and risk-bearing capacity for sovereign operations remains strong, where it is underexposed.

Recognizing project preparation, prioritization and design as some of the main impediments to Africa's transformation, a notable initiative by the AfDB has been the establishment of the Africa50 Fund to finance transformational infrastructure projects in Africa, including a project preparation and project finance facility.

The key objective is to create viable, bankable projects

Africa50 aims to mobilize private financing in order to accelerate the speed of infrastructure delivery in Africa. It will focus on transformational national and regional projects in energy, transport, ICT, and water. It is complementary to, but legally independent from, the bank. It is not business as usual. The key objective is to create viable, bankable projects (shortening the time between project idea and financial close) from a current average of seven years, to less than three years. This will deliver a critical mass of infrastructure in Africa in the short to medium term. Among other things, this entails substantially increased funding of early-stage project development activities and making skilled legal, technical and financial experts available to projects from an early stage of development.

Although these initiatives do not provide all the answers, it will make a real difference in addressing the infrastructure deficit, and is one way that we can make sure our children and grandchildren do not inherit our burden.

Renewable Energy Independent Power Producer Procurement Program



Case study

In recent years, South Africa has become a global leader in facilitating sustainable private investment in the renewable energy sector. After almost a decade of deliberating on renewable energy policy, the South African Government made a decisive move in May 2011, initiating a process to procure a total of almost 7,000MW of renewable energy projects from the private sector via competitive bidding over multiple bid windows. There was initially much skepticism as to whether South Africa could deliver on the ambitious time lines and targets that were set.

In fact, the Renewable Energy Independent Power Producer Procurement Program (REIPPPP) has exceeded expectations, and become a model for successful partnership between the public and private sectors. To date, 79 projects have been awarded to the private sector, with the first projects already on line. Private sector investment, totaling approximately US\$16b, has been committed so far to projects that will generate about 5,240MW (which equals approximately 12% of the current installed capacity of Eskom, South Africa's government-owned power utility.) This includes investment in grid-connected onshore wind, photovoltaic and concentrated solar power, as well as small hydro, landfill gas and biomass generating plants.

Besides the obvious contribution to an energy-constrained economy, the REIPPPP has helped create approximately 27,000 person-years of construction work and about 55,000 person-years of operations work, over the 20-year life of the projects, in a country where jobs are badly needed. Additionally, significant reductions in tariffs were achieved: the average fully indexed price for photovoltaic solar power for preferred bidders in the fourth bid round in April 2014 terms is R7.86/kWh, 76% lower than the inflation adjusted average tariff for preferred bidders in the first bid round in November 2011. Similarly, the average fully indexed price for onshore wind-generated electricity in April 2014 terms for preferred bidders in the fourth bid round is R6.19/kWh, which is 55% lower than the inflation-adjusted tariff achieved in the first bid round in November 2011.

Given the broader power deficit across Africa, the REIPPPP is an important example of what is possible if we harness our natural resources via effective collaboration between the public and private sectors. According to the International Energy Agency's latest *Africa Energy Outlook* report, African countries are endowed with such abundant renewable energy potential that renewables could make up more than 40% of SSA's power generation capacity by 2040.

This case study is based on a compilation of publicly available information, written by Brunhilde Barnard, Africa Advisory Infrastructure Leader, EY Africa.



Promoting partnerships

An African proverb says, “If you want to go fast, then travel alone; if you want to go far, then travel together.” Partnerships are going to be essential if we are to drive the inclusive, sustainable growth that is so critical to Africa’s future. Unfortunately, the relationship between governments and businesses across many parts of the continent is not always as engaged and productive as it could and should be. Too often, businesses are viewed as part of the problem. Rather, governments and businesses (both local and international) need to become partners, embracing a philosophy of shared value and driving a common agenda of inclusive, sustainable growth. And partnerships need to extend beyond businesses and governments. To drive growth, we need to be much more proactive in forging multilateral (rather than bilateral) partnerships – across business, government, development finance institutions, donor agencies, and so on – particularly to address the interdependent priorities of entrepreneurial development, regional integration and infrastructure development.



Mawuena Trebarh

CEO, Ghana Investment Promotion Centre

Productive partnerships between business, government and the community are a cornerstone of our approach to investment promotion in Ghana. Key to this is getting the right balance between prosperity for both the business community and the nation. We do not think that the two are mutually exclusive; we firmly believe that they should go hand in hand.

As an Investment Promotion Agency, we have positioned ourselves, especially for the year 2015, as “The Prosperity Partner” for investment in Ghana. This placed in context means that we are encouraging and promoting a partnership with investors, both Ghanaian and foreign, to ease them into the Ghanaian business environment, to fulfill their objectives and, in the long run, achieve the prosperity they require.

Our current approach toward investment promotion has moved on from a broad-based strategy to a highly targeted one. This enables us to attract and identify the required and necessary partnerships that are a perfect fit and serve the needs of the country. The kind of partnerships promoted is not limited and is dependent on the project specifications. We are particularly excited about partnerships between local and foreign businesses where the Ghanaian partner initiates the process to expand their business and possibly works toward having an international identity.

We know that profitability is very important for the investor thus we work to ensure that the alliance arms him with what is required to encourage success. This success must generate benefits for both the investor and the nation. For Ghana, that means facilitation toward development, creation of the right kind of jobs as well as transfer of the necessary skill sets to local workers.

We are also very particular about the message we circulate to the investing public, as this is important for the right partnerships to be created.

It is always important to ask whether an investment is going to create jobs, generate new skillsets or fulfill a business need within the Ghanaian business environment. It is at this point that we consider whether it is the right kind of investment to encourage a certain kind of partnership.

As a result of this, the SME business community is experiencing a greater appreciation of the opportunities presented to engage and collaborate in order to help build domestic business capacity.

We recognize that development of entrepreneurial skills is a key component for SME growth as well as their ability to partner with foreign investors, and so we develop programs to support this.

We will continue to provide an enabling institutional and regulatory environment, as well as hands-on support to investors. The Ghana Investment Promotion Centre (GIPC) remains committed to fulfilling our mandate and serving the needs of investors toward prosperity.

The Prosperity Partner for investment in Ghana

The Foreign Investment Advisory Council



Case study

Russia's Foreign Investment Advisory Council (FIAC) provides a valuable example of productive partnership between business and government. FIAC was set up in 1994 by the Russian Government and foreign businesses to improve the investment climate in Russia. For the first 14 years of its existence, FIAC was probably little more than a "talking shop" – a label often applied to similar initiatives in Africa. But in 2008, the Russian Government proposed a reorganization and obliged relevant ministries to participate in FIAC working sessions. In return, FIAC's members – comprising over 50 of the largest foreign investors in Russia (including ABB, Coca-Cola, EY, Cargill, Renault, BP, Mitsubishi, BAT, Unilever, Ford, Royal Dutch Shell and Nestlé) – were asked to guarantee that their global CEO would attend FIAC's annual plenary sessions, which were to be chaired by the Russian Prime Minister.

The participation of senior ministers and global CEOs immediately raised the status of FIAC, and ensured that it was taken a lot more seriously by all involved. At the same time, FIAC was reorganized toward a more action-oriented approach. Members of FIAC agree on key priorities and then review ways to improve the business and investment climate in Russia during the plenary sessions. The focus is on solving practical problems to make it easier for foreign investors to do business. After plenary sessions, working groups explore and develop solutions for the issues that emerge. This active partnership between the Russian Government and foreign investors has led to numerous legislative changes to improve the business environment. Partly as a result of these improvements, Russia was among the world's top three recipients of FDI capital in 2013, according to UNCTAD data.

This case study is based on a compilation of publicly available information drawn from a variety of sources, including annual reports, investor presentations and reports, and other media releases.

What does all this mean ...?

Priority

Embracing shared value

Pursuing profit with a clear purpose to achieve shared value

Fostering entrepreneurship

Creating enabling conditions for entrepreneurs and actively supporting development of SMEs

For business



The health and competitiveness of a business are intimately intertwined with the well-being of the communities and economy in which it operates. So profit and purpose can be mutually reinforcing. Company executives need to take a long-term view and work out the concrete steps they can take to assist economic growth and development in neighborhoods and countries where they operate.

How can corporate procurement assist entrepreneurship? How can corporate skills be shared to upgrade the labor pool? How can managerial knowledge be deployed to help strengthen local communities and institutions? Can corporate infrastructure, from power supplies and internet connections to transport links, be shared with local businesses and people?

Africans are among the most entrepreneurial people on the planet. Yet they lack finance, infrastructure and technical skills. Companies can aid the development of entrepreneurship by seeking local suppliers and by helping them achieve the quality standards required. Many leading companies in Africa have developed entrepreneurship promotion schemes: best practice models abound.

For governments



Local, regional and national governments need to see companies as a vehicle to help create collective prosperity, not a cow to be milked. That begins with identifying shared objectives, and a sincere search for areas where collaboration might help achieve them.

What do companies need to thrive, and how can government facilitate their development? Do they need clearer rules, or simpler, more transparent administrative procedures? What can be done to attract companies and help them find the sites and skills they need?

Governments must seek the win-win collaboration opportunities.

Developing entrepreneurship and local supply chains have wide-ranging benefits for governments: these include generating tax revenues, increasing competition, cutting costs, reducing procurement delays, and helping to balance the national accounts. Working with business and expert NGOs, policy-makers can stimulate entrepreneurial growth and address the key policy objective of job creation.



Accelerating regional integration

Aiding the development of regional markets with critical mass

Fragmented markets and poor connections between neighboring countries have long hampered investment in Africa. Now strenuous efforts to achieve better regional integration, especially in East and Southern Africa, are beginning to reduce barriers between markets and increase the scale of commercial opportunities. As markets grow, economies of scale increase, prices fall, and investing in local production becomes more attractive. Corporate executives need to follow integration developments and seize the opportunities (and respond to the competitive threats) that are beginning to emerge.

Regional integration involves compromising on national authority, but the economic benefits from developing common markets are increasingly evident. As barriers decline, it is critical for policy-makers to create a competitive and dynamically improving environment for business. They can also foster competitiveness clusters, for example in the automotive or garment industry.

Bridging the infrastructure gap

Building the infrastructure needed to enable growth

Historically, many African infrastructure networks have favored trade with overseas markets, rather than neighboring communities or countries. Refocusing upon regional trade will connect previously neglected capacity with nearby markets, lowering cost and improving supply of anything from fruit and fish to school notebooks and auto parts. Power supplies and water and waste systems are often inadequate. Financing and building the infrastructure Africa needs will require massive investment and create vast business opportunities.

Tearing down market barriers and planning and overseeing development of new infrastructure links requires highly technical skills that are often scarce among African administrations. The task is big, and complex. Policy-makers need to create new, transparent and effective institutions and staff them with able and well-motivated people to achieve top results. To get value for money and achieve a lasting, long-term capacity upgrade, they must take the quality of African administration and governance to a new level.

Promoting partnerships

Developing collaborative partnerships across the business, government and social sectors

Companies need to understand the societies in which they operate, and the best way to acquire and develop understanding is through partnerships. The need is especially acute in Africa, where institutions are sometimes weak. Partnering with civil society can help identify opportunities, implement best practice and contain risk. Companies seeking to develop sustainable, long-term operations will want to implement best-practice labor, health and safety and environmental practices, but also want to ensure procurement and other practices are benefiting the communities where they operate. Fostering good, proper relationships with NGOs and government can ensure good words become good deeds.

Policy-makers must recognize the limits of corporate competence and help educate firms about local needs and characteristics. They should seek common ground and explore ways in which companies can be recruited to help achieve legitimate policy objectives such as widespread high workplace health and safety standards and development of sustainable local supply chains that protect the natural environment and ensure the long-term well-being of communities.



Methodology

EY's 2015 *Africa attractiveness survey* is based on a twofold, original methodology that reflects:

The real attractiveness of Africa for foreign investors

Our evaluation of the reality of FDI in Africa is based on data provided by fDi Markets, a service from The Financial Times Limited (2015). The fDi Markets database tracks new greenfield and expansion FDI projects. Joint ventures are only included where they lead to a new physical (greenfield) operation. M&A and other equity investments are not tracked. There is no minimum size for a project to be included. However, every project has to create new jobs directly.

Data on FDI project creation and the number of jobs created is widely available. However, many analysts are more interested in quantifying projects in terms of physical assets, such as plant and equipment, in a foreign country. These figures, rarely recorded by institutional sources, provide invaluable insights as to how inward investment projects are undertaken, in which activities, by whom and, of course, where. To map these real investments carried out in Africa,

The analysis of FDI data in this report includes a program of 13 construction projects in North Africa, worth a total of US\$40b, announced in March 2014. However, as of May 2015, there is still some uncertainty regarding whether the program will go ahead.

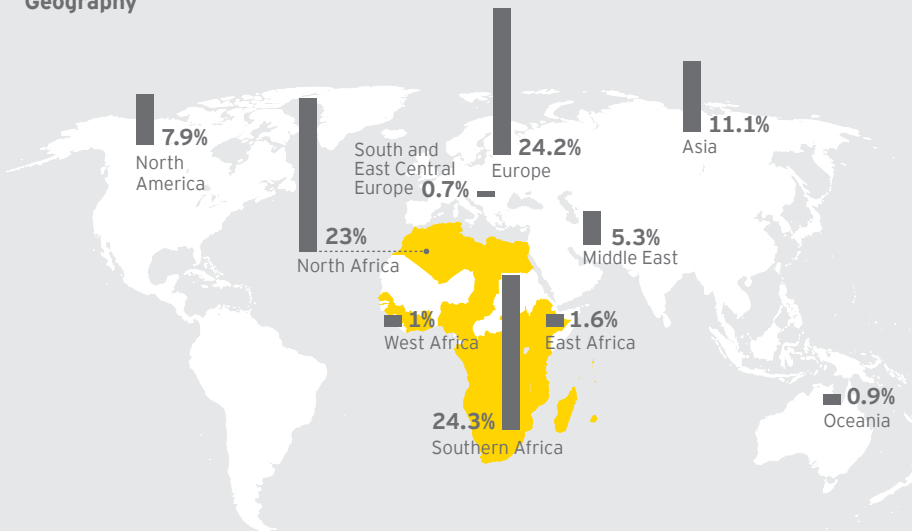
EY used data from fDi Markets. This is the only online database tracking cross-border greenfield investments covering all sectors and countries worldwide. It provides real-time monitoring of investment projects and job creation, with powerful tools to track and profile companies investing overseas.

The perceived attractiveness of Africa and its competitors among foreign investors

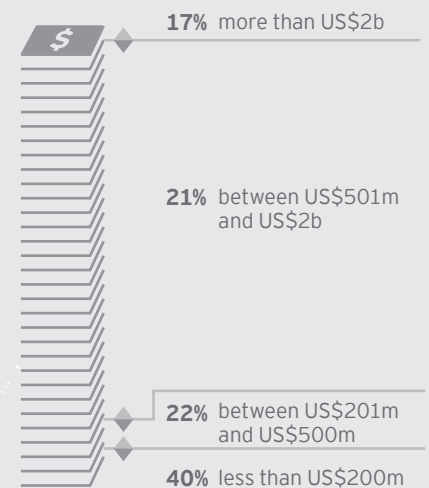
We define the attractiveness of a location as a combination of image, investors' confidence and the perception of the ability of a country or area to provide the most competitive benefits for FDI. Field research was conducted by the CSA Institute in January and February 2015, via telephone interviews with a representative sample of 501 international decision-makers. Business leaders were identified and interviewed in 30 countries. Globally, of the 501 business leaders interviewed, 63% work for companies that operate in Africa.

Profile of companies surveyed

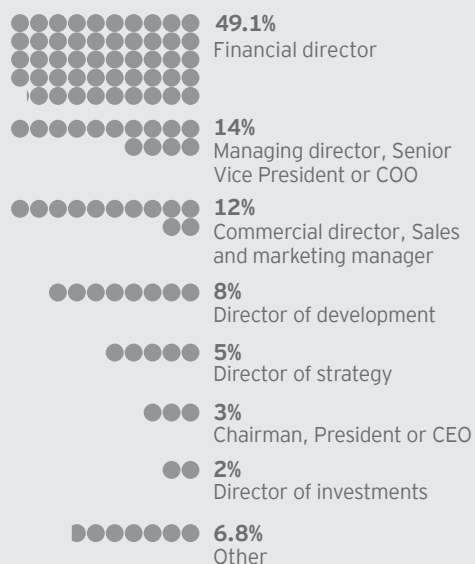
Geography



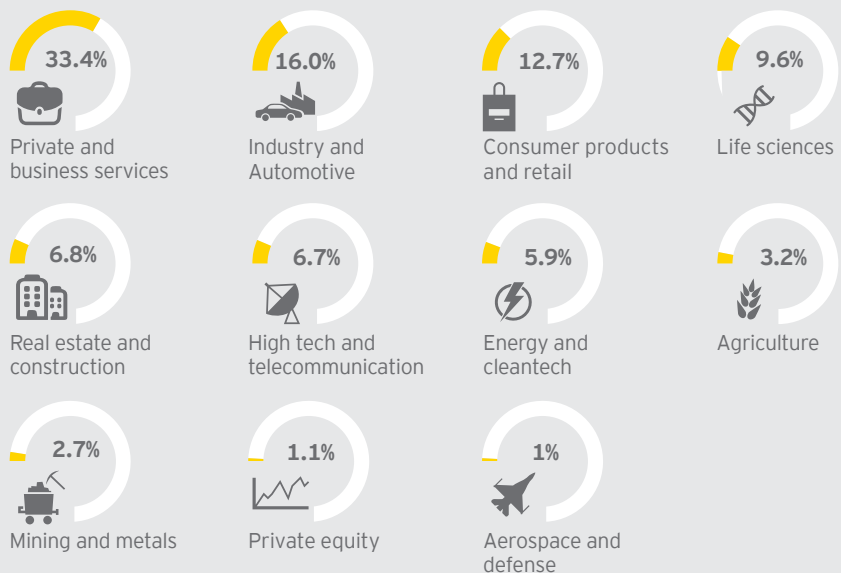
Size



Job title



Sector of activity



FDI data has been classified on the following basis:

Sub-region classification

North Africa: Algeria, Egypt, Morocco, Tunisia, Libya

East Africa: Kenya, Uganda, Rwanda, Tanzania, Sudan, South Sudan, Ethiopia, Eritrea, Burundi, Comoros, Djibouti

Southern Africa: Angola, Botswana, Lesotho, Malawi, Mozambique, Namibia, South Africa, Swaziland, Zambia, Zimbabwe, Madagascar, Mauritius, Reunion, Seychelles

Western Africa: Nigeria, Niger, Mali, Benin, Togo, Senegal, Sierra Leone, Mauritania, Liberia, Guinea, Guinea-Bissau, Ghana, Gambia, Gabon, Cote D'Ivoire, Burkina Faso, Cape Verde, Cameroon, Equatorial Guinea, Sao Tome and Principe

Central Africa: Central African Republic, Chad, Democratic Republic of Congo, Republic of the Congo,

Sector classification

Aerospace and defense: aerospace, space and defense

Agri-products: rubber, wood products

Automotive: automotive components, automotive original equipment manufacturers (OEM)

Business services: business services

Chemicals: chemicals, plastics

Cleantech: alternative and renewable energy

Coal, oil and natural gas: coal, oil and natural gas

Diversified industrial products: business machines and equipment, engines and turbines, industrial machinery, equipment and tools, paper, printing and packaging

Financial services: financial services

Health care: health care

TMT: software & IT services, communications, electronic components, semiconductors, leisure and entertainment

Life sciences: biotechnology, medical devices, pharmaceuticals

Metals and mining: metals, minerals

CPR : beverages, consumer electronics, consumer products, food and tobacco, textiles

Real estate, hospitality and construction: hotels and tourism, building and construction materials, real estate, ceramics and glass

Transport and logistics: non-automotive transport OEM, transportation, warehousing and storage

in Africa

EY is a global professional services organization, with 190,000 people in over 140 countries around the world. EY currently has physical operations in 33 African countries, including 28 in SSA. The organization has been operating in South Africa for 165 years and in other countries such as Nigeria, Kenya and Angola for more than 50 years.

EY has had a presence in many African countries for decades. However, like all the large professional services organizations, the model was traditionally one of loose affiliation under a global brand. This often meant that individual country (and even city) practices ran independently. They were often disconnected and had different capabilities and service quality levels. EY is the first of the large global organizations to break definitively with this model. Five years ago, we embarked on a structured process of integrating all of our SSA practices into a single operating model.

We now operate as a single organization across SSA – a practice combining offices in 28 different countries. With ever-increasing numbers of clients looking to expand or enter into African markets, our single integrated operating model helps us to respond to clients' needs in a consistent and coordinated manner across different countries.

Africa Business Center™

Today, we are able to navigate through the complexity that our clients are experiencing across the geographies. We do this through our Africa Business Center™.

Its sole purpose is to help clients make their investment and expansion decisions in Africa.

Our African integration benefits our clients through:

- ▶ A network of people across Africa and the rest of the world, helping us to coordinate our resources to provide clients with a single point of contact
- ▶ Pre-eminent thought leadership and events such as the *Africa attractiveness survey*, the Strategic Growth Forum Africa and the Africa Tax Conference
- ▶ The unique Growing Beyond Borders™ software – an interactive map-based tool that visually maps data through the lens of the continent's geography
- ▶ A proven methodology for supporting the development of growth strategies for Africa

EY



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Invest in Africa

Invest in Africa (IIA) is a cross-sector partnership of companies working together to drive sustainable growth by creating solutions to the shared challenges of doing business in Africa. Challenges such as accessing new markets, sourcing locally and building capacity are too important to ignore, yet often too big to address alone.

Launched in 2012 by Tullow Oil, IIA has since partnered with a host of international and local businesses, including EY, to build the African Partner Pool (APP), Africa's first online cross-sector business community. Launched in Ghana in 2014, the APP drives

trade and investment into Ghanaian SMEs by connecting them to the supply chains and tenders of international companies.

IIA continues to develop the quality of SMEs in the APP by providing business skills training and guides to best practice. The organization is also proud to have secured US\$1m funding from the African Development Bank to continue this work through a three-year training and mentoring program. To date, over 400 SMEs from across 18 different countries have registered with APP, and over 10 large corporations are using it to source locally.

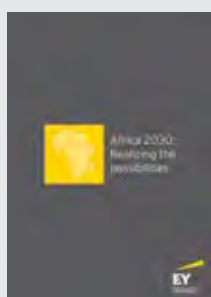


Publications



Megatrends 2015: making sense of a world in motion

We describe megatrends as large, transformative global forces that define the future by having a far-reaching impact on business, economies, industries, societies and individuals. EY has identified six megatrends with the current and future capacity to disrupt and reshape the world in surprising ways. Visit ey.com/megatrends to consider how these individual yet interconnected megatrends might impact your business.



Africa 2030: realizing the possibilities

This publication marks a subtle change in emphasis for EY Africa. Since we initiated our flagship Africa attractiveness program in 2010, we have been among those at the forefront of promoting the African growth story and advocating greater levels of investment into Africa. We have developed a robust data and knowledge base to help provide quantitative substance to support the “business case” for Africa. Visit the EY Africa Business Center to read further and discover more at ey.com/za.



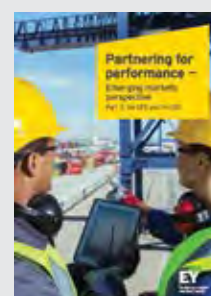
BaroMed 2015: the next opportunity

EY's BaroMed attractiveness survey uncovers the remarkable potential of the Mediterranean region. Big transitions and disruptions in countries around the Mediterranean Sea and Arabian Gulf have, in recent decades, made life complicated for investors and disrupted economies in a region with a formidable trading tradition. As investors regain interest in developing integrated manufacturing and services here, visit ey.com/attractiveness to discover where the best opportunities may lie.



EY's 2015 European attractiveness survey – Comeback time

After several false dawns, investors seem convinced that Europe has at last broken free from recession and is finding a path to sustainable growth. Investors reckon Europe has so improved its capacity to create and innovate that it could plausibly harbor the next Google, and has pulled further ahead of China as the world's most attractive investment destination. To find out the implications for your business and its development, visit ey.com/attractiveness.



Partnering for performance – Emerging markets perspective

Part 1: the CFO and the CIO

This report is the first in a series of reports tailored for the emerging markets that form part of the EY global CFO program, *Partnering for performance*. The report explores the contribution that CFOs can make by partnering with other executives to grow, protect and transform their organizations. This first piece of thought leadership demonstrates the need for a strong, collaborative relationship between the CFO and the CIO. It also explores the business benefits of a “digital CFO” who plays a key role in driving value from investments in IT and the technologies that enable digital. Download the report at emergingmarkets.ey.com.

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EYG no. AU3208

BMC Agency
GA 0321_01482

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