

Growing Beyond

Ernst & Young's attractiveness survey

Africa 2013

Getting down to business



Attractiveness

Ernst & Young's attractiveness surveys

Ernst & Young'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.

Emerging Markets Center



The Emerging Markets Center is Ernst & Young's "Center of Excellence" that quickly and effectively connects you to the world's fastest-growing economies. Our continuous investment in them allows us to share the breadth of our knowledge through a wide range of initiatives, tools and applications, thus offering businesses in both mature and emerging markets an in-depth and cross-border approach, supported by our leading and highly globally integrated structure.

For further information on emerging markets, please visit: emergingmarkets.ey.com

Contents

Africa 2013

02 Foreword

04 Executive summary

8 Context

Africa's growth is real and sustainable

Economy has trebled and a critical mass of economies is poised to drive structural transformation.

26 Reality

The FDI numbers: glass half empty or full?

Trends in economic activities, with a marked shift toward investment in more value-added activities.

40 Perception

Investor perceptions: the persistent gap

Positive in relation to other regions with a shift in sector focus; the shift is from "why" to "how" for doing business.

50 Actions

Getting down to business

How Africa can move forward; the principles for action for business and government.

64 Conclusion



Foreword

Investing for long-term growth



Jay Nibbe
Area Managing
Partner,
EMEA – Markets,
Ernst & Young



Ajen Sita
Chief Executive
Officer,
Ernst & Young, Africa

Welcome to the third annual edition of *Ernst & Young's Africa attractiveness* survey. We release this at a time of ongoing uncertainty in the global economy, with the Eurozone in particular continuing to struggle. In contrast, economic growth across much of Africa has remained robust, with a number of our economies still among the fastest growing in the world. This continues a remarkable decade of growth and development, with not only economic, but also social and political indicators all trending in the right direction.

Despite the ongoing growth story, the situation for FDI was a mixed one this year. Overall, project numbers were down, reversing the growth trend we saw last year. This is disappointing and somewhat surprising to us, particularly given the levels of interest we experience from a range of international companies in doing business in Africa. It does reveal to us, though, that the perception gap does remain a factor, and that while many potential investors are flirting with the idea of Africa, work must still be done on bridging the gap.

Having said that, there are a critical mass of companies already doing business on the continent that are very positive about the continent's current and future prospects. These companies, many of which have been doing business across Africa for decades, understand the real risks and opportunities, and are investing in and for growth.

We are ourselves among these investors, not simply analyzing from the sidelines, but, in our 163rd year of doing business on the continent, actively driving our growth and integration journey. Last year alone, we opened new offices in Cameroon, Chad and South Sudan, bringing to 33 the number of African countries in which we now have a physical presence. In addition, we are utilizing our Africa Investment Plan to expand our senior level capacity and capabilities in key markets such as Nigeria,

Angola, Kenya and South Africa, and to continue the process of integrating our people across the continent into a tightly knit, coordinated and responsive pan-African network.

As we look forward, there are clearly many challenges that must still be addressed if the African growth story is going to be sustained over the coming decades. First and foremost, solutions to these challenges will start with Africans themselves – from a growing self-belief and confidence in the future of the continent, and the outstanding leaders that are emerging across government, business and civil society. There are, however, an increasing number of multinational investors that are believers and actively investing for long-term growth in Africa. These, too, should be viewed as critical partners and enablers of Africa's future.

This year's report reinforces the point that those already doing business in Africa are overwhelmingly confident about the continent's progress and prospects. They are growing their investments and operations, expanding into ever-more diverse activities, and supporting the long-term growth and developmental agendas of an increasing number of African economies. It is our view that, in this context, it's time for a shift of emphasis and mindset away from trying to persuade the Afro-skeptics toward just getting down to business and promoting the successful growth of private enterprise across the continent. The emphasis should be on what needs to be prioritized in order to further improve conditions for those already doing business in these economies and across the continent.

We have no doubt that, with a critical mass of us pulling in the same direction, and with collaborative leadership across governments and those already doing business on the continent, Africa will continue its rise and will become an investment destination of choice in the decades to come.

"The sounding of the battle drum is important; the fierce waging of the war itself is important; and the telling of the story afterwards – each is important in its own way. I tell you there is not one of them we could do without. But if you ask me which of them takes the eagle feather, I will say boldly: the story ... So why do I say that the story is chief among his fellows? ... Because it is only the story that can continue beyond the war and the warrior. It is the story that outlives the sound of the war drums and the exploits of brave warriors. It is the story, not the others, that saves our progeny from blundering like blind beggars into the spikes of the cactus fence. The story is our escort, without it we are blind."

Extract from Chinua Achebe.

Anthills of the Savannah.



Seeking the opportunity, managing the risk

Diana Layfield
Africa CEO, Standard Chartered

Standard Chartered has a unique profile in Africa. Our business is balanced across 37 markets in East, West and Southern Africa - including 15 countries in which we have a full presence as a substantial local bank, and 22 in which we operate on a transaction basis. This provides a varied investment portfolio for our clients and covers 92% of Sub Saharan GDP. Africa has been central to Standard Chartered for over 150 years, but the opportunity and the global focus now feels palpably different. When I visit our clients in other parts of the world – particularly Asia – the first thing they want to talk about is Africa.

We are often asked about the risks of operating in Africa. While the existence of corruption, poverty and limited infrastructure mean that the continent can still be a challenging place to do business, we are seeing steady progress across most markets. Over the last 10 years, governance and political stability have improved significantly. Although the levels of education, employment and skills vary substantially across the continent, there are increasingly deep talent pools in a number of key markets. Importantly, while many of these challenges facing businesses in key African markets are no more significant than elsewhere in the world, the rewards on offer are substantial. Critically, it is this risk-reward equation that makes African investment so compelling - the returns remain among the highest in the world, while risks are diminishing and can be effectively managed.

Standard Chartered has found a number of factors helpful in harnessing this opportunity and managing the risks. The first is commitment: Africa rewards those who invest with a long-term agenda, both in respect of time and in conscious contribution to the economy and society. Second is local understanding: these are markets where critical information is not published or uniformly accessible and taking the time to build local relationships and teams is key (98% of our staff in Africa are African and many of our client relationships are multi-generational; both key to giving us a differentiated risk understanding). Third is people: ensuring that you hire, and more critically train, the best in the market can be transformational. Fourth is portfolio: although the growth trend for Africa is unequivocally positive, there will be more bumps in the road than in the case of Asian growth, and having the ability to balance risk across a number of markets can be extremely helpful. Investors who take the time to understand the nuances, risks and opportunities in Africa will be rewarded.

Standard Chartered is a leading international banking group. It has operated for over 150 years in some of the world's most dynamic markets and earns more than 90% of its income and profits in Asia, Africa and the Middle East.

“By 2035, the continent will have the world’s largest workforce, with over half of the population currently under the age of 20.”

The growth opportunities in Africa are increasingly evident: by 2035, the continent will have the world’s largest workforce, with over half of the population currently under the age of 20; the past 10 years have seen vast improvements in macroeconomic stability, and a burgeoning and fast-growing South-South trade and investment flow (with over US\$170 billion of trade with China alone). Africa presents a significant opportunity across multiple sectors - with US\$2.6 trillion of revenue expected by 2020 across resources, agriculture, consumer and infrastructure, of which US\$1.4 trillion will be in consumer industries alone. The rapid emergence of a middle class, already equal in size to India, makes consumption a major driver of economic growth across the region, and is one of the most interesting yet less explored opportunities across Africa.

Executive summary

1 Africa's rise is real

Africa's rise over the past decade has been very real. While skeptics still abound, and there are people who still seek to debate the point, the evidence of the continent's clear progress over the past decade is irrefutable. Over this period, a critical mass of African economies have grown at high and sustained rates; so much so that, despite the impact of the ongoing global economic situation, the size of the African economy has more than tripled since 2000. The outlook also appears positive, with many parts of the region forecast to continue experiencing relatively high growth rates and a number of African economies predicted to remain among the fastest growing in the world for the foreseeable future.

The skeptics will most often point to the widespread perception that most of this growth has been driven by natural resources. Due to the volatile nature of commodity prices, an over-dependency on a few key

sectors clearly raises questions about the sustainability of growth. The sub-text of such skepticism, though, is also often one tainted by negative historical beliefs about Africa as a conflict-ridden, politically unstable, hopelessly corrupt basket case.

However, a far more positive story has emerged in the post-Cold War and post-Apartheid era: one of significant economic, political and social reforms; of a process of democratization that has taken root across much of the continent; of ongoing improvements to the business environment; of exponential growth in trade and investment; and of substantial improvements in the quality of human life. These fundamental improvements have provided a platform for the economic growth that a large number of African economies have experienced over the past decade. And, despite perceptions to the contrary, less than one-third of

Africa's growth has come from natural resources. The rest has come from a range of other sectors, including agriculture, manufacturing, construction, and, in particular, services.

There is, therefore, good reason to pause and celebrate the progress that Africa has made. At the same time, though, individual countries and the region as a whole still need to address significant challenges in order to sustain this progress, and to emulate the kind of developmental path we have seen in places like Southeast Asia over the past 30-40 years. We are of the view that FDI will play a key role in this process as both a source of capital, but, more importantly, as a catalyst for job creation, skills development, technology transfer, and ultimately, the longer-term diversification and transformation of key African economies.



2 However, FDI numbers do not fully reflect the broader growth story

Despite the ongoing growth and progress, greenfield FDI projects¹ into Africa dropped year on year in 2012. Although this is obviously disappointing, it should be noted that the decline occurred in a context in which there were substantial declines in FDI projects globally. In fact, the global situation was such that Africa actually grew its overall share of FDI project flows from 5.4 to 5.6%.

Nonetheless, investment from developed markets in particular was disappointing. Although FDI projects from the UK grew, those from the US and France, the other two leading developed market investors in Africa, were considerably down. In contrast, greenfield investments from emerging markets into Africa grew once

again in 2012, continuing the trend of the past three years. In the period since 2007, this category of investment from emerging markets into Africa has grown at a healthy compound rate of over 20.7%, in comparison to investment from developed markets, which has grown at only 8.4%.

Intra-African investment has been particularly impressive over this period since 2007, growing at a 32.5% compound rate. South Africa has been at the forefront of growth in intra-African and broader emerging market investment, and was, notably, the single largest investor in FDI projects in Africa outside of South Africa itself in 2012. This underlines a broader trend of growing confidence and optimism among Africans themselves about the continent's progress and future.

There has also been an important shift in emphasis in investment into the continent over the past few years, in terms of both destination markets and sectors. While

investment into North Africa has largely stagnated (mainly due to recent political dynamics), FDI projects into sub-Saharan Africa have grown at a compound rate of 22% since 2007. Among the star performers attracting growing numbers of projects have been Ghana, Nigeria, Kenya, Tanzania, Zambia, Mozambique, Mauritius and South Africa.

At the same time, the trend of growing diversification continues, with an ever-increasing emphasis on services, manufacturing and infrastructure-related activities. To illustrate the point, in 2007, extractive activities represented 8.1% of FDI projects and 26.1% of capital invested in Africa; in 2012, it was a mere 1.8% of projects and 12% of capital. In comparison, services accounted for 70.2% of projects in 2012 (up from 45.2% in 2007), and manufacturing activities accounted for 43.1% of capital invested in 2012 (up from 22.4% in 2007).

1. Our primary source of FDI data is the FDI Markets database. This tracks greenfield (i.e., a form of foreign investment where a parent company invests in establishing a completely new enterprise) and significant expansion (brownfield) FDI projects, and does not include mergers and acquisitions (MandA), joint ventures (JVs) or other forms of equity investments. There is no minimum size for a project to be included, but every project has to create new direct jobs.

3 The perception gap remains a barrier for new investors

Our 2013 *Africa attractiveness survey* shows some progress in terms of investor perceptions since our inaugural survey in 2011. The majority of respondents are positive about the progress made in and the outlook for Africa. Africa has also gained ground relative to other global regions: whereas, in 2011, it was only ranked ahead of two other regions, this year, it was ranked ahead of five other regions (the former Soviet states, Eastern Europe, Western Europe, the Middle East and Central America).

However, the big take away for us from this year's survey is the stark and enduring perception gap between those respondents who are already doing business in Africa versus those that have not yet invested in the continent. Those with an established business, who understand the real rather than perceived risks of operating in Africa, who have experienced the progress made and see the opportunities for growth, are overwhelmingly positive. Some 86% of these business leaders believe that Africa's

attractiveness as a place to do business will continue to improve, and they rank Africa as the second most attractive regional investment destination in the world, after Asia.

In contrast, those with no business presence in Africa are far more negative about Africa's progress and prospects. Only 47% of these respondents believe Africa's attractiveness will improve over the next three years, and they rank Africa as the least attractive investment destination in the world.

4 Focus on enabling those already doing business in Africa

The fact that there are a number of companies with an already-established presence in Africa that are very positive about the continent's growth prospects and are getting down to business is crucial. These are believers in the Africa growth story, who do not need convincing; they are growing their investments, creating new jobs and focusing on long-term, sustainable growth opportunities across the continent.

The numbers also indicate that these companies, many of which have been doing business on the continent for decades, are expanding their operations in Africa, increasing their investments in greenfield projects, reinvesting their local earnings, strengthening local supply chains and enterprise, developing local skills, and generally focusing on long-term growth in Africa. These companies are already deeply committed to the future of the continent, both financially and emotionally.

We believe it is, therefore, time for a shift of emphasis and mindset away from trying to persuade the skeptics toward promoting and enabling those already investing and doing business in Africa.

Our survey highlights two key constraints that these companies face in doing business across the continent, and for which solutions should be prioritized:

► **Transport and logistics infrastructure**

There remains a significant deficit in physical transport infrastructure (roads, rail, ports, etc.) in Africa, and this clearly needs to be addressed. However, The World Bank's Logistics Performance Index (LPI) illustrates that the quality of infrastructure is only one of several factors contributing to transport and logistics cost and inefficiencies. The LPI analysis indicates that the inefficiency of customs and border management, for example, is as important a factor in the relative underperformance of many African countries.

Countries, such as Morocco, that are making substantial improvements in transport and logistics, are the ones that have implemented long-term and comprehensive reforms and investments across the transport and logistics supply chain. While there is no "cut-and-paste" approach, case studies indicate that, as important as investment in physical infrastructure is for improving transport and logistics in most African countries, so too

is related improvements in customs, border management and regional facilitation and integration.

► **Anti-bribery and corruption initiatives**

Perceptions are often that corruption is rife across Africa. The facts, though, tell us that the extent to which it is a major issue varies widely, with several African countries benchmarking well against other emerging markets. Nevertheless, people doing business on the continent clearly identify bribery and corruption as a key constraint. In terms of addressing this constraint from a government perspective, the gap is arguably less in developing relevant anti-bribery and anti-corruption (ABAC) legislation as it is in the effective implementation thereof. And, of course, bribery and corruption are not issues for government alone; attention also needs to be given to addressing the role of the private sector. Drawing on work of the African Development Bank, OECD and Transparency International, we provide some thoughts for improvements in addressing the challenge of bribery and corruption.

Principles for action

Five critical success factors, developed by Ernst & Young for the Strategic Growth Forum - Africa 2013.

Getting down to business implies a bias to action; we need to see a shift toward moving on and getting things done. However, we also need to ensure that government, business, the donor community and broader civil society are all working together toward achieving the same long-term objectives of economic growth and social development. This does happen, but often haphazardly and to a greater or lesser extent across different parts of Africa. To accelerate our progress, we need a more systemic and joined-up approach to working together to increase private investment, create more sustainable jobs, transfer new technologies and skills, and realize Africa's true economic and human potential over the next few decades.

But effective action needs to be grounded in an intellectual and emotional framework that ensures we are all on the "same page." We believe it is, therefore, important to consciously frame a set of principles about doing business in Africa, not as a philosophical inquiry, but rather because our principles critically influence how we behave as individuals and organizations. They lead us to participate or sit on the sidelines, to be bold or meek, to build or to pull down; a clear set of principles provides a framework for belief, which, in turn, helps provide the confidence and courage to act.

While we do not pretend to have all the answers, based on our own experience of growing an African practice across 33 countries, and of engaging with numerous private and public sector clients developing and executing strategies for growth in Africa, we suggest a set of five key principles. These, we believe, provide a framework for action for business and government, and for supporting the productive and mutually beneficial expansion of private investment in and across Africa.

- ▶ **Perspective:** assuming a glass-half-full perspective that focuses first on opportunity, and only then on the risks that need to be managed.
- ▶ **Partnerships:** investing in building strong collaborative partnerships across government, business and communities.
- ▶ **Planning:** adopting careful long-term planning, and patience; persistence and flexibility in implementing those plans.
- ▶ **Places:** embracing Africa's diversity, but ensuring the whole is greater than the sum of the parts.
- ▶ **People:** celebrating, nurturing and developing Africa's human talent; arguably the continent's greatest resource.



Context

Diverse African economies outperforming other regions in the world



Nairobi, Kenya.

Africa's growth is real and sustainable

Key points

1 Despite some ongoing skepticism, the past decade has been one of robust and sustained economic growth in Africa.

2 In the period since 2002, and in the face of a tough global economy, the overall size of the African economy has more than trebled.

3 High growth rates of individual economies are set to continue, with the IMF forecasting that 11 of the 20 fastest-growing economies in the world through to 2017 will be in Africa.

4 Twenty-seven African countries have already attained "middle income" status, and at current growth rates, as many as 40 (i.e., 75% of countries on the continent) could reach that status by 2025.

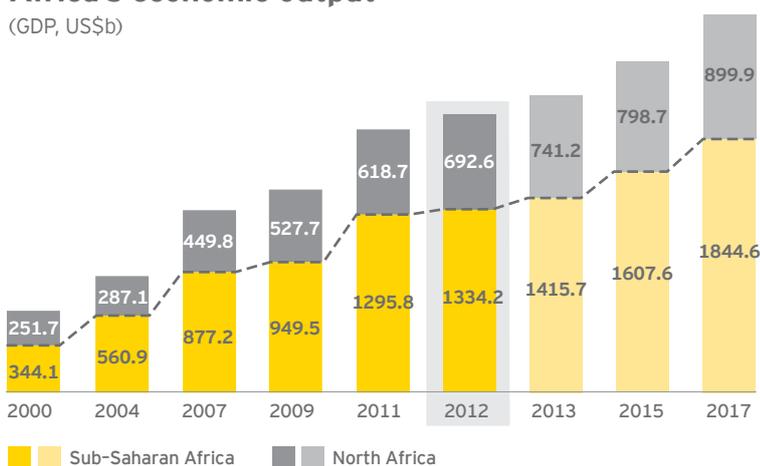
5 The directional trend of several economic, political and social factors give us confidence that a critical mass of African economies are poised to drive the structural transformation required over the coming decades to not only sustain, but even accelerate, growth and development.

In last year's *Africa attractiveness report (Building bridges)*, we highlighted the perception gap between negative historical beliefs about the continent and the positive reality of Africa's growth over the past decade. In recent months, we have noted some commentary that criticizes the "irrational exuberance" associated with the Africa growth story, suggesting that the growth comes from a low base, is mainly driven by commodity prices and is not likely to be sustainable.

Skepticism, and the outdated image of Africa as a poverty-stricken, disease- and conflict-ridden basket case that informs this skepticism, still runs deep. And there is, unfortunately, still enough bad news in Africa to reinforce the negative stereotypes. The reality of such a vast and diverse continent is that as much as we may want to celebrate the many economic success stories – from Botswana to Mozambique, to Zambia, to Rwanda, to Angola, to Nigeria, to Ghana, and so on – there are also

Africa's economic output

(GDP, US\$b)

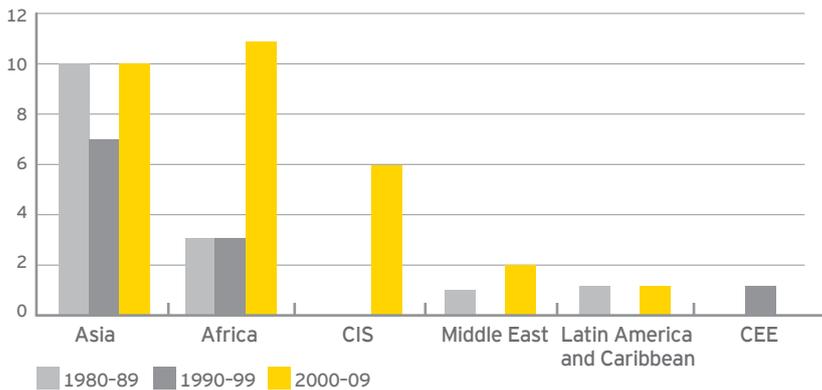


Sources: IMF World Economic Outlook Database; Ernst & Young analysis.

	Multiple since 2002	CAGR 2002-12	CAGR 2007-12
Sub-Saharan Africa	x3.8	14.2%	8.7%
North Africa	x3	11.6%	9.0%
Africa	x3.5	13.3%	8.8%

Africa accelerates past Asia

With the highest number of countries that grew at 7% pa on average over 2000-09



Source: Renaissance Capital.

several states that remain fragile. Despite the progress of many, there continue to be failures. Unfortunately, though, it is too often the failures – increasingly the exception rather than the norm – that dominate the news headlines and reinforce outdated stereotypes.

The reality is that a diverse range of African countries have now experienced consistent and robust growth for over a decade – certainly the longest period of sustained growth since most countries attained independence in the early 1960s. In the period since 2002, the size of the overall African economy has more than trebled (and grown at twice the population growth rate) – over this period, the size of the sub-Saharan African (SSA) economy has grown well over three-and-a-half times. What makes this economic performance all the more remarkable is that half of that decade has been marked by a deeply troubled global economy. Although many African

economies have been negatively impacted by the situation in key trading partners in Europe and North America, most have remained remarkably resilient.

Whichever way one analyzes it, the numbers tell us that a diverse and critical mass of African economies are consistently outperforming those in other, more celebrated regions of the world:

- ▶ According to research conducted by Renaissance Capital, 11 African countries grew at an annual rate of 7% or more between 2000 and 2009.²
- ▶ The well-documented fact, based on IMF data, that 6 of the 10 fastest-growing economies in the world over the period 2001–2010 were in Africa, adds further substance to a story of robust and sustained growth.

2. Charles Robertson, Yvonne Mhango and Nothando Ndebele, "Africa: The bottom billion becomes the fastest billion," *Renaissance Capital*, July 2011.

- ▶ The story looks set to continue through this year, with The World Bank, among various other notable institutions, forecasting growth for SSA (excluding South Africa) of 6%, with a full third of countries in the region growing at or above 6%.
- ▶ Looking forward, and according to the IMF's most recent forecasts, 11 of the world's 20 fastest-growing economies through 2017 will be African.³
- ▶ As of today, 22 SSA countries (45% of the total), as well as five North African countries, have attained "middle income" status as defined by The World Bank⁴ and, if current growth rates are sustained, 13 more could reach middle income status by 2025.⁵

3. Based on IMF estimates from the World Economic Outlook Database, October 2012.

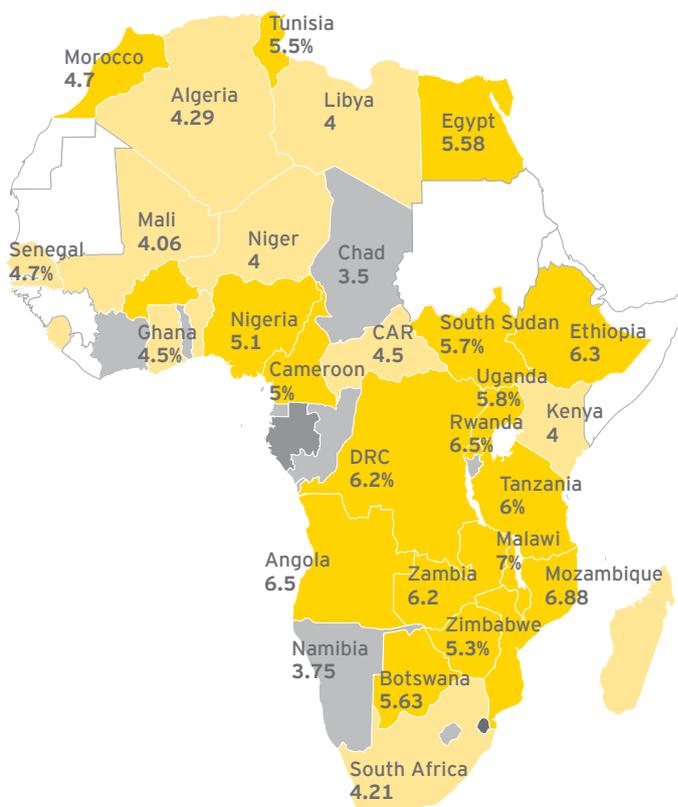
4. The World Bank's criterion for classifying economies is gross national income (GNI) per capita. A country is classified as "middle income" if it has GNI of between US\$1,026 and US\$12,475. We have counted Equatorial Guinea as middle income, although it is, in fact, the first African country to be classified as "high income" (i.e., GNI per capita in excess of US\$12,475).

5. Shantayanan Devarajan and Wolfgang Fengler, "Is Africa's recent economic growth sustainable?", *Institut français des relations internationales*, October 2012.



Projected GDP growth rate

(% change year to year - 2012-17)



<2.5%
 2.5 to 3%
 3 to 4%
 4 to 5%
 >5%

Source: Oxford Economics; Ernst & Young Growing Beyond Borders™.

Africa's rise to middle income



Source: adapted from Shantayanan Devarajan and Wolfgang Fengler, *Is Africa's recent economic growth sustainable?*, World Bank classifications.

Interview



Africa offers attractive commercial returns

Jean-Louis Warnholz
Co-founder and Managing Director, Fastafrica

During a trip to Ghana in 2009, I had breakfast with a senior banker. I highlighted the challenges of an established Ghanaian software business to secure a loan at the prevailing interest rate of 25%, a concern echoed by several successful companies. He explained that many other investments that the bank was financing deliver significantly higher rates of return. Granting the loan at that interest rate was simply financially less attractive to the bank. His observation epitomises what we found in our research at Oxford University (*Now is the time to invest in Africa*, Harvard Business Review, 2009): profits across a large sample of firms in Africa exceed those of similar firms in Asia and Latin America, but investment is scarce.

Today, the opportunities Africa offers for attractive commercial returns are increasingly appreciated in boardrooms around the world, and frequently touted in the financial press. As of 9 April 2013, the MSCI Frontier Markets Africa Index gained 64% over the preceding 12 months, more than four times the gains of the SandP 500 Index. The Ghanaian stock exchange, as an example, delivered 45% this year to date.

Investment flows, however, remain relatively small compared with other regions, and are often concentrated in sectors that do not have a sufficient job-creating impact. Unemployment is arguably the continent's single biggest challenge going forward. The 2012 African Economic Outlook reports that of the continent's

40 million unemployed youths, 22 million have given up on finding a job, many of them women. The jobs gap is much wider once underemployment - low-paying self-employment and family work - are taken into account.

Prolonged periods of jobless growth pose grave risks to Africa's promise of stability and prosperity. Investors have historically avoided establishing major manufacturing facilities in sub-Saharan Africa that could serve as sustained drivers of employment. There are, however, encouraging global trends that increase the region's competitiveness in manufacturing and services, with prospects to create millions of new jobs.

Our analysis of gains in political stability, deep investments in infrastructure and improved environments for doing business in select geographic regions in Africa suggests that the time for large-scale manufacturing clusters is ripe. These trends are further amplified by Africa's expanding consumer market, with the world's fastest growing middle class and recent data on wage inflation and exchange rate pressures in China and other Asian manufacturing hubs.

In light of the shift in political and economic fundamentals, Africa's top performing economies now have a credible opportunity to aggressively pursue diversified investments that draw young talent into an expanding workforce.

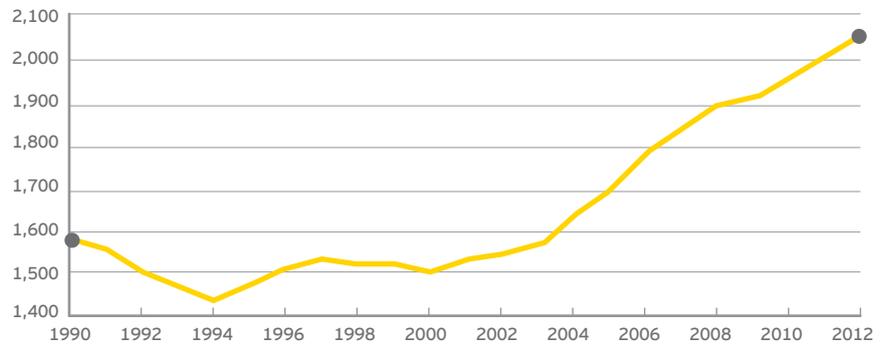
“There are, however, encouraging global trends that increase the region's competitiveness in manufacturing and services, with prospects to create millions of new jobs.”

One would expect these numbers to speak for themselves. Indeed, if the focus were on Asia, or even Latin America, we suspect that the validity of the economic growth story would be considered self-evident. At the very least, it should give us reason enough to pause and celebrate the remarkable progress of a continent that was dismissed at the beginning of the 2000s as “the hopeless continent.”⁶ That said, it is important, too, that we do not get caught up in a latter-day “gold rush” mentality. Most African countries still have a long way to go to emulate Asia’s sustained meteoric growth. In many respects, Africa is today at a point where many of the east Asian economies were in the 1970s, and the likes of India, Mexico and Turkey were in the 1980s. However, while there is no

“cut-and-paste” answer to effective economic growth and industrial policy, we strongly believe that a critical mass of African economies are poised to drive the structural transformation required over

the coming decades. This will not only sustain, but even accelerate, the growth and development we have seen over the past decade.

Gross national income per capita
(2005 PPP US\$)



Note: PPP is purchasing power parity.
Source: UNDP Human Development Report Office (HDRO) calculations.

6. The reference is to a 2001 cover story in the Economist. In fairness, and given the significant progress since that story was published, the Economist has done an about turn, and more recently published two far more positive cover stories documenting the Africa growth story (“Africa Rising,” December 2011, and “Aspiring Africa,” February 2013).



Interview



Improving the environment for doing business in Africa

Hon. Xavier-Luc Duval
Vice Prime Minister, Mauritius

The 2012 Ibrahim Index of African Governance ranked Mauritius first in good governance. Also in 2012, Mauritius's sovereign credit rating was increased to 1, with a stable outlook, by Moody's Investors Service. This positive momentum and robust growth can be attributed largely to the close partnership between its public and private sector.

Breaking the barriers to improve the ease of doing business has seen Mauritius break through many African stereotypes. If I had to pinpoint a key factor in our success, it would be the reforms that we enacted in the 1980s. This was when personal and income taxes were halved, and we enacted legislation to attract foreign direct investment from Asia for our exports. We empowered labor laws to ensure our people do minimum overtime, so that companies can be profitable. A directed lending policy was adopted - banks were obliged to lend to our export processing zone at rates lower than elsewhere. Mauritius focused on growing key sectors of its economy, such as tourism. At this time, when other countries in the region were focused on centrally managed economies, we opted for a very different approach to bring us the outcomes we were looking to achieve.

Today, the country is in a strong position. Having maintained reasonable growth rates through the years of the financial crisis, it also has excellent economic fundamentals, such as a 1.8% budget deficit. We have continually been able to reduce taxes, while, at the same time, still receiving increases in tax revenues. We are also looking into moving to new sectors, such as financial services, as we believe in supporting our different sectors of the economy. Further, to simplify the ease of doing business, we are streamlining regulations and the permit process.

All of these reforms and initiatives have placed Mauritius in good stead and have forced many business people across the world to reconsider their perceptions of Africa. I believe that our region can be prosperous. The winds of change are sweeping across Africa, albeit at different rates, but I am optimistic about the future.

“The positive momentum in Mauritius and its robust growth can be attributed largely to the close partnership between its public and private sector.”

There is no one overriding factor that makes us confident about the sustainability of Africa's growth trajectory. Instead, there are a number of economic, social and political factors that are all moving in the right direction; it is this directional trend since the end of the Cold War and Apartheid that is critically important. Among the more important factors for us are the following:

1 Sound macroeconomic management

We do not feel that it is an exaggeration to suggest that a large number of African economies have been better managed over the past decade than their developed market counterparts. Economic reforms that began being implemented in the 1990s have laid a foundation for the sustained growth that we have subsequently seen. Significantly reduced budget deficits and debt levels, for example, have been a key factor. In a sample of 15 SSA countries,⁷ the debt burden – measured as the stock of external debt to

gross national income (GNI) – decreased from an average of 120% in 1994 to 21% in 2011.⁸ While many developed markets continue to struggle with massive debt burdens, many African governments have had far greater flexibility to invest in growth. Our own calculations⁹ also show that Africa's ability to cover its total debt service through export earnings has strengthened on average fourfold since 2007, when compared with 1990 levels. Similarly, and despite growth rates, inflation levels have dramatically improved over the past decade.

7. Analysis by Skolkovo Institute for Emerging Markets. Averages have been calculated for the following 15 countries: Botswana, Burkina Faso, Cameroon, Ethiopia, Ghana, Kenya, Mauritius, Mozambique, Nigeria, Rwanda, Senegal, South Africa, Tanzania, Uganda and Zambia.

8. World Development Indicators, World Bank, 2012.

9. Using export income from goods and services and taking its ratio against total debt service. World Bank Development Indicator figures.

Improvement in macroeconomic indicators

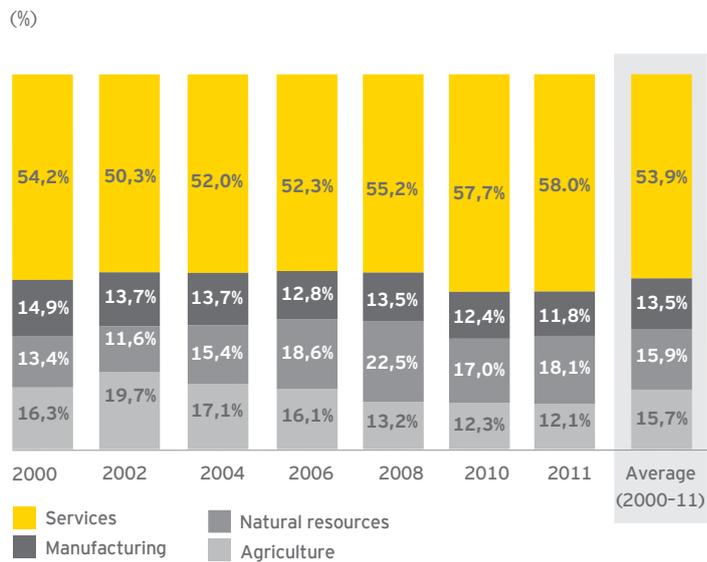
	Inflation				External debt or GNI			
	1980s	1990s	2000s	2011	1980s	1990s	2000s	2010
Botswana	10.8	10.8	8.7	8.9	23.2	13.6	6.6	11.6
Burkina Faso	5.0	4.5	3.0	2.8	26.9	47.4	35.6	23.3
Cameroon	9.1	5.6	2.6	2.9	41.0	95.3	56.4	13.5
Ethiopia	4.6	8.0	10.9	33.2	55.2	104.0	48.3	24.1
Ghana	48.3	27.6	18.5	8.7	48.2	79.8	73.3	27.2
Kenya	11.8	17.4	10.9	14.0	63.0	79.7	37.0	26.9
Mauritius	11.2	7.6	6.0	6.5	45.6	31.8	13.5	11.0
Mozambique	45.1	34.5	10.7	10.4	130.4	252.5	83.6	43.8
Nigeria	20.9	30.6	12.2	10.8	77.0	118.1	35.6	4.5
Rwanda	4.7	8.6	8.2	4.9	20.6	63.1	53.7	14.2
Senegal	6.9	4.5	2.1	3.4	72.8	76.7	45.1	28.5
South Africa	n/a	9.9	6.1	5.0	n/a	17.8	16.6	12.7
Tanzania	30.1	23.1	6.8	12.7	129.9	131.2	55.2	37.7
Uganda	111.2	13.0	6.4	18.7	40.2	74.3	42.7	17.9
Zambia	69.3	76.2	17.3	8.5	192.2	218.2	103.5	25.8
Average	27.8	18.8	8.7	10.1	69.0	93.6	47.1	21.5

Source: *World Development Indicators (2012)*, The World Bank

2 Diversification of sources of growth

There is a fairly common view that Africa's growth over the past decade has been driven by natural resources. However, while they are and will continue to be an important contributor to growth, resources have contributed less than a third of Africa's growth since 2000. The rest has come from a range of other sectors, including agriculture, manufacturing, construction and, in particular, services. These growth patterns are reflected in the overall structure of Africa's total GDP (which is this year forecast to break the US\$2 trillion mark). During a period in which the size of Africa's GDP has tripled, natural resources (excluding agriculture) have made an average contribution of less than 20%, while services are moving ever closer to accounting for 60% of value added.

Sub-Saharan Africa's contribution to GDP



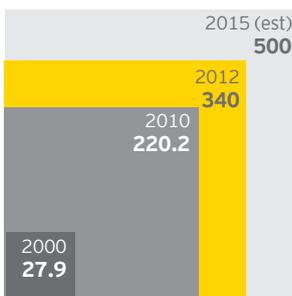
Source: The World Development Indicators, World Bank, 6 Feb 2013.

3 Growth and diversification of trading partners

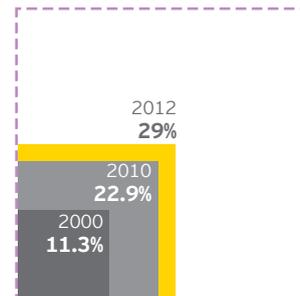
Growth in Africa's trade with the rest of the world has grown over fourfold since 2000 and has been another key driver of Africa's sustained economic growth. The EU as a bloc remains Africa's largest trading partner, and trade between Africa and the EU has grown at a compound rate close to 10% since 2000. However, the EU's relative share of trade with Africa has shrunk considerably over that period – from over 50% in 2000 to around about 30% today – as growth in trade with other markets, particularly those in the emerging world, has picked up. Standard Bank, for example, estimates that that BRICS' (Brazil, Russia, India, China and South Africa) total trade with Africa reached US\$340 billion in 2012 (i.e., Africa's total trade with the rest of the world in 2000), representing a more than 10-fold increase over the course of a decade.¹⁰

BRICS - Africa bilateral trade

BRICS Africa total trade (US\$ billion)



BRICS of Africa total trade (%)



Source: adapted from Standard Bank Research.

60%
China-Africa proportion of BRICS trade with Africa.

25%
China-Africa trade was roughly US\$220 billion in 2012, up to 25% year on year.

x2
Since the 2007 global financial crisis, the trade between BRICS and Africa doubled.

10. Simon Freemantle and Jeremy Stevens, "BRICS trade is flourishing, and Africa remains a pivot," Standard Bank Research, February 2013.

Interview



The infrastructure deficit and opportunities in Africa

Ebrima Faal

Regional Director, African Development Bank

Africans have known for more than 50 years that infrastructure should be a key priority. So why now? Why are we focusing on this?

African growth has generated greater demand. We have huge demographic shifts creating higher expectations, as well as increasing urbanization, which means that 40% of Africans are projected to live in cities by 2030. And, since 2006, intra-African trade has increased from about US\$48 billion a year to over US\$100 billion a year. Again, what has not kept pace is the infrastructure itself. Today, 30 countries are affected by chronic power problems. Transportation costs are on the up – increasing the costs of goods by at least 75% in some landlocked countries. We also know that only 4% of African GDP is invested in infrastructure, compared with about 14% in China. If we can close the gap, we will add two additional percentage points to African GDP.

It has been well established that Africa needs to spend approximately US\$90 billion a year for the next decade to upgrade and maintain its infrastructure. We have financing for about US\$40 billion a year, so the deficit each year is estimated about US\$50 billion. We will also need to focus on the maintenance and rehabilitation of existing infrastructure, where a huge funding gap also exists. Clearly, the need is urgent, and innovative and bold approaches are required – a business-as-usual approach will not suffice.

We are seeing a trend where African leaders are now prioritizing visible infrastructure programs and opportunities across different regions of the continent. We're also seeing new sources of financing developing. The reliance on overseas development aid has fallen back since the financial crisis, and infrastructure financing must look beyond aid. This won't be straightforward, because if you divide up the project life cycle of financing and look at it in terms of preparation, construction and operation, in the first phase we don't see a lot of private sector activity – it tends to be reliant on aid.

“We need to move from having a wishlist of investable projects to having bankable projects.”

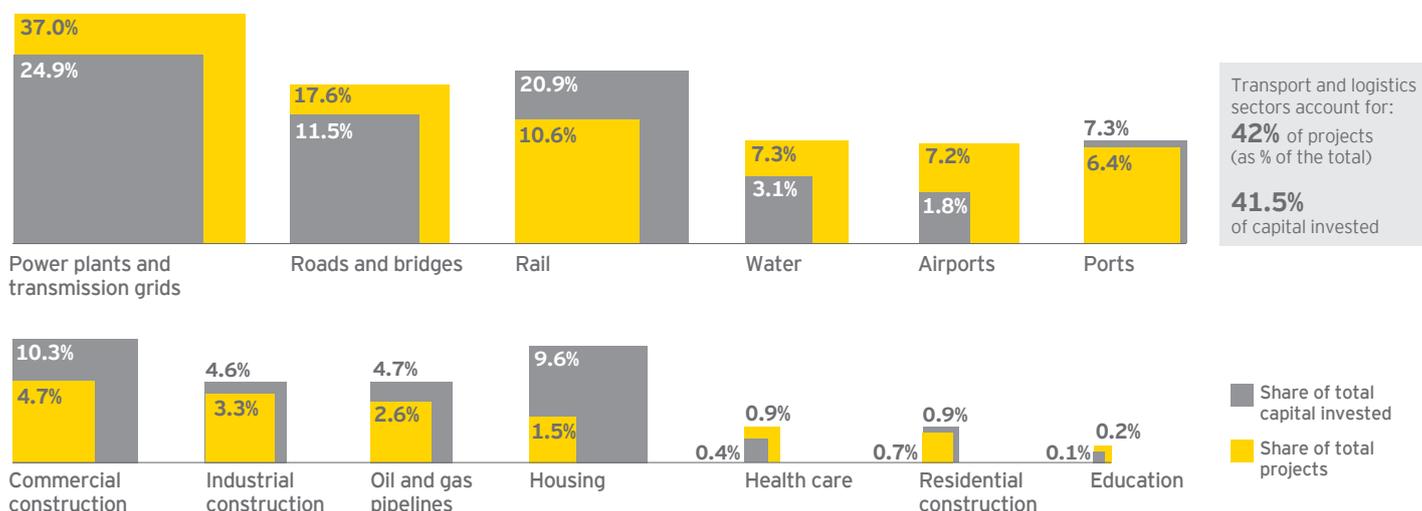
We now have to look to different flows of capital, such as Africa's foreign exchange reserves invested abroad, pension funds, domestic issued and diaspora bonds, remittances and sovereign wealth funds, all of which can catalyze private sector investment in infrastructure. In addition, we're also seeing massive quantitative easing programs in Europe and the US. So there are a lot emerging market funds that are seeking yields elsewhere. We think a lot of these funds will try to find a home in Africa.

But, of course, there is competition. For example, Eastern Europe needs over €2 trillion for its infrastructure over the next decade. This means we need to move from having a wishlist of investable projects to having bankable projects. Establishing bankability and making it easier for the private sector to come in is a key priority. What we need now is an area conducive business environment and projects that are transformative, and commercially viable, that inspire investor confidence and have a catalytic role on the economy. From a regional and continental infrastructure development perspective, the Programme for Infrastructure Development in Africa (PIDA) already provides good candidates with high-level consensus.

The African Development Bank (AfDB) is a regional multilateral development finance institution established to contribute to the economic development and social progress of African countries.

Africa's infrastructure projects up to February 2013

% share of total number of projects and capital invested - by different sector activity (ranked by most projects)



Source: Africa Project Access, *Business Monitor International*; Ernst & Young analysis.

4 Investment in infrastructure

Infrastructure gaps, particularly relating to logistics and electricity, are consistently cited as the biggest challenges by those doing business in Africa. At a macro level, too, Africa's growth will be inherently constrained until the infrastructure deficit is bridged. The flip side of this challenge, though, is that strong growth has been occurring despite such infrastructure constraints – consider the potential not only to sustain, but to accelerate, growth as the gap is narrowed. And the facts tell us that the gap is being narrowed:

- Our analysis indicates that, in 2012, there were over 800 active infrastructure projects across different sectors in Africa, with a combined value in excess of US\$700 billion.

- South Africa had the most infrastructure projects (with a combined value of close to US\$130 billion). The South African Minister of Finance also recently announced that approximately US\$100 billion has been allocated in the Government's budget for spending on infrastructure projects over the next three years.
- Nigeria is next, with 106 infrastructure projects with a value of close to US\$100 billion. The East African countries of Kenya, Uganda and Tanzania, together with Mozambique, are also all in the top 10 in terms of number of infrastructure projects, while Angola has the 4th highest capital value overall.
- The large majority of the total infrastructure projects are related to power (37%) and transport (41%).

Top 10 African destination countries for infrastructure projects, up to February 2013

	Number of projects	Sum of capital invested (US\$ million)
South Africa	134	129,934.0
Nigeria	106	95,480.5
Egypt	82	60,164.7
Uganda	63	17,730.3
Kenya	60	32,851.5
Algeria	34	87,154.1
Mozambique	31	32,085.0
Libya	29	20,668.4
Tanzania	29	16,185.1
Cameroon	25	8,470.8

Source: Africa Project Access, *Business Monitor International*; Ernst & Young analysis.

Number of projects

(% share of total projects)



Source: Africa Project Access, *Business Monitor International*; Ernst & Young analysis.

5 Democracy has taken root

From the early days of independence in the 1960s right through the 1980s, almost every African country was ruled by some form of dictator.¹¹ However, the democratic elections in Namibia in 1989 symbolized a turning point in Africa's political development. Within months after the Berlin Wall had fallen, Nelson Mandela had been released from jail, and an era of political reform and democratization had

11. Between 1960 and the fall of the Berlin Wall in 1989, only five African countries held elections on any kind of regular basis. Of those, there was only a single instance – in Mauritius – of a peaceful, democratic transfer of power.

begun. Looking back on almost 25 years of slow but steady progress, Africa's political landscape has changed dramatically. Some form of regular democratic elections has become increasingly the norm across most parts of Africa. Although the process is often not perfect, and there is still a long way to go in many countries, the process is very real and substantial. To illustrate the point, between 1960 and the fall of the Berlin Wall in 1989, only five African countries held elections on any kind of regular basis, and there was only a single instance – in Mauritius – of a peaceful,

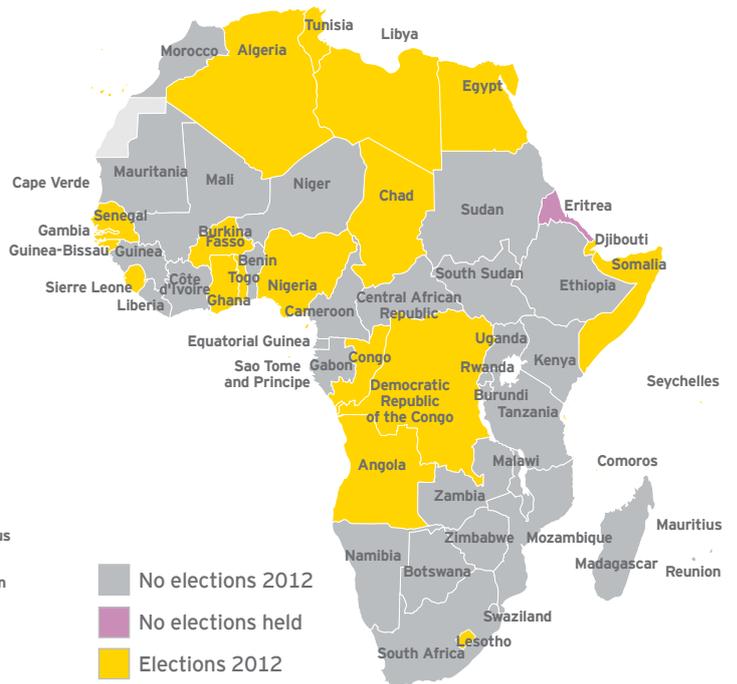
democratic transfer of power. In contrast, since 1990, we have seen well over 30 ruling parties or leaders changing through a democratic process – Kenya's presidential elections in March this year being the most recent example. Anyone with an appreciation of history will know that it took centuries for democracy to evolve and stabilize in Western Europe. In this context, Africa's trajectory over the past 20 years is remarkable.

African elections calendar 2011-12

Updated May 2012



Updated December 2012



Source: "African Elections Calendar 2011," *African Democracy Encyclopedia*, *The Electoral Institute for Sustainable Democracy in Africa* website, www.eisa.org.za, accessed 15 April 2013.

African election calendar 2013

Updated April 2013

Country	Election	Date
Cameroon	National Assembly, Senate and communes	14 Apr 2013 (postponed from Jul 2012)
Côte d'Ivoire	Local	24 Feb 2013
Djibouti	National Assembly	22 Feb 2013
Egypt	House of Representatives	2013 - postponed from 27 Apr (in four stages), ending in Jun; date uncertain
	Shura Council	Second half of 2013
Ethiopia	Local	Early 2013
	House of the Federation (indirect)	2013
	President (indirect)	Oct 2013
Equatorial Guinea	House of People's Representatives and local	26 May 2013
Gambia	Local	2 Apr 2013
Guinea	National Assembly	Postponed to 30 Jun 2013 from 12 May 2013
Guinea-Bissau	People's National Assembly and local	2013 (postponed from 2012)
Kenya	Presidential, National Assembly and local	4 Mar 2013 (postponed from 14 Aug 2012)
Libya	Constitutional referendum	2013
	Presidential, parliamentary and local	2013, after referendum
Madagascar	Presidential first round	Postponed to 24 Jul 2013 from 8 May 2013
	Presidential second round and National Assembly	Postponed to 25 Sep 2013 from 3 Jul 2013
	Local	23 Oct 2013
	Senate (indirect)	Oct or Nov 2013, after local
Mali	Presidential, National Assembly and local	7 Jul 2013
Mauritania	Senate (1/3 members), National Assembly, regional and local	2013? (postponed indefinitely from May 2012)
Mauritius	President (indirect)	Sep 2013
Mozambique	Local	Nov 2013
Rwanda	Chamber of Deputies	2013
Somaliland	House of Representatives	May 2013
Swaziland	House of Assembly and rural local	Late 2013
Togo	National Assembly and local	24 Mar 2013 (postponed from Oct 2012)
Tunisia	Presidential, parliamentary and local	Late 2013
	Presidential second round	17 Jul 2013
Zimbabwe	Constitutional referendum	16 Mar 2013
	Presidential, National Assembly, Senate and local	2013, after referendum

Source: "African Election Calendar 2013," *African Democracy Encyclopedia*, *The Electoral Institute for Sustainable Democracy in Africa* website, www.eisa.org.za, accessed 15 April 2013

Interview



Improving the environment for doing business in Africa

Asad Alam
Regional Director, World Bank

Every country has a unique history, is coming from a different place and has a different set of aspirations, but actually, when you cut across borders, a lot of the countries are facing common challenges.

There are several African countries that have risen up the ranks of the World Bank's Doing Business indicators. Mauritius is a leader – number 19 in the most recent assessment. South Africa is in the 30s, and Rwanda is another up-and-coming country. But there are still a number of African countries that are clustered in the lower ranks, and this brings the average for Africa down, which is still pretty low.

We know what the frontier is – it is a question of how to get governments to cut through the red tape and make it easier to do business. The recent successes of Mauritius break through so many stereotypes, such as the notion that a lot of African countries are small and, therefore, cannot grow. Mauritius has dispelled that by going global and opening up its borders. Another notion is that African countries are stuck in a trap of undiversified economies and are not creating jobs – but Mauritius has shown that jobs can be created, particularly for youth and women. This is particularly important.

I can think of several ways to build trust between governments and the private sector. First, countries need to start by developing a common vision for their future. These can bring people together as they pursue common goals, such as fighting poverty, inequalities and creating jobs. Second, there also needs to be strong institutions (judiciary, free press and civil service), as they are the interface between the private sector and the state. Third, there needs to be a consistency in the tax regime. Fourth, there needs to be clear communication between the two sectors and, finally, transparency, which is essential around public finances, procurement and the government-business relationship. These are all extremely important to build trust with the private sector.

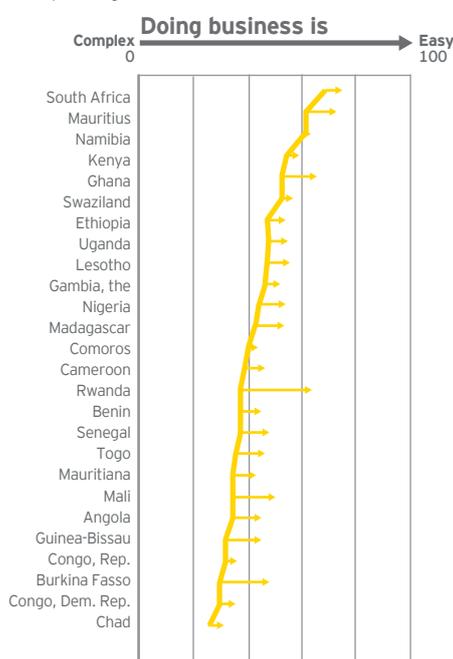
“Mauritius has dispelled many stereotypes by going global and opening up its borders.”

6 It is getting easier to do business

While Africa's size, diversity and fragmented economies make it an inherently complex place to do business, conditions have significantly improved over the past decade. Using The World Bank's *Doing Business* research as one key indicator of trends, many African economies have made substantial progress. Focusing only on SSA, the World Bank's research shows that 45 out of the 46 sub-Saharan economies they track have improved their regulatory environments for doing business since 2005. In fact, among the 50 economies that have made the biggest improvements over that period, the largest share – 19, or well over a third – is in Africa. Of these, Rwanda

Doing business

The regulatory environment for doing business is improving



Source: World Bank/IFC Doing Business 2013.

has made the most progress overall, with the Government pursuing a systematic program to improve the environment for doing business and promote private sector growth. However, several others, including Mauritius (the highest-ranked

African country, and also ranked above the likes of Germany, Japan, Switzerland, the Netherlands and France), Ghana, Nigeria, Angola, Senegal, Egypt and Morocco, have all made substantial progress.

Global best practices in Africa by Doing Business topic

	Practice	Examples
Making it easy to start a business	Having no minimum capital requirement	Kenya, Madagascar, Morocco, Rwanda
	Having a one-stop shop	Burkina Fasso
Making it easy to deal with construction permits	Having comprehensive building rules	Kenya
	Using risk-based building approvals	Mauritius
	Having a one-stop shop	Rwanda
Making it easy to obtain an electricity connection	Streamlining approval processes (utility obtains excavation permit or right of way if required)	Benin
	Reducing the financial burden of security deposits for new connections	Mozambique
Making it easy to register property	Setting fixed transfer fees	Rwanda
Making it easy to get credit	Allowing a general description of collateral	Nigeria, Rwanda
	Maintaining a unified registry	Ghana
	Distributing data on loans below 1% of income per capita	Kenya, Tunisia
	Distributing both positive and negative credit information	South Africa
	Distributing credit information from retailers, trade creditors or utilities as well as financial institutions	Rwanda
Protecting investors	Allowing rescission of prejudicial related-party transactions	Mauritius, Rwanda
	Requiring external review of related-party transactions	Egypt
Making it easy to pay taxes	Allowing self-assessment	Rwanda
	Allowing electronic filing and payment	Mauritius, Tunisia
	Having one tax per tax base	Namibia
Making it easy to trade across borders	Using risk-based inspections	Morocco, Nigeria
	Providing a single window	Ghana
Making it easy to enforce contracts	Making all judgments in commercial cases by first-instance courts publicly available in practice	Nigeria
	Maintaining specialized commercial court, division or judge	Burkina Fasso, Liberia, Sierra Leone
	Allowing electronic filing of complaints	Rwanda
	Requiring professional or academic qualifications for insolvency administrators by law	Namibia
Making it easy to resolve insolvency	Specifying time limits for the majority of insolvency procedures	Lesotho

Source: World Bank/IFC Doing Business 2013.

7 The quality of human life is improving

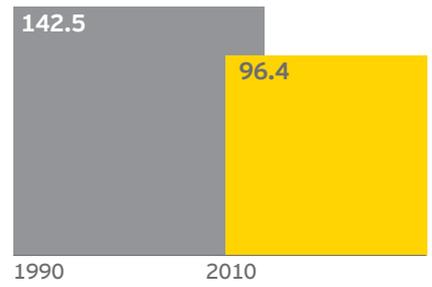
Improvements in the quality of life are not only a key indicator of the ultimate impact of economic growth, but also of long-term sustainability. While there is obviously still a long way to go, the trends point to significant progress not only in raising income levels, but in areas of health, education and general welfare in many parts of Africa:

- ▶ According to The World Bank, the poverty rate in Africa has been falling by one percentage point a year since 1995. They estimate that the proportion of Africans living beneath the poverty line will have reduced from 60% in 1995 to 38% in 2015.

- ▶ At the same time, based on UNESCO data, average literacy rates in Africa have improved from 52% in the 1990s to almost 65% today.
- ▶ Reduction in the annual rate of child mortality is accelerating (averaging over 3% for sub-Saharan Africa since 2000, according to UNICEF data).
- ▶ An analytical study by Xavier Sala-i-Martin and Maxim Pinkovskiy backs up the view that the quality of life in Africa is steadily improving. In their paper, *African Poverty is Falling ... Much Faster than You Think!* they reveal that there has been a sharp and widespread reduction in poverty and income inequality in Africa since 1995.

Sub-Saharan Africa under 5 mortality

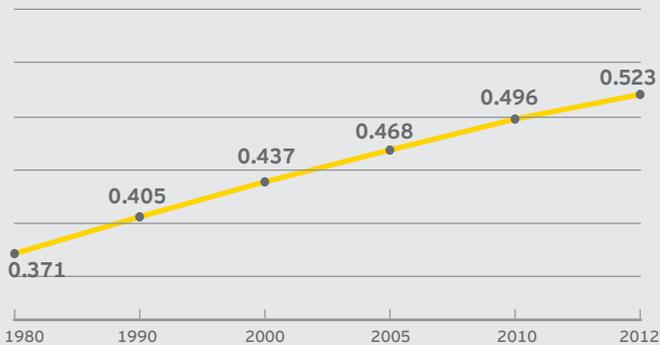
(Deaths per 1,000)



Source: Human Development Report Office (HDRO) calculations, UNDP.

Human development

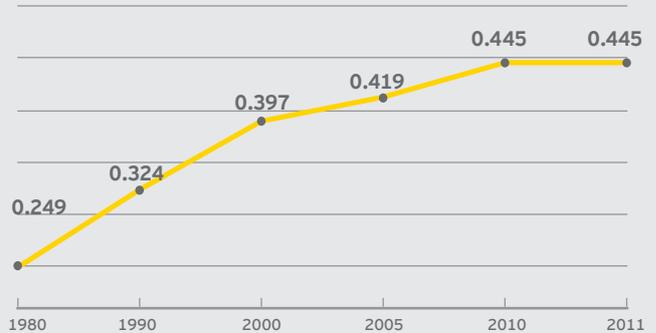
Sustained improvement in the UN's Human Development Index (HDI) for African countries (0=worst, 1=best)



Source: Human Development Report Office (HDRO) calculations, UNDP.

Steady progress in education levels

HDI educational index for Africa (0=worst, 1=best)

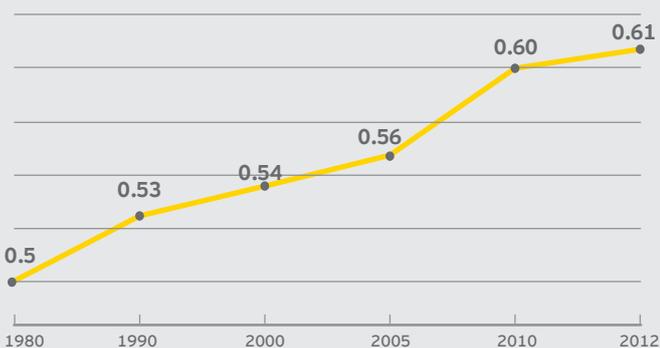


Notes: The Education Index is one of the three pillars on which the overall HDI is built. The Education Index comprises two indices; 1. expected years of schooling (children), and 2. mean years of schooling (adults).

Source: Human Development Report Office (HDRO) calculations, UNDP.

Overall health levels are improving

Sub-Saharan Africa HDI Health Index (0=worst, 1=best)



Source: Human Development Report Office (HDRO) calculations, UNDP.

A 30-year journey?

No right-minded person is suggesting that Africa has been transformed into an economic powerhouse in the space of a few short years. There are still many challenges ahead, not least of which is a robust structural transformation – required across many economies – that will not only lessen dependency on commodities, but also expand the private sector, increase productivity levels and, most of all, create jobs. However, with an increasingly solid foundation of economic, political and social reform, together with resilient growth rates, we are confident that the continent as a whole is on a sustainable upward trajectory. This direction of travel, rather than the current destination, is what is most important.

A critical mass of African economies will continue on this journey. Despite the fact that there will undoubtedly be bumps in the road, there is a strong probability that a number of these economies will follow the same developmental paths that some of the Asian economies, as well as economies such as Mexico and Turkey, have over the past 30 years. By the 2040s, we have no doubt that the likes of Nigeria, Ghana, Angola, Egypt, Kenya, Ethiopia and South Africa will be considered among the growth powerhouses of the global economy.



Reality

FDI in Africa today

p.28 Greenfield investments into Africa declined in 2012

p.29 But UNCTAD FDI data shows an increase in FDI capital flows

p.31 There has been a growing focus on key sub-Saharan African markets

p.34 Emerging markets continue to grow their share of investment into Africa

p.36 South Africa emerges as a leading investor in the continent

p.37 Ongoing diversification of economic activities



October Bridge and River Nile in Cairo.

The FDI numbers: glass half empty or full?

Key points

- 1** Greenfield FDI projects into the continent were down by 12% year on year, reversing the strong growth in projects during 2011.
- 2** This decline, however, occurred in a context in which global project flows shrunk by 15% year on year.
- 3** In fact, as a proportion of global flows, greenfield projects into Africa actually grew from 5.4% to 5.6% year on year.
- 4** Furthermore, according to preliminary 2012 FDI data from the United Nations Conference on Trade and Development (UNCTAD), capital flows into Africa actually increased by 5.5% last year (in a context in which capital flows declined in every one of the BRICS, except for South Africa).
- 5** A group of sub-Saharan economies, including Ghana, Nigeria, Kenya, Tanzania, Zambia, Mozambique, Mauritius and South Africa, have been among the growth leaders in terms of attracting FDI projects in the period since 2003.
- 6** While FDI projects from developed markets into Africa declined markedly (with the exception of the UK), emerging markets continued to grow their investments.
- 7** The stand-out performer in terms of emerging markets investment into (the rest of) Africa was South Africa, sustaining the trend of robust intra-African investment.
- 8** Intra-African contributions to FDI projects continue a strong upward trend, recording a high compound rate of 32.5% since 2007, compared with 15% CAGR for (non-African) emerging markets project investment into Africa, and only 8.4% for developed markets over the same period.
- 9** Diversification of greenfield FDI projects also continued apace, with services accounting for more than 70% of projects in 2012 and 73.5% of capital being invested into manufacturing and infrastructure-related activities across all sectors.

"This time the continent really is on the rise ... the engines of development are still going strong. Democratic governance, political participation and economic management look set to improve further. Many reforms already introduced have yet to take full effect. New infrastructure, better technology, growing urbanization and the return of emigrants will keep fueling business. Some economists believe that Africa's GDP numbers, if anything, underestimate its real growth."

"Cheerleaders and naysayers," *The Economist*, March 2013.

Greenfield investments into Africa declined in 2012

At face value, 2012 was a disappointing year, in that it reversed the year-on-year growth we experienced in 2011, and somewhat dampened our expectations of steady growth in FDI projects. Having said that, we do need to put these trends in perspective:

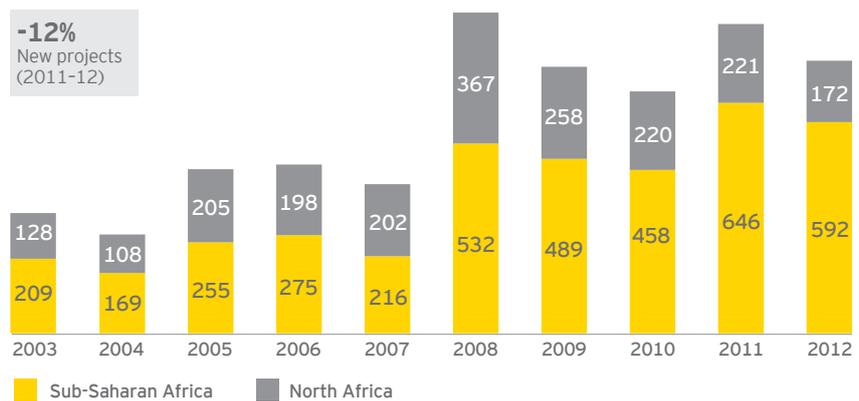
- ▶ Globally, greenfield projects were down by over 15% year on year in 2012, so the background is one of decline across the board.
- ▶ In this context, Africa's proportional share of global greenfield projects actually grew, continuing a trend that has seen this share grow, in the course of a decade, from 3.5% of the global total in 2003 to 5.6% in 2012.
- ▶ It is also worth noting that the 764 new greenfield projects this year is still higher than the 678 in 2010, and significantly higher than anything that preceded the peak of 2008.

Growth trend in new projects FDI

	CAGR (2007-12)	CAGR (2003-12)
Africa	12.8%	9.5%
Sub-Saharan Africa	22.3%	12.3%
North Africa	-3.2%	3.3%

New projects FDI inflow trends into Africa (2003-12)

(2003-12)

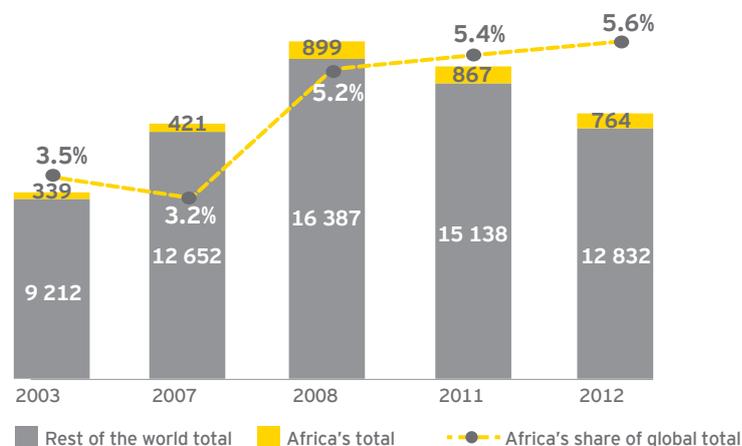


Sources: fDi Markets; Ernst & Young analysis.

"We are seeing a trend where African leaders are now prioritizing visible infrastructure programs and opportunities across different regions of the continent. We're also seeing new sources of financing developing."

Ebrima Faal, Regional Director, African Development Bank

Global FDI trend for number of new projects



Sources: fDi Markets; Ernst & Young analysis.

But UNCTAD FDI data shows an increase in FDI capital flows

This year, we have extended our analysis beyond the core data set we receive from fDi Markets, and also looked at FDI data from UNCTAD. It is important to note the differences in the two datasets:

► **The fDi Markets database**, which is our primary source, tracks new greenfield and significant expansion (brownfield) FDI projects, and does not include mergers and acquisitions (MandA) or other forms of equity investments. There is no minimum size for a project to be included, but every project has to create new direct jobs.

► **The UNCTAD data** looks more broadly at net flows of FDI capital, including equity capital, reinvested earnings and intra-company loans.

What is interesting is that, despite greenfield investment into Africa having declined last year, the broader UNCTAD category shows an overall growth of FDI into the continent of 5.5%. This at a time when global FDI flows, according to the UNCTAD definition, declined by 18.3%.

What the UNCTAD data also tells us is that Africa's overall stock of FDI (i.e., the accumulated amount of active foreign investment capital and reserves, including retained profits) has increased almost fourfold since 2000. With the relative decline in greenfield investment last year, the UNCTAD numbers also indicate that foreign companies with existing operations in Africa are increasing their equity stakes or reinvesting a large proportion of their local earnings (components not directly measured in the fDi Markets data). This is a critical point that we will return to, because it highlights again the confidence of those already doing business on the continent.

FDI inflows 2010-12 (US\$ billion and %)

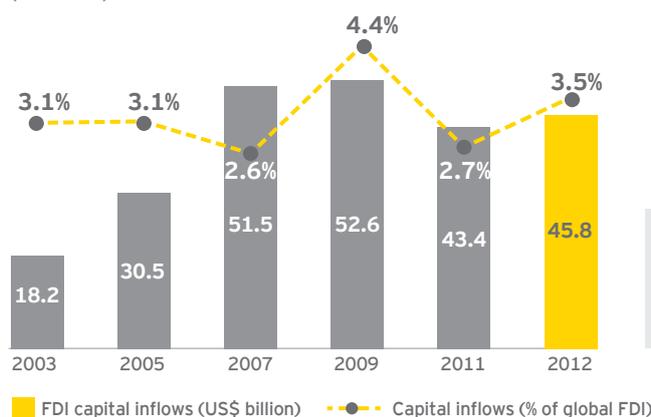
Region or economy	2010	2011*	2012**	Growth rate 2011-12 (%)
World	1,381.0	1,604.2	1 310.7	-18.3
Developed economies	674.9	807.8	548.9	-32.1
European Union	358.0	440.0	287.0	-34.8
United States	197.9	226.9	146.7	-35.3
Australia	35.2	65.8	48.5	-26.3
Japan	- 1.3	- 1.8	- 0.4	..
Developing economies	630.9	702.7	680.4	-3.2
Africa	43.2	43.4	45.8	5.5
Brazil	48.5	66.7	65.3	-2.0
China	114.7	124.0	119.7	-3.4
India	24.2	31.6	27.3	-13.5
Russian Federation	43.3	52.9	44.1	-16.6

* Revised. ** Preliminary estimates.

Source: *FDI inflows 2010-2012*, United Nations Conference on Trade and Development (UNCTAD), January 2013.

UNCTAD FDI inflows into Africa

(2003-12)



Sources: fDi Markets; Ernst & Young analysis.

-18.3%
World 2012 year on year change

+5.5%
Africa 2012 year on year change

Viewpoint by Ernst & Young

Sandile Hlophe
Africa Leader,
Transaction Advisory
Services

Developing sustainable private sector growth in Africa – the role of private equity

Private equity (PE) firms have invested nearly US\$12 billion in Africa over the last five years, and raised almost US\$10 billion. Furthermore, a number of firms are currently in the market and targeting funds of US\$500 million and above to invest across Africa, including BTG Pactual, Development Partners International and Carlyle.

PE has a vital role to play in the growth of the private sector in Africa. The growth of SMEs in Africa is constrained by the relative scarcity of capital from banks and public markets, and high interest rates on loans. PE, therefore, provides an important alternative source of funding to facilitate the growth of these companies.

However, PE firms are not just financiers of businesses in Africa. A recent study by Ernst & Young and the African Venture Capital Association* demonstrates how PE adds value over and above the provision of capital in supporting the operational and strategic growth of businesses:

- ▶ **Firstly**, PE firms work in partnership with the management teams and entrepreneurs of companies they back, ensuring the cross-fertilization of ideas and the transfer of skills and knowledge from the PE team to the company.
- ▶ **Secondly**, PE firms actively leverage their extensive networks to bring in additional skills and expertise to the company, identify acquisition targets, help with regulatory requirements, introduce potential clients and identify future partners for the business.
- ▶ **Thirdly**, PE firms are instrumental in driving improvements in the environmental, social and governance policies of firms, in areas such as financial reporting and protocols, management incentive schemes, improvements in health and safety and establishing community projects, such as clinics.
- ▶ **Finally**, PE firms are playing an important role in supporting the pan-regional development of the private sector. By supporting the operational and strategic development of companies they back, PE firms are making local companies more attractive to trade buyers from other African countries. Indeed, a third of all PE exits over the period 2007–12 went to African trade buyers. Furthermore, at the larger end of the deal spectrum, some PE firms are actively working with portfolio companies to expand their regional presence.

Flexibility and adaptability are key to PE's ability to add value to companies in Africa. PE firms invest minority or majority stakes, provide equity and quasi-debt financing (e.g., mezzanine), are sector-agnostic (although with a preference for sectors benefiting from consumer growth), can invest from as little as US\$1m to over US\$100m, and will buy from a range of sellers.

How successful has PE's investment been in Africa? According to Ernst & Young and Africa Venture Capital Association's (AVCA) report, PE deals have outperformed public markets, returning almost double the JSE ALSI. This strong performance benefits the entrepreneurs and companies that PE backs, as well as the PE firms themselves.

What can companies do to attract PE financing? It goes without saying that companies need to have a unique growth proposition to attract PE funding. However, PE firms prefer to work with partners who are adequately skilled, dependable and trustworthy – and many PE firms will undertake due diligence on companies and management teams prior to investing. Proprietary deals are generally more attractive to PE firms, so it is important for companies to be selective about which PE firms to approach. Additionally, companies should openly engage with the PE firm from the start about the PE firm's timeline – and requirements – for a successful exit.

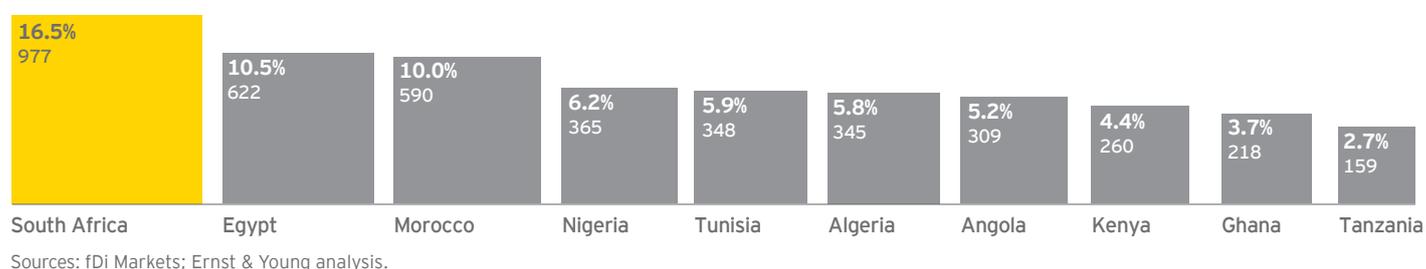
Given the many benefits PE confers, it is encouraging to see that PE firms are committed to investing on the continent. With the large number of private companies requiring growth capital and limited availability of alternative funding, PE is well placed to become a significant enabler of private sector growth across the African continent.

** How do private equity investors create value?: 2013 Africa Study, Ernst & Young and AVCA, 2013*

There has been a growing focus on key sub-Saharan African markets

Top 10 African FDI destinations since 2003

The top 10 African country destinations have attracted 71% of new FDI projects since 2003



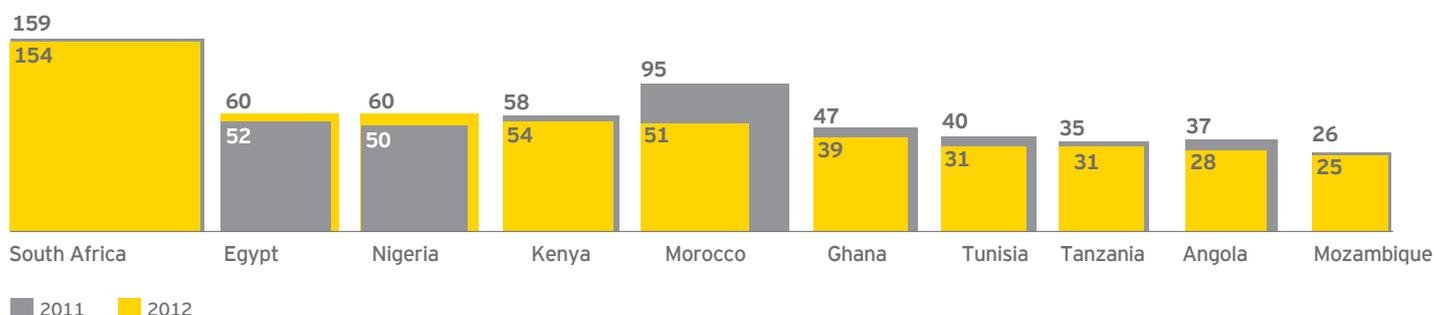
When one looks at trends over the course of the past decade, FDI inflows into Africa tend to be dominated by a small number of countries – South Africa, Egypt and Morocco alone account for 37% of new projects over that period; add in Nigeria, Angola, Tunisia and Algeria, and that proportion goes up to over 60%.

What this trend masks, though, is the strong growth in FDI inflows in more recent years into many parts of SSA. In the period since 2007, during which investment into North Africa has stagnated (largely due to recent political dynamics), FDI projects into SSA have grown at a compound rate of 22%. Among the star performers attracting growing numbers of projects have been Ghana, Nigeria, Kenya, Tanzania, Zambia,

Mozambique, Mauritius and South Africa. This shifting pattern is evidenced in some of the relative rankings in terms of most FDI projects for 2012, with Nigeria in tied second with Egypt, and Kenya close behind, ahead of all the other North African countries. Ghana ranks as the fourth most attractive SSA destination, and ahead of Tunisia, while Tanzania, Angola, Mozambique, Zambia and Uganda all rank ahead of Algeria.

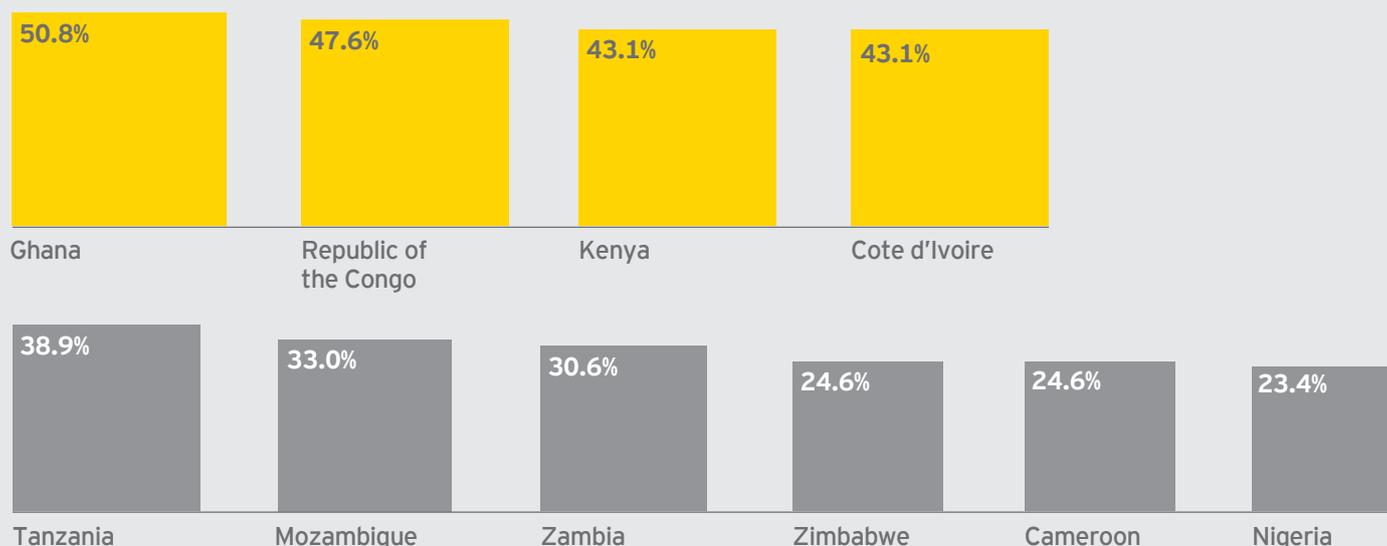
Top 10 African FDI destinations 2011 and 2012

Countries ranked by most new projects in 2012



Top 10 destinations highest growth rate in FDI projects

CAGR 2007-12



Sources: fDi Markets; Ernst & Young analysis.

Top key growth markets (new projects FDI)

CAGR (2007-12)		2011-12 % YoY		CAGR (2007-11)	
Ghana	50.8%	Mali	300.0%	Ghana	75.1%
Republic of the Congo	47.6%	Republic of the Congo	250.0%	Cameroon	73.2%
Kenya	43.1%	Cote d'Ivoire	200.0%	Zimbabwe	59.7%
Cote d'Ivoire	43.1%	Sierra Leone	200.0%	Kenya	59.3%
Tanzania	38.9%	Libya	100.0%	Tanzania	55.4%
Mozambique	33.0%	Mauritania	100.0%	Zambia	55.2%
Zambia	30.6%	Benin	100.0%	Mozambique	44.3%
Zimbabwe	24.6%	Mauritius	83.3%	Burkina Faso	41.4%
Cameroon	24.6%	Gabon	66.7%	South Africa	29.8%
Nigeria	23.4%	Sudan	60.0%	Nigeria	24.2%

Source: fDi Markets; Ernst & Young analysis.

Interview



Leading growth in Africa

Ashish J. Thakkar
Founder, Mara Group

We start up businesses from scratch. Over the years, we have become Africa's largest IT company in terms of footprint, and Africa's largest call center company. Today, we are exploring new sectors, including glass manufacturing, maize farming and many more. We currently operate in 19 sub-Saharan African countries, which we hope to expand to 22 by the end of this year.

I believe that the real opportunities lie in creating new businesses. Our business model consists in partnering with international companies that bring in subject matter expertise, while we possess in-depth local domain knowledge. We co-invest and typically do a 50/50 joint venture. To date, we have never exited any of our businesses because there has still been such high growth.

When it comes to assessing an opportunity, it comes down to having a physical presence on the ground and actually spending time in these countries. There is no substitute for that. At the end of the day, reports are only theory. Until you are on the ground, getting your hands dirty and getting a feel for what's happening, you simply cannot assess the situation properly. Reality can be very different to perception; the perceived risk is bigger than the actual risk. In fact, the larger risk lies in your general approach. If a company deploys a "copy-and-paste" strategy, the risk automatically increases because they are just not managing it well.

In terms of the challenges we face, I constantly hear about the skill deficit. However, I am convinced that this deficit can be breached. For instance, we set up a call center business two years ago, employing several thousand people in nine different countries. Starting out, the skills did not exist, but we put training mechanisms in place and today we have an oversupply. When required, we can create the skills on the ground. The willingness is there, the ability is there, and that's what you need more than anything.

"I like to look at the infrastructure challenge as an opportunity."

Similarly, I like to look at the infrastructure challenge as an opportunity. The fact that we have to set up power units sometimes makes the entry barrier higher, because it simply increases the cost of doing business. Nevertheless, there are opportunities here too, and so it is all about how you tap into it.

Overall, strong leadership is really important. It sets the tone for how your business runs. We don't do anything under the table; everything is done in a transparent manner. And, most importantly, we make sure that every single one of our projects has a positive social impact on the local country and its people. Some people see this as profit for purpose, but to me, it is simply running an ethical business. Being local in the true sense of the word is absolutely crucial; we are a for-profit company, but, at the same time, we strive to make a difference to communities.

Mara Group is a multi-sector family business that has evolved into an investment company. Based out of Dubai, Mara has pan-African interests, with operations in 26 countries spanning 4 continents, and employs 7,000 people.

Emerging markets continue to grow their share of investment into Africa

There was a strong resurgence in 2011 in greenfield investment from developed markets into Africa. In 2012, however, there was a decline almost across the board, with the UK being the only substantial investor into the continent that actually grew its project numbers (by 9% year on year). The US, the UK and France do, however, in that order, remain the three largest investors into the continent in cumulative terms over the past decade.

In contrast to developed markets, greenfield investments from emerging markets into Africa grew in 2012, continuing the trend of the past three years. In the period since 2007, this category of investment from emerging markets into Africa has grown at a healthy compound rate of over 20%, with India, South Africa, the UAE, China, Kenya, Nigeria, Saudi Arabia and South Korea all among the top 20 investors over that period. In terms of growth in project numbers since 2007, emerging market investors again stand out, with the African countries of Kenya, South Africa, Tanzania, Nigeria and Angola notably prominent.

80% The top 20 country investors contribute 80% of all new FDI projects for the duration of 2003-12.

Top 20 FDI

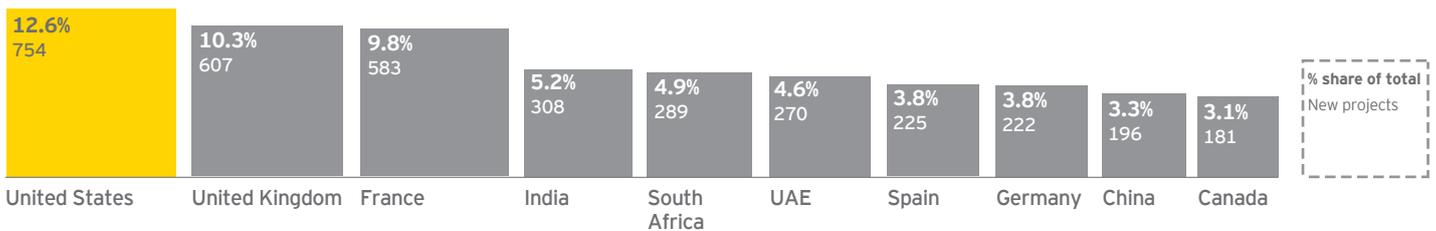
New projects source countries investing in Africa

	New projects (2007-12)	CAGR (2007-12)
United States	516	11.2%
UK	456	25.1%
France	398	-6.3%
India	237	24.0%
South Africa	235	56.5%
UAE	210	13.3%
Spain	194	-15.2%
Germany	173	14.9%
China	152	15.5%
Portugal	137	-26.8%
Kenya	113	60.0%
Japan	105	16.3%
Switzerland	105	3.7%
Italy	94	3.4%
Canada	86	13.2%
Nigeria	78	20.1%
Australia	69	-4.9%
Netherlands	58	7.4%
South Korea	57	51.6%
Saudi Arabia	56	45.4%
Other investor countries	844	

Sources: fDi Markets; Ernst & Young analysis.

Top 10 FDI new projects source countries investing in Africa

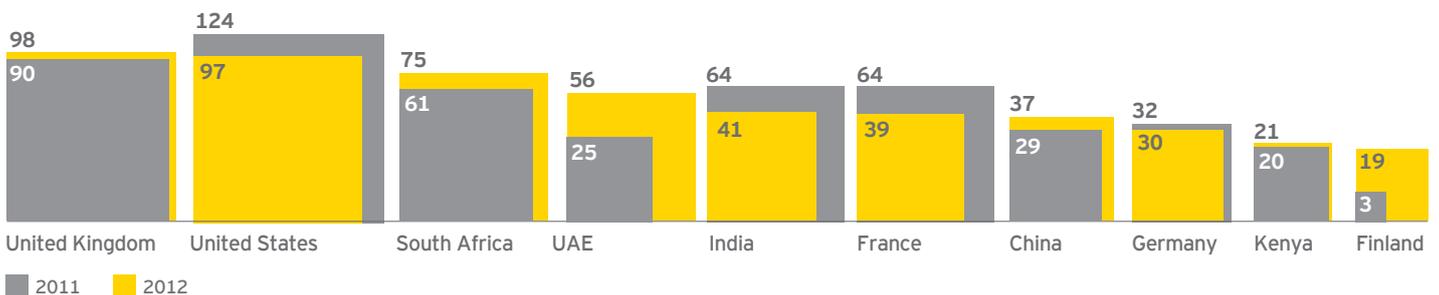
(Countries ranked by most new projects, 2003-12)



Source: fDi Markets; Ernst & Young analysis.

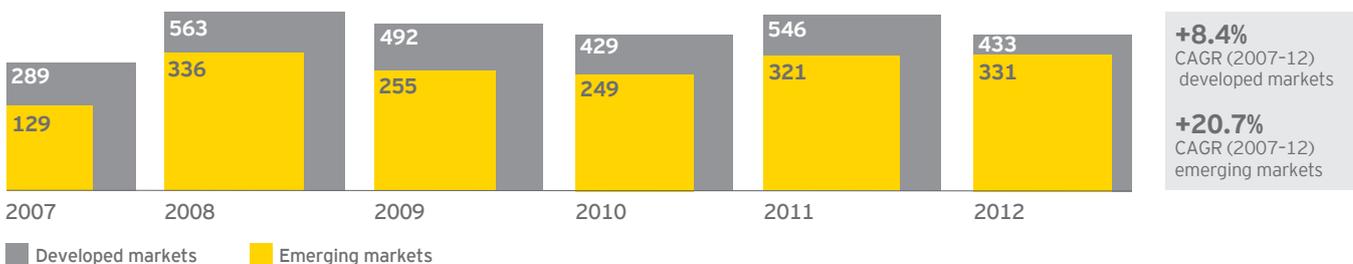
Top 10 FDI new projects source countries investing in Africa

(Countries ranked by 2012 position)



Source: fDi Markets; Ernst & Young analysis.

New projects investment from developed and emerging markets



Source: fDi Markets; Ernst & Young analysis.



South Africa emerges as a leading investor on the continent

The prominence of intra-Africa investors among the growth leaders underlines a trend we have highlighted over the past few years. South Africa, Kenya and Nigeria have been leading the way with investing into other parts of Africa, but we anticipate that others, such as Angola, for example, with its US\$5 billion sovereign wealth fund, will become increasingly prominent investors across the continent over the next few years.

Even though 2012 intra-African projects were mostly flat year on year, the trend since 2007 has remained extremely robust, with a 32.5% compounded growth rate in project investment, more than double non-African emerging markets and almost fourfold faster than developed markets. This is a critical trend, because it underlines a growing confidence and belief in the future of the continent by Africans themselves.

It is worth briefly dwelling on the growth in South African investment into the rest of the continent. South Africa is ranked fifth overall in terms of cumulative FDI project numbers in the rest of Africa since 2003. In other words, overall, South African headquartered companies have invested into the fifth most FDI projects on the continent in the past decade. These numbers have, however, increased steeply, with compound growth of 57% in South

Africa-originated FDI projects into the rest of Africa since 2007. In 2012, South Africa was ranked third overall in terms of FDI projects in Africa, and, in fact, when one strips out investment from other countries into South Africa itself, it was the single largest investor in FDI projects in the rest of Africa in 2012.

South Africa

5 Overall rank by cumulative new project FDI (2003-12).

57% Growth in new project FDI (2007-12).

536% Absolute increase in FDI new projects (2003-12).

45,776 Cumulative FDI jobs created (2003-12).

23% 2012 YoY growth in new project FDI.

Top 3 Nigeria, Ghana, Namibia: top 3 African country destinations for new project FDI (2003-12).

Source: fDi Markets; Ernst & Young analysis.

Ongoing diversification of economic activities

Another key theme that we have highlighted over the last few years has been the increasing diversification of greenfield FDI into Africa. Just as there is a common assumption that Africa's overall economic growth has been driven by natural resources, it is also often assumed that they attract by far the largest attention from foreign investors. This is true to some extent, with the capital-intensive oil and gas sector in particular,

having attracted almost 40% of greenfield FDI capital into the continent since 2003 (although the sector has only attracted 7.8% of the FDI projects for the same period).

The trend, however, has been toward greater levels of investment into relatively less capital-intensive sectors, such as manufacturing and particularly services, resulting in a growing number of FDI

projects in relation to the capital amounts being invested. As an example, whereas in 2003, the oil and gas and metals sectors together accounted for 28.5% of total FDI projects in Africa and 77% of FDI capital, today, they only account for 7.2% of projects and 40% of capital. In contrast, the relative share of projects for sectors such as financial services, business services and communications has grown considerably.

Top 10 sectors ranked by proportional share of projects

(% share of total, 2003-12)

	Sums of 2003-12	2003	2012
Financial services	16.2%	11%	17.9%
Business services	7.9%	3.9%	12.8%
Coal, oil and natural gas	7.8%	17.2%	3.0%
Metals	7.1%	11.3%	4.2%
Communications	6.9%	3.0%	12.2%
Software and IT services	6.0%	5.9%	6.3%
Food and tobacco	5.3%	5.9%	6.4%
Hotels and tourism	4.1%	3.9%	1.8%
Automotive OEM	3.3%	4.2%	2.4%
Transportation	3.3%	2.1%	3.9%

Source: fDi Markets; Ernst & Young analysis.

Top 10 sectors ranked by number of projects and growth rate

	New projects (2003-12)	% CAGR (2007-12)
Financial services	958	18.4%
Business services	469	22.2%
Coal, oil and natural gas	461	-5.8%
Metals	419	-2.9%
Communications	407	32.2%
Software and IT services	356	5.9%
Food and tobacco	313	26.7%
Hotels and tourism	240	-14.1%
Automotive OEM	198	17.6%
Transportation	197	30.3%

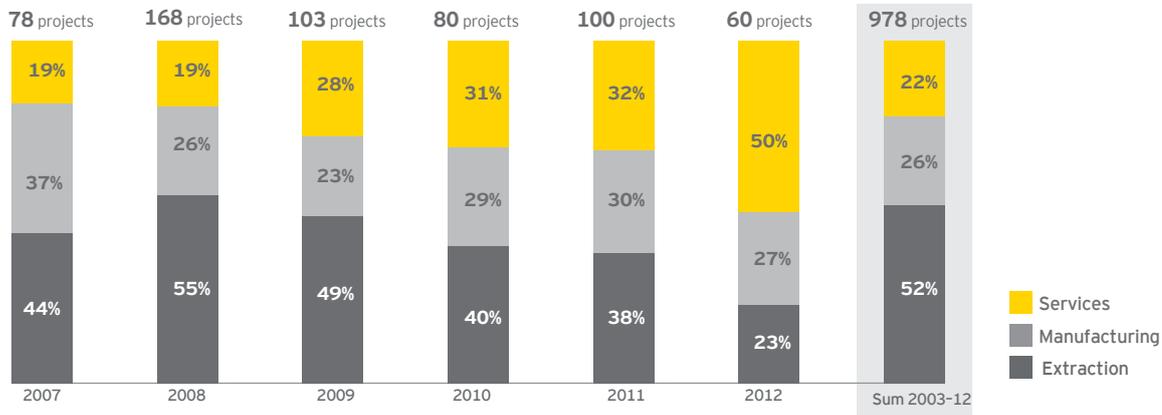
Source: fDi Markets; Ernst & Young analysis.

70.2% of greenfield FDI projects in Africa were in services in 2012, while

73.5% of capital was invested in manufacturing and infrastructure-related activities

Resource sector (coal, oil and natural gas, metals, and minerals)

Breakdown by % contribution of economic activity as a proportional of total FDI new projects



Source: fDi Markets; Ernst & Young analysis.

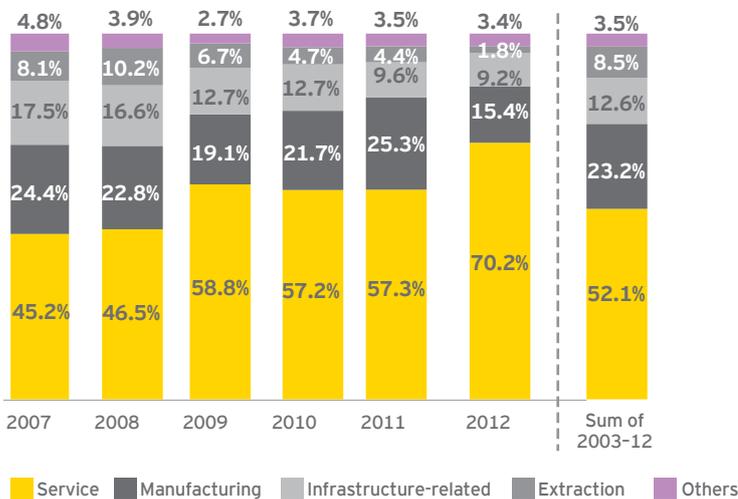
This diversification trend is arguably even more pronounced when one analyzes the data from the perspective of types of economic activity within and across sectors. If one breaks down the value chain in the oil and gas sector, for example, one can identify a set of activities from the extraction of the raw material through the manufacturing processes, and then a range of services (marketing, business support services, retail, and so on). In other words, even with the “extractive” industries, the process of actual extraction is only part of the overall value chain. As we examine the trends in terms of economic activity over the past decade, another seemingly mistaken assumption is highlighted: that foreign investment into the extractive sectors has simply been about extracting raw materials and sending them offshore without adding any value.

What the trends show is, in fact, a considerable swing toward some form of onshore added value.

Looking more broadly at the trends in economic activities across all sectors, it is clear that there has been a marked shift toward investment in more value-added activities over the past decade. In 2012 in particular, only 1.8% of greenfield FDI projects and 12% of total capital invested was in extractive activities. In contrast, 70.2% of projects in 2012 were in services (up from 57.3% for 2011 and 52.1% for the decade), while 73.5% of 2012 capital was invested in manufacturing and infrastructure-related activities (up from 69.2% in 2011 and 68.3% for the decade).

New project FDI attracted by economic activity

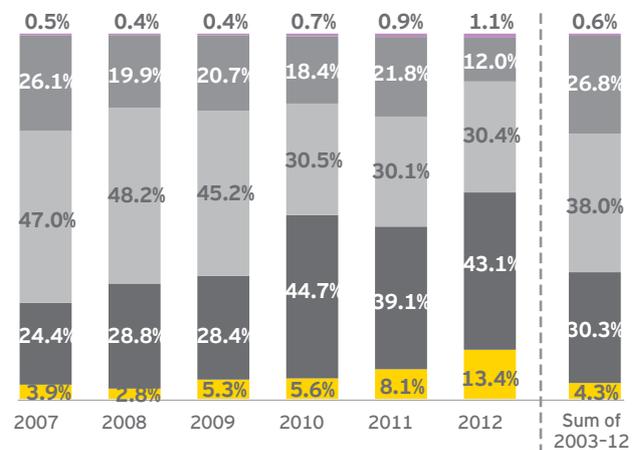
(% contribution over given time frame)



Sources: fDi Markets; Ernst & Young analysis.

Capital-invested FDI attracted by economic activity

(% contribution over given time frame)



Interview



The rise of the African consumer: myth or reality

Gerald Mahinda
Managing Director, Brandhouse

Over the past decade, the number of middle-class consumers in Africa has expanded by more than 60% to 313 million, according to the African Development Bank. This growth is coming off a very low base, setting the table for what could be years, or even decades, of rapid economic progress. The International Monetary Fund projects that 7 of the 10 fastest-growing economies in the world from 2011-15 will be in sub-Saharan Africa, and it expects Africa to take from Asia the title of the world's fastest-growing region. Such reports form part of an increasing body of evidence demonstrating the existence of a fast-growing consumer class across the continent. Despite this growing evidence, there remains a lack of insight about the reality of doing business in Africa. Many investors and business people still see Africa as a high-risk proposition, which has prevented them from venturing into the opportunity and the potential that this region offers. This has been propagated by media keen on outlining the less-favourable aspects of the continent.

Despite these perceptions, the reality of Africa is quite different. Economists expect to see US\$1.4 trillion in spending by African consumers in 2020. Over the next five years, the average African economy will outpace Asian counterparts. The continent is extraordinarily rich in minerals, energy resources and uncultivated land. Although less than half of its land has been surveyed, Africa is thought to hold more than half of the world's gold, more than 40% of its platinum and vast deposits of copper, diamonds and iron ore. Large new oil and natural gas fields are being discovered across the patch. According to the United Nations, Africa also holds more than 60% of the world's uncultivated land, yet only 10% is currently planted. Greater disposable income, a developing consumer banking infrastructure and the sponsorship of entrepreneurs mean more Africans are getting richer; South Africa alone has 71,000 dollar millionaires. The African consumer is not only a reality, but is increasingly empowered to spend.

I am often asked who the African consumer is. It would be short-sighted to qualify consumers as one generic type, such as the great diversity of Africa and Africans. However, the one factor that is common to all is the need to demonstrate new-found economic and social status through quality branded products, and to aspire to brands that reflect inherent values. At Brandhouse, our brands satisfy these needs.

“Consumer segmentation is critical to driving business across Africa’s regions and individual countries.”

At the recent Ernst & Young Strategic Growth Forum, it was pointed out that consumer segmentation is critical to driving business on the continent. Segmentation is highly pertinent, given the diversities that exist across regions and individual countries, and allows us to market, innovate and create brand experiences across a broad range of consumer segments. While segmentation is a first step, to be profitable, companies must understand the consumer insights and act upon them with pace. Indeed, every consumer segment is different and, at the Ernst & Young Strategic Growth Forum, delegates were reminded not to forget rural consumers or rule out those at the base of the economic pyramid. These consumers are increasingly enfranchised into the formal sector and offer companies such as Diageo opportunities to participate in this segment. Critical to building scale among lower-income consumers is to provide products that are accessible and affordable, and therefore routes-to-market and flexible supply chains are crucial. A case that comes to mind is that of Senator Keg, which, through innovation in supply and distribution, along with viable tax structures, has led to a strong performance of the brand in East Africa. I believe that our success can be attributed to a match between the product, a social need and the consumer desire for a quality branded product.

The African consumer is a reality. Many investment opportunities on the continent are under-researched, underappreciated and, consequently, undervalued. African investments are currently cheaper relative to their growth potential. Businesses that choose to ignore this fact do so at their own peril, because the cost of entry into Africa will be higher in the future.

Brandhouse is the joint venture in South Africa between international beverage companies Diageo, Heineken and Namibia Breweries.

Perception

How Africa is viewed by foreign investors

p.42 Perceptions of Africa's attractiveness remain positive

p.43 Africa's attractiveness relative to other regions has improved

p.44 There has been a marked shift in sector focus

p.46 South Africa is perceived as the most attractive investment destination

p.47 The perception gap remains a significant factor



Luanda at night.

Investor perceptions: the persistent gap

Key points

- 1** The most significant take out from this year's survey is the stark and enduring perception gap between those with an existing business presence in Africa and those that have not yet invested:
 - ▶ A total of 70% of respondents with an established business presence in Africa said that Africa's attractiveness as a place to do business has improved over the past year (versus 31% of those with no business presence).
 - ▶ A total of 86% believe Africa's attractiveness will improve further over the next three years (versus 47% of those with no business presence).
 - ▶ Similarly, those already doing business on the continent ranked Africa as a more attractive investment destination than every other region in the world, other than Asia (while those with no business presence ranked Africa last by some distance).
- 2** Of the more than 500 business leaders responding to our survey, 56%, believe that Africa's attractiveness as a place to do business has improved in the past year, while 72% believe conditions for doing business will improve further over the next three years.
- 3** Africa's perceived attractiveness relative to other global regions has improved over the past few years, with respondents ranking Africa as a more attractive investment destination than five out of nine other regions.
- 4** There has been a marked shift in perceived sector attractiveness; resources remain top of the list, but not by far, with infrastructure and some of the service sectors gaining considerably in prominence.
- 5** In terms of individual country attractiveness, South Africa remains a clear leader in terms of investor perceptions, with Morocco, Nigeria, Egypt and Kenya in the top five.

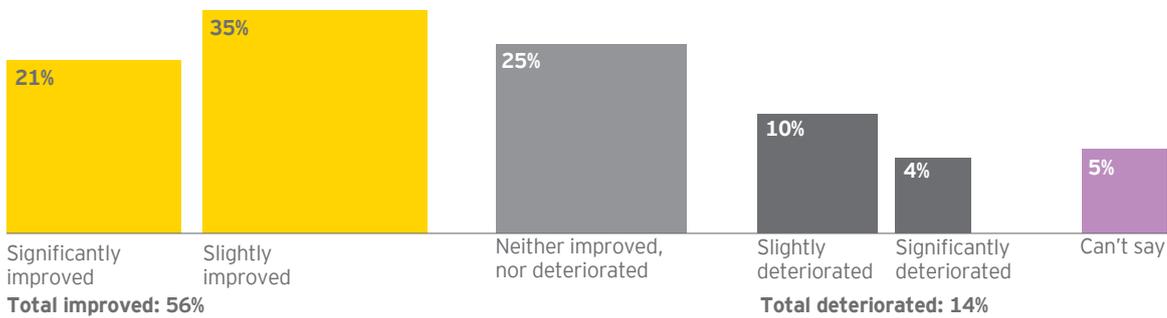
"For us, having a wide portfolio of countries across Africa has made a big difference in terms of the consistency of our results ... It isn't necessarily the same markets that perform well every year. So having an understanding of your risk across the continent, or knowing whether or not you want specific risk in just one or two markets, or whether you want a broad sweep of the continent - I think it makes a big difference."

Diana Layfield, Africa CEO, Standard Chartered.

Perceptions of Africa's attractiveness remain positive

Looking back: perception of Africa's attractiveness

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



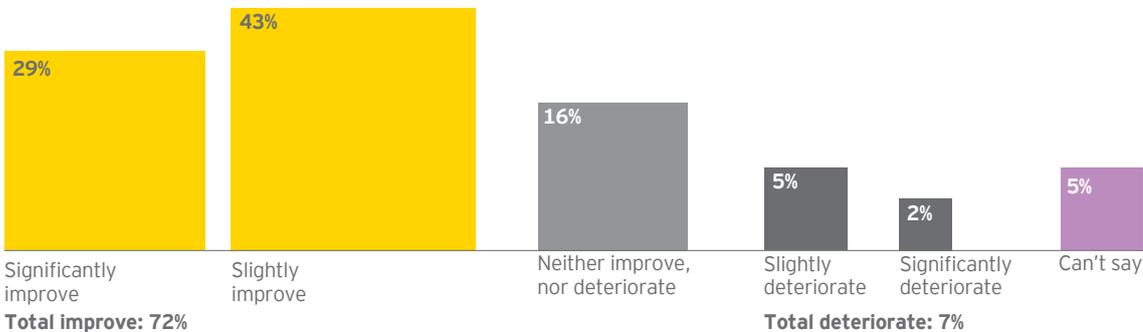
Source: Ernst & Young's 2013 Africa attractiveness survey (total respondents: 503).

To some extent, perceptions of Africa as a place to do business reflect the improving economic, political and social factors driving the Africa growth story. A majority of respondents (56%) believe that over the past year, Africa's attractiveness as a place to do business has improved, while only 14% express the view that conditions have deteriorated. This is a significant endorsement of the improving business environment across much of Africa, particularly in what was an extremely difficult year in the global economy.

The relative outlook for Africa remains positive, with 72% of our respondents believing that Africa's attractiveness as a place to do business will further improve over the next three years. This proportion of positive respondents remains steady from last year. These results also reflect a level of confidence in Africa's continued upward trajectory.

Looking forward: perception of Africa's attractiveness

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



Source: Ernst & Young's 2013 Africa attractiveness survey (total respondents: 503).



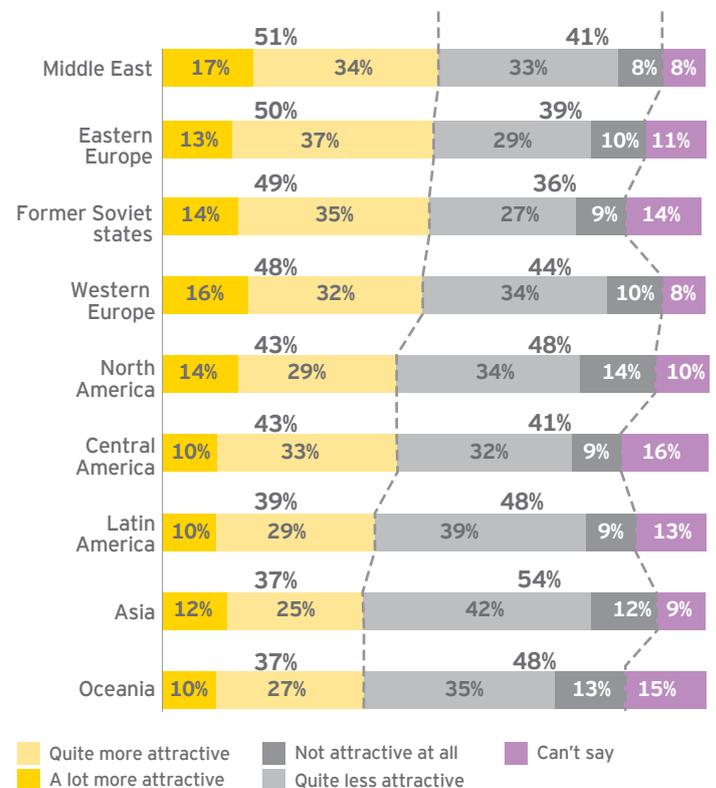
Africa's attractiveness relative to other regions has improved

Although general perceptions of Africa appear to have remained steady over the past few years, perceptions of Africa's attractiveness relative to other regions have improved. This is a clear indicator of Africa's increasing attractiveness in a context in which economic conditions have deteriorated in some other regions in the world.

Overall this year, our respondents ranked Africa as a more attractive place to invest than five out of nine other regions; ahead of the former Soviet states, Eastern Europe, the Middle East, Western Europe and Central America. This is a significant improvement from only two years ago when, in our 2011 attractiveness survey, Africa was only ranked clearly ahead of the former Soviet states and Central America.

Investment destination

Relative to the following markets, is Africa more or less attractive as an investment destination?



Source: Ernst & Young's 2013 Africa attractiveness survey (total respondents: 503).

There has been a marked shift in sector focus

Together with the improvement of Africa's attractiveness over the last few years relative to some other regions, there has also been a notable shift in perception regarding which are the sectors with the highest growth potential.

Natural resources remain at the top of the list. One would perhaps expect this, given perceptions that Africa's economic growth has been largely driven by commodities. It also underlines the ongoing strategic importance of Africa's natural resource base (including its agricultural potential).

However, there has also been a noticeable shift toward other sectors:

- ▶ While mining and metals is still perceived as the sector with the highest growth potential in Africa, the number of respondents who believe this (26%) is down from 38% in 2012 and 44% in 2011.

- ▶ In contrast, interest in African infrastructure projects is clearly increasing, with 21% of respondents identifying this as a growth sector, versus 14% last year and only 4% in 2011.
- ▶ Other sectors in which there has been a noticeable shift include ICT (14%, up from 8% last year), financial services (13%, up from 6% last year) and education (which has come from virtually nowhere to register 10% this year).

These changing perceptions of relative sector attractiveness in Africa reflect the changing fundamentals of many African economies: the diversification of both sources of growth (for example, the increasing contribution of services we referred to earlier and the growing consumer class), and of the actual FDI flowing into these economies.

Sectors growth potential

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

			Change from 2012 Africa attractiveness survey results	
Mining and metals	26%		-12	
Agriculture	24%		-3	
Oil and gas	22%		-4	
Infrastructure	21%		+7	
Information and telecommunications	14%		+6	
Financial services	13%		+7	
Hotels and tourism	12%			
Consumer products	11%		-5	
Education	10%		+8	
Real estate and construction	8%		+3	
Alternative, renewable energy, cleantech	8%			
Heavy industry	7%			
Electronic and electrical equipment	6%		+3	
Power and utilities	6%		+4	
Automotive	6%		+4	
Health care	5%			
Software and IT services	4%			
Can't say	7%			

Source: Ernst & Young's 2013 Africa attractiveness survey (total respondents: 503).

Interview



Investment opportunities in Africa

Tutu Agyare

Managing Partner, Nubuke Investments and Independent Director, Tullow Oil

Nubuke is a multi-strategy pan-African investment fund that aims to deliver the best risk-adjusted returns to its investors, with a focus in sub-Saharan Africa. The partners started the company in 2008 from the realization that most of the opportunities they had seen around the world in emerging markets were being mirrored in Africa. Their ambition was to build a world-class institution to attract investments to take advantage of these profound shifts.

The structural changes taking place across the world, as well as in Africa, led us to believe that the investment opportunities were not cyclical, but secular. The fact that these were not being fully recognized globally presented us with an opportunity that we believe is still present today.

Despite the inconsistent infrastructure and unreliable basic services, such as water and telecommunications, in some parts of the continent, the significant growth in GDP per capita and the demand from multiple buyers of natural resources and agriculture have made Africa the investment destination of choice for the discerning global investor. The underperformance of the BRICS has also intensified the spotlight on the continent's potential.

As a continent with 54 countries, we fully acknowledge there will always be basket cases. Situations exist where some countries lack the necessary security of property rights, the capability to invest and move money in and out transparently,

and have levels of corruption that make investment difficult.

By contrast, great investment destinations, such as Ghana, Nigeria, Kenya, Cote d'Ivoire and many more across the sub-region, remain a preference for us, and we believe they offer a sustainable investment environment. Our focus is currently on financial services, both banking and insurance, telecoms, fast-moving consumer goods, agriculture and balance sheets of companies, as well as countries that have the potential to deliver low-risk returns to investors.

We feel the real risks of lack of transparency, liquidity, corruption and political issues are overstated by the lazy investor. Particularly in comparison to other investments conducted around the world, where investors have exaggerated their bets, the sub-region continues to remain performing strongly. The negative publicity garnered by the continent and the focus on the negatives steers investors away from the fact that the sub-region has among the highest growth rate of any in the world. Measures such as ease of doing business, transparency or corruption score far better in comparison to some of the more popular emerging markets.

In summary, I believe the sub-region presents faster growth, cheaper, more transparent and less competitive opportunities than any other sub-region in the world.

"The structural changes taking place across the world, as well as in Africa, led us to believe that the investment opportunities were not cyclical, but secular."

South Africa is perceived as the most attractive investment destination

While we believe that there is regional competition for investment, and that, in some respects, it is important to present Africa as a coherent region, it is, of course, a diverse continent, comprising 54 countries. Investment is almost always going to be country specific, so we must also consider investor perceptions at an individual country level.

Attractive countries

Which three African countries do you consider as most attractive to do business in?

	First place	Top three
South Africa	41%	61%
Nigeria	6%	20%
Morocco	8%	20%
Egypt	5%	15%
Kenya	4%	15%
Algeria	4%	13%
Angola	3%	11%
Tunisia	2%	10%
Ghana	2%	10%
Botswana	2%	7%
Zambia	2%	6%
Libya	2%	6%
Mozambique	1%	5%
Senegal	1%	5%
Cote d'Ivoire	1%	5%
Tanzania	1%	4%
Can't say	9%	

Source: Ernst & Young's 2013 Africa attractiveness survey (total respondents: 503).

From this perspective, the large majority of respondents view South Africa as the most attractive African country in which to do business: 41% of all respondents put South Africa in first place, while 61% included it in their top three. The primary reasons for South Africa's popularity appear to be its relatively well-developed infrastructure, a stable political environment and a relatively large domestic market. The next most popular countries were Morocco (20% placing it in the top three and 8% in first place), Nigeria (also 20% in the top three and 6% in first place), Egypt (15% top three and 5% first) and Kenya (15% top three and 4% first). In general, these rankings align with emerging regional hubs for doing business across different parts of Africa.

"I believe that great challenges present great opportunities, and that the chance to reposition an economy can be a springboard for steadier, more diversified long-term growth."

Ngazi Okonjo-Iweala, Nigerian Minister of Finance, from her book *Reforming the unreformable: lessons from Nigeria*

Among these overall results, there are some interesting variations across investors from different regions. For example, a larger proportion of Europeans (particularly French speaking) rank Morocco as an attractive business destination. North Africans are generally the most positive about North African countries (which is a positive sign, given recent instability in the region). In contrast, respondents based in South Africa have virtually no interest in the North African countries, but have a very strong interest in the Anglophone countries of Nigeria, Kenya, Ghana and Botswana, as well as Angola. South Africa itself scores relatively high across the board, but notably high for those companies based out of Asia.

The perception gap remains a significant factor

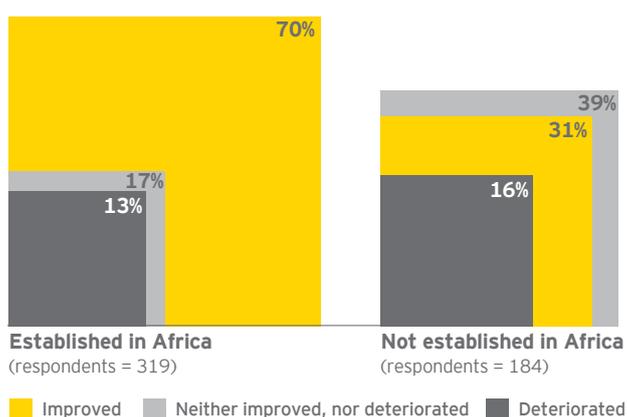
Overall, our survey results show reasonable optimism about Africa as an investment destination and place to do business. Last year, we analyzed our results a little further, and demonstrated the significant gap in perception between those already doing business on the continent versus those with no presence. This analysis showed that the large majority of respondents already doing business on the continent were overwhelmingly positive about Africa's attractiveness relative to other regions. In contrast, those with no business presence were overwhelmingly negative; so much so that it distorted our overall results.

"Africa has come of age and can now compete with the rest of the world. The reforms, whether political or economic, that are under way give us significant hope ... I am very excited about Africa's future."

James Mwangi, CEO, Equity Bank and Ernst & Young World Entrepreneur Of The Year 2012.

Africa's past attractiveness

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



Source: Ernst & Young's 2013 Africa attractiveness survey (total respondents: 503).

The gap in investor perception

Relative to the following markets, is Africa more or less attractive as an investment destination?

	Established in Africa	Not established in Africa
Former Soviet States	67%	43%
Eastern Europe	68%	38%
Middle East	66%	37%
Western Europe	61%	37%
Central America	60%	35%
North America	54%	36%
Latin America	52%	34%
Oceania	55%	26%
Asia	48%	30%

Source: Ernst & Young's 2013 Africa attractiveness survey (total respondents: 503).

This year again, the perception gap is clearly evident. For those with an established business presence in Africa, the continent remains a more attractive investment destination than any other region in the world, other than Asia (and even there, the difference is small). Those with no business presence in Africa remain very negative, again ranking Africa last out of all the regions (and by some distance).

This marked perception gap is also evident when we further analyze some of the other responses. For example, 70% of those with an established business presence in Africa expressed a belief that, over the past year, Africa's attractiveness as a place to do business has improved. A full 86% of these respondents also said that Africa's attractiveness will improve over the next three years. In stark contrast, only 31% of those with no business presence said they believed that Africa's attractiveness had improved over the past year, and only 47% that it will improve over the next three years.



This difference in relative perception between those already doing business in Africa and those not represents not so much a gap as a chasm. For those in the know, who are operating in Africa and understand the real risks and challenges, the region is an exciting, dynamic growth opportunity. On the other hand, a large number of those who have not yet ventured onto the continent still seem too stuck on a version of Africa that is 20 or 30 years out of date. They have simply not kept up with the progress that has been made on the continent. In our view, if they fail to challenge their own

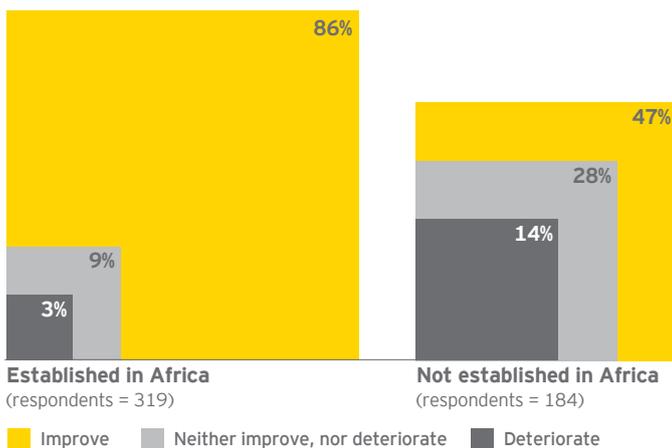
negative historical beliefs and skepticism about Africa, they will miss out on the opportunity to benefit from one of the few regional growth opportunities of the next decade.

From a market perspective I feel more anxious about Europe than Africa."

Mark Otty, Ernst & Young EMEA Managing Partner

Africa's future attractiveness

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



Source: Ernst & Young's 2013 Africa attractiveness survey (total respondents: 503).

Perhaps the critical point for us, though, is that while some international investors may be flirting with the idea of investing in Africa, there are a number of companies with an already-established presence that are very positive about Africa's prospects and are getting down to business. These are believers in the Africa growth story, who do not need convincing; they are growing their investments, creating new jobs and focusing on long-term, sustainable growth opportunities in Africa. These companies will be instrumental in helping to drive the continent's ongoing growth and economic transformation over the next decade. The focus of both business and government in Africa, therefore, needs to shift from "why" to "how"; from converting skeptics to encouraging and supporting believers; to focus in on what it takes to succeed in Africa and what needs to be done to further develop an environment that is conducive to doing business across the continent. This is a theme that we will explore further in Chapter 4.

Interview



General Electric: leading growth in Africa

Jay Ireland
President and CEO, General Electric Africa

General Electric (GE) established one of its first overseas offices in Johannesburg in 1898. So we've been here a long time, but really expanded that in the last decade. We've become a major oil and gas equipment supplier, and this has given us a large presence in Angola and Nigeria. We're also in health care, power generation, automotives and so on. Our focus has been to continue to expand our infrastructure products into the continent and really focus on helping governments build out the infrastructure that is needed.

To illustrate the point, it can take two hours to travel a relatively short distance to a meeting in Nairobi because so much freight traffic moves on road, rather than rail. The impact this has on efficiency and logistics, which are key drivers for competitiveness globally, is significant. Some people talk about the potential for Africa to be the next manufacturing hub over places like Vietnam, because of the cheap labor. However, that potential gets overwhelmed by the infrastructure costs. This is the dynamic that needs to be fixed before we can establish a broader economic base in many African countries. This is the challenge that we are helping to address.

I'm actually physically located in Nairobi, and when you're on the ground dealing with people day to day, this gives you a different view than people flying in and out. There will always be risk, but that's part of the risk-rewards balance that every businessperson looks at, wherever

they are in the world. There has been more risk in Western Europe in the last five years than in Africa. But what is essential is that, from administration to administration, continuity of project development and execution is sustained. If every time a government's rules and regulations change, then business gets put into flux because no one will want to invest.

Businesses have to take a long-term view. Over this year, we'll announce US\$1 billion investment into Africa. We're here for the long term. Africa is going to grow. We need to be here and, as a big company, we can afford to take risks around that. We're accustomed to taking the long-term view from elsewhere in the world – we've been in China for 25 years. You've got to understand that Africa is not one country; there are different countries with different issues and different opportunities. Businesses have to carefully select where to invest and how to go after it, as well as be aware of the challenges.

My role is to grow our business and to represent the African business to the wider GE group. I tell our people that anyone who walks into a GE facility in Africa will know it's a GE facility – it needs to be no different to anywhere else in the world. Two-thirds of my leadership team members are Africans and 97% of our employees across Africa are African. We'll be here for another 100 years. The legacy you build is institutional, not personal.

“There has been more risk in Western Europe in the last five years than in Africa.”

General Electric (GE) is one of the world's largest and most admired companies. GE has been operating in Africa for over a century. The infrastructure opportunity is a key area of focus for GE, with current projects including an innovative partnership with Transnet and participation in the Power sector upgrade in Nigeria.

Actions

How Africa can move forward

p.51 FDI as a catalyst for growth and development in Africa

p.54 Getting down to business on the continent

p.56 Addressing key constraints to doing business on the continent

p.62 Principles for action



Algiers, Algeria.

Getting down to business

FDI as a catalyst for growth and development in Africa

We believe that FDI can play a critical role in supporting the sustainability, and even acceleration, of the growth and development we have seen across Africa over the past decade. As we look ahead to the ongoing challenges of job creation, skills development and, ultimately significant reduction in poverty and inequality, foreign investment can play a critical direct and indirect role. Besides being a source of longer-term capital, as well as tax revenues, arguably more important is the broader impact of these investments across African economies. The specific category of FDI that we analyze – new greenfield investments and significant expansions of existing projects, all of which must create direct jobs – is particularly relevant in the context of Africa:

- ▶ Greenfield FDI has created almost 1.5 million new direct jobs in Africa over the past decade; this does not count the many indirect jobs that would be created as a result of this employment.
- ▶ Foreign multinationals are increasingly playing a proactive role in the development of local suppliers, with local sourcing policies helping to create extended supply chains of domestic providers.

Developing local supply chains in Zambia

SABMiller initially had to import all the barley it used in Zambia, but, through its work with local suppliers, Zambia is now a net exporter of barley, creating employment for over 4,000 rural workers. Similarly, from importing most of its produce, Shoprite now sources locally 80% of the fresh food it sells in Zambia.

Key points

- 1** FDI should continue to play a critical role in sustaining, and even accelerating, growth and development in Africa over the coming decades.
- 2** Rather than focusing on converting skeptics, attention should shift to better enabling those already investing and doing business on the continent.
- 3** People already doing business on the continent identify two key constraints to their activities: one, transport and logistics infrastructure, and two, bribery and corruption.
- 4** Countries that are making substantial improvements in transport and logistics are the ones that have implemented long-term and comprehensive reforms and investments across the transport and logistics supply chain.
- 5** Bribery and corruption is an issue for both government and business, and both need to take responsibility for actively addressing the challenge.
- 6** To sustain and accelerate Africa's progress, we need a bias to action; one grounded in an intellectual and emotional framework that ensures government, business, the donor community and broader civil society are all working together to achieve the same long-term objectives of economic growth and social development.

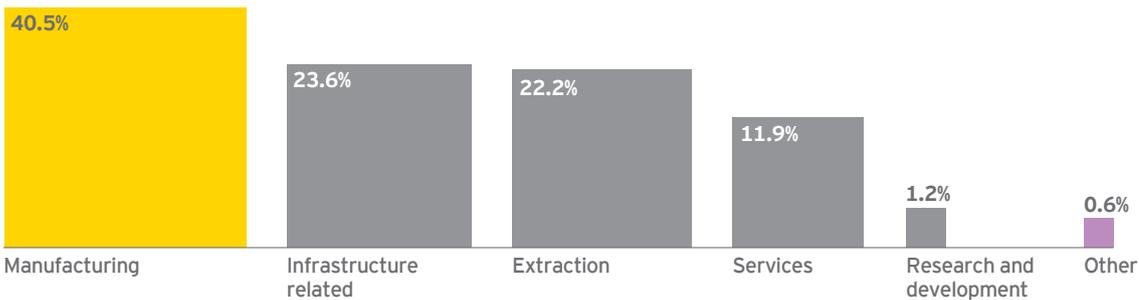
- ▶ Systematic local skills development and transfer are integral to the longer-term approach of an increasing number of multinationals doing the business on the continent. Besides being a responsible approach to doing business, local skills development is actually a business imperative for these companies, because the cost of staffing with expatriates is simply unsustainable.
- ▶ Over the longer term, it is not only the skills, but also the technologies and innovations, that foreign companies introduce into local economies that act as catalysts for development of local capabilities in transformative sectors, such as manufacturing and value-adding services.

Standard Chartered has played a key role in the Ghanaian economy

A study by Insead professor, Ethan Kapstein, showed that, in 2009, Standard Chartered provided Ghanaian businesses, consumers and government agencies with nearly US\$900 million of financing, more than any other private commercial bank operating in the country. That lending generated US\$400 million of value-added in the nation's economy, equivalent to 2.6% of GDP. Meanwhile, the bank's activities helped support 156,000 jobs in Ghana, equal to about 1.5% of the active workforce.

Jobs created by FDI by type of economic activity

(Proportion, 2003-12)



Source: fDi Markets; Ernst & Young analysis.

“Being local in the true sense is absolutely crucial; we are a for-profit company but we want to make a difference to communities as well.”

Ashish Thakkar, Founder, Mara Group

A key point is that FDI is not only an important contributor to growth and development in and of itself, but that it will continue to be a driver of broader private sector development across the continent. This is critical, because it is the private sector (both foreign and increasingly domestic enterprises) that will ultimately lead the structural transformation required to sustain and accelerate Africa's growth. It is the private sector that will invest in transformative sectors, such as agri-processing, manufacturing and ICT, and tradable services, such as tourism, business process outsourcing and offshoring of certain business functions. It is ultimately the private sector that will drive accelerated economic expansion and sustainable job creation.

Interview



Executing a winning growth strategy in Africa: the Tullow Oil Story

Brian Glover
Group Corporate Planning Manager, Tullow Oil

Executing strategy in Africa is a long-term game, and when we enter into countries in any continent, but specifically Africa, we say we are here for the long term, and that is what governments want to hear. Many people in Africa have very long memories and they like people who are around for a long time. The name sticks, and it's very important that you have a long-term strategy.

One of the lessons we've learned is that it's about managing a portfolio in Africa. Africa is a continent with 54 countries, and don't just look at one country; there would be little point in us coming to Africa, drilling in one country, not finding anything and then leaving. We see Africa as a long-term strategy, and the way that you build that strategy is to look at it from a portfolio perspective. We are currently exploring across many countries in Africa and that is why our budgets are so high – our budget for 2013 is US\$2 billion globally, and 80% of that will be spent on the continent in trying to grow future success. We drill the most wells in Africa out of any oil company, including the major companies. We drilled the most and, as a result, we've had the most discoveries. You've got to invest if you want to see returns.

But that's not say we don't encounter risks, and these aren't confined to those below the ground. Managing risks, ranging from political, social, community, supply chain, health care and the environment, is fundamentally important. As a result, over the past five years, Tullow has developed a strong non-technical team to manage them effectively. This is about managing relations, managing communities, and managing social impact.

The 25-year-plus timescale of an oil and gas project gives a company plenty of opportunities to make mistakes above ground and damage relationships. We need the capacity to identify, assess and manage our social and socioeconomic impacts and risk throughout the project life cycle. This doesn't mean building schools and clinics. Although these types of activities are nice things to do and might generate goodwill, they do not usually address or solve the impacts of our business.

We have moved away from the philanthropic approach and started viewing all social projects that we implement as an investment, an investment to manage our impacts and the success of our projects, but also as an investment in making ourselves the

"It's all about managing risk, perseverance, local knowledge and courage."

partner of choice in the countries we are working in. This means changing the focus to technical skills transfer, capacity building for the local oil and gas industry, and encouraging foreign investment in a country. For example, our "Closing the gap" program assists local suppliers to provide goods and services to international standards – good enough to supply us, but also good enough to supply industry at large. As a result, we build strong relationships with local people and businesses and, of course, more oil-related money stays in the host country. It's a win-win situation.

In the final analysis, it's all about managing risk, it's all about perseverance, it's all about local knowledge and it's all about courage. These are the factors that go into building a successful company in Africa.

Established in 1986, with the signing of a license agreement in Senegal, Tullow Oil is today the leading independent oil company in Africa, with 55 licenses in 15 countries. Tullow's exploration-led strategy and belief in Africa has resulted in potentially transformational oil discoveries in Ghana and East Africa.



Invest in Africa is a partnership of companies successfully operating in Africa, launched in 2012 by Tullow Oil in collaboration with Ernst & Young. Invest in Africa challenges the misconceptions around doing business in the region, by demonstrating Africa as a credible business destination. By driving more sustainable investment into the continent and fostering partnerships with local firms, Invest in Africa is working to improve the business environment, support enterprise and provide a leading platform for the private sector in Africa.

www.investinafrica.com



Getting down to business on the continent

One of the constraints to increasing levels of FDI, and ultimately broader private sector participation, in African economies is the “perception gap” that we outlined in some detail in last year’s edition and highlighted again in Chapter 3 – while perceptions of Africa’s relative attractiveness are improving, there are still a large number of potential foreign investors who view the region as high risk (often based on perceptions fixed in a time and space 20 or 30 years ago).

At the same time though, and as our research demonstrates, there is a critical mass of people and companies already doing business on the continent who are overwhelmingly positive about the continent’s relative attractiveness. As a result, they are expanding their operations in Africa, increasing their investments in greenfield projects, reinvesting their local earnings, strengthening local supply chains and enterprise, developing local skills, and generally focusing on long-term growth in Africa. These are the believers in the African growth story, who do not need convincing and are already deeply committed to the future of the continent (financially and emotionally).

“What we’ve found in the last 10 years is that there is great consensus among political leaders to create an integrated market.”

Ebrima Faal, Regional Director, African Development Bank

These are the companies that could be instrumental in helping African governments drive the economic transformation required over the next decade to sustain and accelerate growth and development. It is our view that it is, therefore, time for a shift of emphasis and mindset away from trying to persuade the skeptics toward promoting the believers; from trying to sell the “why” of investing in Africa toward the “how” of driving successful growth of private enterprise across the continent; from debating the merits of the African growth story to simply getting down to business.

Companies already doing business in Africa are very positive

While some investors are still flirting with the idea of Africa, those with an already established presence are very positive and are already getting down to business:

- ▶ Eighty-six percent of those with an established presence in Africa are optimistic that business conditions will continue to improve.
- ▶ Those with a presence on the continent rank only Asia as a (marginally) more attractive global investment destination than Africa.
- ▶ Almost two-thirds of companies already doing business on the continent are actively expanding their operations in Africa.
- ▶ Operating models are maturing, with an increasing number of companies establishing several sub-regional hubs in places such as South Africa, Morocco, Egypt, Nigeria and Kenya, and moving toward more integrated models.

Interview



Executing winning strategies in Africa

Kennedy Bungane
Chief Executive Officer, Barclays Africa

There is always discussion about risk and reward in Africa - how to move away from perceived risk to actually objectively understand what risk you've got, whether you have the capacity within your company to measure, manage and price it so your returns are commensurate to it. These are paradigm themes in Africa.

Rather than looking at just risk and return, companies should go back to basics. It comes down to appetite. Firstly, define the things you need to do to sustainably deliver on your strategy. Once you're clear on your appetite for risk, then you can do away with the other risks that your company is not geared up to measure, manage and price properly. Then you've got a shot.

A lot of the big issues around risk pertain to access to finance - I think we're making steady progress on this. There are risks that are higher than in the developed world, but we have returns that commensurate very favorably. And, in any case, in most of the world, there are just no returns. By contrast, risk in Africa (political, regulatory and credit) is coming down, while it is going up elsewhere without the commensurate returns. So there is a higher growth trajectory and expectations for returns here and, therefore, you need to have a higher appetite for risk - as long as it is risk that suits you and your business.

Talent and people have always been key factors for any business. In Africa, companies also need to be authentically

local. At Barclays, we don't want to just impose ourselves onto the market, but try and understand it - especially in terms of what the win-win solutions are. Being dedicated citizens on the continent, we consistently consider the impacts of our day-to-day business decisions on the wider African society. When it comes to people, an overriding theme is that Africa has a key demographic dynamic - a young and vibrant population.

The IMF estimates that by 2020, Africa will have 122 million more young people ready to enter the workforce than any other region in the world. In addition, Euromonitor states that the total urban population rate of Africa (irrespective of age) would have surpassed China and India's rates by 200 million by 2050. This will either lend us a dividend in terms of sustained growth, or it will be our next curse, because expectations not met by such a huge part of the population results in social unrest.

As responsible business people getting into the continent, we have to be a force for good and help turn this demographic dynamo into a dividend for our businesses and the societies in which we operate. Africa today has a number of highly educated people - the challenge is, a number of these people do not yet have the managerial experience and expertise required in their jobs from day one. This means that skills transfer and skills development are key priorities now, and into the future.

"By 2020, Africa will have 122 million more young people ready to enter the workforce than any other region in the world."

Addressing key constraints to doing business on the continent

Perceived challenges to doing business in Africa

In your opinion, what measures should be implemented to increase the region's ease of doing business?

	First	Total
Enforce effective anti-bribery and corruption initiatives	25%	40%
Improve transport and logistics infrastructure	21%	40%
Improve access to local finance	11%	19%
Increase efficiency of customs procedures	8%	19%
Improve system for trading across borders	7%	17%
Implement measures to increase ease of starting a business	8%	16%
Facilitate ease of enforcing contracts	5%	9%
Improve electricity and power supply	2%	8%
Increase ease of obtaining construction permits and property registration	3%	7%
Improve political stability and improve political maturity	1%	2%
Improve safety and security		2%
More rules, bureaucracy, business procedures and law enforcement	1%	1%
Improve education and training	1%	1%
Can't say (do not suggest)		6%

Two answers- In first and second position.
 Source: Ernst & Young's 2013 Africa attractiveness survey (total respondents: 503).

The emphasis for African governments in this context, we would argue, should therefore be on what needs to be prioritized, in order to improve conditions further for those already doing business in their economies and across the continent, rather than what needs to be done to attract greater levels of FDI. This distinction is important, and, rather than a “selling” job, implies a focus on practical improvements to the business environment.

In this context, it is instructive to look at what respondents to this year's survey had to say about constraints to doing business. At a macro level, the perceived barriers to investment in Africa were similar to those mentioned in our previous two surveys: primarily

political risk factors, with an unstable political environment, corruption and a weak security environment consistently being at the top of the list.

This year, we also asked the question from a different angle – from the more practical perspective of what should be done to improve the ease of doing business in the region. Providing a range of possible measures, we asked respondents to select their top two. The responses to this question provide some guidance on where to focus.

According to the responses to the survey, two key priorities emerge.

Morocco: establishing a logistics hub for Europe and Africa

Morocco has made substantial progress according to the World Bank's Logistics Performance Index (LPI) rankings, improving from 94th position in 2007 to 50th in 2012. This provides a good example of the benefits of implementing a comprehensive approach to improve logistics and connectivity, for example, combining customs and border management reform with large physical investments in the Tangier-Med Port. As a result, Morocco can now support far more complex supply chains than it could in the recent past, and is able to

leverage its proximity to Europe and other parts of Africa to attract investment in manufacturing and "just-in-time" exports (for example, in the textiles, electronics and automotive sectors). A recent example is Renault-Nissan's investment last year in a production facility in Tangier. The plant currently has a production capacity of 170,000, and this will ultimately be raised to 400,000 vehicles for export per year.

Besides the comprehensive nature of the approach, another key lesson from the

Morocco experience is the close working relationship between and across the public and private sectors. Like other countries, such as Canada, China, Finland, Germany, and Malaysia, Morocco has introduced a collective public-private sector coordination mechanism, to ensure consistent implementation of the logistics development strategy.

1 Improving transport and logistics infrastructure

It would be unsurprising to most that the infrastructure gap is among the top two constraints to doing business on the continent. Interestingly, the highest proportion of respondents to our survey already doing business on the continent (44% versus only 33% of those not yet doing business) listed "improving transport and logistics infrastructure" more specifically in their top two.

In Chapter 1, we provided some information on the infrastructure projects currently underway across Africa. Despite this, the infrastructure deficit clearly does remain a key constraint to doing business and economic growth more broadly. According to research by the Africa Infrastructure Knowledge Program (AIKP), in a joint initiative by The World Bank and African Development Bank, the poor quality of infrastructure overall in Africa depresses firm productivity by around 40%.¹²

Looking more specifically at transport and logistics, the LPI provides a useful tool not only for benchmarking African countries globally, but also for analyzing the challenge in more detail.¹³ The LPI measures performance along the logistics supply chain across 155 countries, 43 of which are African.¹⁴ As one would expect, most of these African countries do not perform particularly well. South Africa is a notable exception, with a ranking of 23 (the

highest ranked BRICS country). In total, there are only 8 African countries in the top half of the rankings, while 8 of the bottom 10, and 14 of the bottom 20, are in Africa.

One of the areas in which most African countries score the lowest is in physical infrastructure, reflecting the obvious need for investment in generally improving transport infrastructure (road, rail, ports and air). However, while much attention tends to focus on physical infrastructure, the quality of transport infrastructure is only one factor contributing to transport and logistics cost and inefficiencies. The LPI is useful because it provides a multi-dimensional analysis across six components:

- ▶ The efficiency of customs and border management clearance
- ▶ The quality of trade and transport infrastructure
- ▶ The ease of arranging competitively priced shipments
- ▶ The competence and quality of logistics services
- ▶ The ability to track and trace consignments
- ▶ The frequency with which shipments reach consignees within scheduled or expected delivery times

12. "Handbook on Infrastructure Statistics," Africa Infrastructure Knowledge Program, December 2011.

13. Jean-Francois Arvis et al "Connecting to compete: Trade logistics in the global economy," The International Bank for Reconstruction and Development/World Bank, 2012.

14. Mali, Mozambique, Somalia, Uganda, and Zambia were part of the study, but were excluded from the final index due to data reliability issues.

LPI component scores

(By LPI quintile)



Source: Logistics Performance Index 2012.

Logistics performance category	Ranking of African countries (out of 155)	
1. Logistics friendly (top quintile)	South Africa (23)	
2. Consistent performers (second quintile)	Tunisia (41) Morocco (50)	Egypt (57)
3. Partial performers (third and fourth quintile)	Benin (67) Botswana (68) Mauritius (72) Malawi (73) Côte d'Ivoire (83) Madagascar (84) Niger (87) Tanzania (88) Namibia (89) Guinea-Bissau (94) Togo (97) Central African	Republic (98) Zimbabwe (103) Ghana (108) Senegal (110) São Tomé and Príncipe (114) Guinea (115) The Gambia (118) Liberia (119) Nigeria (121) Kenya (122)
4. Logistics unfriendly (bottom quintile)	Algeria (125) Mauritania (127) Gabon (131) Burkina Faso (134) Libya (137) Angola (138) Rwanda (139) Ethiopia (141) Lesotho (142) DRC (143)	Comoros (146) Eritrea (147) Sudan (148) Republic of the Congo (149) Sierra Leone (150) Chad (152) Djibouti (154) Burundi (155)

Source: Logistics Performance Index 2012

The distribution of LPI scores across all six components is broken down into four categories.

There are clear differences in scores across component and quintile. For the bottom two quintiles (which include the majority of African countries), infrastructure is clearly lagging. However, lagging even further behind are the efficiency of customs and border management clearance, and the competence and quality of logistics services.

What the LPI analysis highlights is that there is no “silver bullet” for solving the transport and logistics challenge in Africa. While investment in hard infrastructure is obviously critical, it will not, in and of itself, be sufficient. Countries that are making substantial performance improvements are the ones that have implemented long-term and comprehensive reforms and investments across the transport and logistics supply chain. While there is no “cut-and-paste” approach, the matrix below, based on the LPI analysis, does offer an instructive high-level guide on where the emphasis of reform and investment should be, depending on a country’s level of logistics efficiency. What this matrix emphasizes, again, is that as important as investment in physical infrastructure is for improving transport and logistics in most African countries, so too is related improvements in customs, border management and regional facilitation and integration.

The Chirundu one stop border post

The Chirundu one stop border post (OSBP) between Zambia and Zimbabwe was the first functioning OSBP in Africa. The Chirundu OSBP is a pilot trade facilitation project as part of the North South Corridor (NSC), a key program of the proposed Tripartite Free Trade Area (which we profiled in last year's report).

Chirundu is a strategic gateway for trade between Southern and East Africa, with between 300 and 400 vehicles crossing the border each day. The building of the OSBP has allowed for significant reductions in border delays, which play a crucial role in decreasing transport costs and, therefore, has contributed to improving competitiveness in the region.

The streamlining and harmonization of border procedures at Chirundu has led to significant reduction of processing times through achieving efficiency and effectiveness in all border operations. Waiting times have reduced by an average of 50% (from three-day to same-day clearance) for freight transport and 83% (from 3 hours to 30 minutes) for passenger transport.

The major cause of lengthy transit times before the Chirundu OSBP was built were the long procedures involved in passing through two sets of identical controls on each side of the border. The new procedures at the OSBP allow all exit and entry formalities to be performed in sequential order in one facility, enabling only one stop at the border in either direction.

New complexes have been constructed to allow for the sharing of facilities by border agencies, and an ICT platform has been designed to allow authorized access to required data for both border agencies, which allows for a single-window processing system at the border.

The establishment of the Chirundu OSBP is an important achievement in the region. Policy makers will be able to draw on valuable lessons, to ensure faster and smoother rollouts of OSBPs at other border posts along the NSC. This will be critical to reducing transport costs and improving logistics performance in the region, which in turn will enhance the competitiveness of regional producers.

Trade logistics reform matrix

LPI component	Bottom quintile	Third and fourth quintile	Second quintile	Top quintile
Physical infrastructure	✓✓	✓✓	✓✓	
Information and communications technology	✓	✓		
Customs	✓✓✓	✓✓	✓	
Integration of border management	✓	✓✓✓	✓✓✓	✓
Services	✓✓	✓✓✓	✓✓✓	
Regional facilitation and corridors	✓✓✓	✓✓	✓✓	
National data tools	✓	✓	✓✓✓	✓✓✓
Green logistics			✓✓	✓✓✓

✓✓✓: Very important / ✓✓: Important / ✓: Fairly important

Source: *Connecting to complete 2012*; Trade logistic in the global economy; The International Bank for Reconstruction and Development/The World Bank p.32.

"Some five years on from the start of the financial crisis, it is time to chart a course based on the deployment of well-thought out plans. Africa suffers from a media-fueled image of corruption, poverty and crime. Dig a little deeper and a different story emerges - one of growth, infrastructure and democratization. It's a real story of opportunity."

Ajen Sita, Ernst & Young CEO for Africa

2 Enforcing anti-bribery and corruption initiatives

According to this edition of our *Africa attractiveness survey*, the infrastructure gap is matched only by bribery and corruption as the other most common constraint to doing business in Africa. Like infrastructure, a significant proportion of those already doing business on the continent (43% versus 34% of those not yet doing business) listed “enforce effective anti-bribery and corruption initiatives” in their top two. This is reinforced by Ernst & Young’s annual *Global Fraud Survey*, which last year highlighted the fact that across all the geographies surveyed, African respondents are the most likely to have experienced a significant fraud in the last two years.

We try and provide balanced commentary about corruption in Africa. Perceptions are often that corruption is rife across Africa, whereas the facts tell us a more differentiated story. Certainly, the extent to which corruption is a major issue varies widely. Several Southern African countries, island nations such as Cape Verde and Mauritius, as well as Ghana in West Africa and Rwanda in East Africa, all rank relatively well on various measures of corruption. On Transparency International’s 2012 *Corruption Perceptions Index*, for example, there are 18 African countries that rank higher than India and 33 higher than Russia.

Similarly, some of the subcomponents of the World Economic Forum’s *Global Competitiveness Index 2012-13* also make for interesting comparisons. For example, based on a weighted average score on “irregular payments and bribes,” Rwanda is ranked just below Australia and above Belgium, Austria, France and the US, among others. Botswana and Cape Verde also rank above the US, while a total of 18 African countries rank ahead of India, and a total of 25 are ahead of Russia.

The point here is not to imply that bribery and corruption is not a challenge in Africa, but rather that it is neither rampant across the continent, nor inherently a greater challenge across all of Africa than it is across other emerging market regions. However, let us not shrink from the fact that it is, nevertheless, clearly identified as one of the biggest constraints to doing business on the continent. In terms of addressing this constraint from a government perspective, the gap is arguably less in developing relevant anti-bribery and anti-corruption (ABAC) legislation as it is in the effective implementation thereof. In fact, as was pointed out in our *Global Fraud Survey*, many African countries have robust ABAC legislation, a number of which include extra-territorial reach and ban measures such as facilitation payments. Similarly, a joint report from the OECD and

African Development Bank (AfdB),¹⁵ focused on ABAC legislation, policies and practices to combat bribery of public officials in business transactions in 20 SSA countries, finds that all of the countries have been engaged in enacting new laws to combat bribery and corruption.

As is often the case though, the critical challenge is in actually implementing and enforcing the legislative framework. The OECD/AfdB report concludes with the following recommendations for strengthening the effective implementation of anti-bribery and related laws:¹⁶

- ▶ Effective implementation is often difficult to assess because of poor quality information, so improving methods of data collection, including on sanctions imposed, and ensuring their wide dissemination, is a critical starting point
- ▶ Implementing mechanisms to keep track of the status of cases, including those that were dropped (and why)
- ▶ Reporting of cases even where a case is heard at the lowest level (e.g., magistrates’ courts in countries with a common law influence) and publicly disseminating judgments
- ▶ Although most countries have established specialized anti-corruption agencies entrusted with fighting bribery, their mandates do not always extend to prosecution. Fostering inter-agency cooperation and working relationships is, therefore, critical
- ▶ Providing appropriate means for the exchange of information between different agencies, such as anti-corruption agencies, financial intelligence units and public procurement agencies
- ▶ Considering giving prosecutorial powers in bribery cases to specialized anticorruption agencies
- ▶ Ensuring that the various agencies are adequately resourced and undergo regular training sessions (at national and regional level), including in the development of methods for detection and investigation
- ▶ Conducting regular reviews of anti-bribery laws and practices at national and regional levels

Of course, bribery and corruption are not issues for government alone, and attention also needs to be given by business to addressing the role of the private sector in these processes. One important measure would be to adopt greater corporate transparency, providing stakeholders with relevant information

15. “Stocktaking of Business Integrity and Anti-Bribery Legislation, Policies and Practices in Twenty African Countries,” OECD Publishing, 2012.

16. “Stocktaking of Business Integrity and Anti-Bribery Legislation, Policies and Practices in Twenty African Countries,” OECD Publishing, 2012.

Nigeria: driving greater transparency in the oil sector

The EITI (Extractive Industries Transparency Initiative) is a global standard for improving transparency and accountability in the extractives sector. In the countries that follow the EITI standard, oil, gas and mining companies disclose what they pay to the governments and governments disclose what they receive. These figures are independently reconciled and published in a process that is overseen by government, companies and civil society, working together in a multi-stakeholder group. Thirty-seven countries worldwide are currently implementing EITI (21 of which are in SSA), with 20 of these EITI-compliant (including 12 in SSA). Seventy of the world's largest oil, gas and mining companies support and actively participate in the EITI process.

Nigeria is among the top 10 oil producers in the world and the leading producer in SSA. Oil alone accounts for as much as 90% of government revenue. It is also commonly perceived as being among the most corrupt countries in the world. Recognizing the need to transform the sector, and after decades of military rule, a decision was taken in

2004 to launch the Nigeria Extractive Industries Initiative (NEITI). In doing so, Nigeria became the first African country to follow the EITI global standard for improving transparency of resource revenues.

One of the first steps was to establish a National Stakeholders Working Group (NSWG) - including representatives from government, civil society and oil companies - to oversee activities and implement the NEITI process effectively. The NSWG's commissioned a comprehensive audit of the entire oil sector value chain - from the lifting of the oil to depositing revenues from their sale at the Central Bank - to verify that all payments were correct and settled. This entailed financial, physical and process audits of the entire oil and gas industry for the period 1999-2004, a massive undertaking in a country of 36 federal states with little digitized data and various entrenched interests. The audits identified several weaknesses related to the management of oil revenues and oil and gas sector governance more broadly. Public release of the report touched off intense media interest and public attention.

An Inter-Ministerial Task Team (IMTT) was asked to put together a comprehensive remediation plan, which was approved by the Government. The subsequent EITI audit, which was released in August 2009, identified over US\$800 million of unresolved differences between what companies said that they paid in taxes, royalties and signature bonuses against what the Government said it received. Most of these discrepancies have been reconciled and are being remedied by a ministerial-level effort.

Nigeria continues to make progress in broadening and deepening the EITI process, and was, in fact, one of the first countries in the world, in 2010, to achieve EITI-compliant status. Nigerians may still have a long way to go to eliminate corruption from the oil sector and ensure that revenue from the country's natural resources lead to tangible improvement to the well-being of all citizens, but the implementation of EITI represents significant progress.

Source: Adapted from *Nigeria EITI: Making transparency count, uncovering billions*, EITI case study, 2012.

on, for example, anti-corruption programs and country-by-country operations. A recent report by Transparency International, assessing corporate transparency among the 105 largest listed multinational companies in the world (measured by market value),¹⁷ shows that many of these companies have still got a long way to go to improve transparency generally, and reporting on anti-corruption and country-by-country activities specifically. The Transparency International report makes the following recommendations for improvement among multinationals:

- ▶ Companies should publish detailed information on their anti-corruption programs
- ▶ Companies should publish complete lists of their subsidiaries, affiliates, joint ventures and other related entities
- ▶ Companies should publish individual financial accounts for each country of operations
- ▶ A transparent and informative corporate website, available in at least one international language, should be the standard communication tool for all multinational companies

- ▶ In view of their significant impact, financial services companies should considerably improve their reporting on all transparency-related issues and should, in particular, extend their anti-corruption programs to cover agents and intermediaries acting on their behalf and prohibit facilitation payments.

In addition, and as we pointed out in our *Global Fraud Survey* last year, businesses with major operations in Africa would likely benefit from participation in collective action initiatives. A number of these initiatives are beginning to show potential for combating fraud, bribery and corruption. For example, the continued efforts of the EITI to increase transparency around transactions with governments could reduce the ability of companies and governments to mask improper payments. Interestingly, and arguably reinforcing the point about the efficacy of collaborative initiatives such as the EITI, the top five ranked companies in Transparency International's Transparency in Corporate Reporting Index all operate in extractive industries (mining, oil and natural gas).

17. "Transparency in Corporate Reporting: Assessing the World's Largest Companies," Transparency International, 2012.

Principles for action

Getting down to business implies a bias to action; we need to see a shift toward moving on and getting things done. However, we also need to ensure that government, business, the donor community and broader civil society are all working together to achieve the same long-term objectives of economic growth and social development. This does happen, but somewhat haphazardly, and to a greater or lesser extent across different parts of Africa. To accelerate our progress, we need a more systemic and joined-up approach to working together to increase private investment, create more sustainable jobs, transfer new technologies and skills, and realize Africa's true economic and human potential over the next few decades.

"After climbing a great hill, one only finds that there are many more hills to climb. I have taken a moment here to rest, to steal a view of the glorious vista that surrounds me, to look back on the distance I have come. But I can rest only for a moment ... I dare not linger, for my long walk is not yet ended."

Nelson Mandela

But effective action needs to be grounded in an intellectual and emotional framework that ensures we are all on the "same page." We believe it is, therefore, important to consciously frame a set of principles about doing business in Africa, not as a philosophical inquiry, but rather because our principles critically influence how we behave as individuals and organizations. They lead us to participate or sit on the sidelines, to be bold or meek, to build or to pull down; a clear set of principles provides a framework for belief, which, in turn, helps provide the confidence and courage to act.

While we do not pretend to have all the answers, based on our own experience of growing an African practice across 33 countries, and of engaging with numerous private and public sector clients developing and executing strategies for growth in Africa, the following is a set of five key principles. These, we believe, provide a framework for action that will support both local and international companies in expanding their operations in and across Africa.¹⁸

¹⁸. Principles originally developed in conjunction with Dr. Jolyon Ford from Oxford Analytica.



Key principles	Implications	
	For business	For governments
Perspective: assuming a glass half-full perspective that focuses first on opportunity and only then on the risks that need to be managed.	Mindset is critical. African business ventures can be risky, but no more so than those in much-hyped emerging markets in other regions. Giving substance to your Africa strategy involves a choice: one can emphasize a search for opportunities and then factor in risks accordingly, or take a “risks-first” approach and only weigh opportunities after first filtering for risk. Those who succeed in Africa will tend to focus on opportunity first.	The perspective that governments adopt toward business also matters. Historically, foreign investors and the private sector generally have often been viewed with suspicion (or, at best, as a “necessary evil”). Government officials need to recognize and embrace the critical role that private sector investment can and should make as an integral part of the growth and developmental agenda in Africa.
Partnerships: investing in building strong collaborative partnerships across government, business and communities.	Relationships matter, perhaps more so in Africa than in any other region. Fostering good, proper relations across government and civil society will continue to be vital to realizing strategic aims. Similarly, we believe that strong local business partnerships are critical to success.	However effective many of them have been over the past decade, African governments cannot succeed alone. Productive dialogue and active collaborative partnerships with business and donor agencies, aimed at accelerating economic development and job creation, should become the operating norm across the continent.
Planning: adopting careful long-term planning, and patience; persistence and flexibility in implementing those plans.	While it is often said that rewards go to the bold, in African investing, it is also true that patience is a virtue (and pays). Experienced foreign investors repeatedly note that nowhere else is there such a direct correlation between careful planning (and flexibility about plans once formed) and a successful outcome.	Too often, economic development strategies are either vague or fragmented. Some African countries have, however, succeeded in a coordinated effort across government, business and civil society to create comprehensive, long-term strategies for economic growth and social development. This provides a common framework for policy-making, private investment and collaborative action.
Places: embracing Africa's diversity, but ensuring the whole is greater than the sum of the parts.	Africa's hallmark is diversity. The barriers to creating bigger and deeper common markets and trade areas are considerable, but are arguably receding. Strategy-making around African growth opportunities involves positioning oneself at key hubs; executing such strategies then involves thinking in less conventional ways, both below the country level (African opportunity as turning on various key cities) and beyond the country level (African opportunity framed in terms of regions and other potential groupings).	Africa's growth potential will remain limited as long as its many markets are fragmented and it remains difficult to do business across borders. Although regional integration is an important priority for many African governments, it is critical that progress is accelerated in order to break the structural constraints that have long marginalized the continent. Increased intra-Africa trade and the development of robust domestic markets will be key to sustainable growth going forward, but this will require unprecedented collaborative leadership across governments to transform the promise of regional integration into a reality.
People: celebrating, nurturing and developing Africa's human talent; arguably the continent's greatest resource.	Strategies are not self-executing. Firms that are serious about seeing through their African investment in the longer term have found - and will continue to find - that genuinely investing in people can bring significant rewards. Sustainable success in Africa will increasingly turn on the ability to put human resource development at the heart of strategy execution. For most sectors, identifying, nurturing and retaining talented and committed local staff will be particularly crucial.	African governments are under pressure to show tangible progress in creating jobs. However, in the spirit of long-term planning and collaborative partnership, government and business should work together to implement developmental programs that will ensure sustainable local job creation. This will initially require flexibility from governments in terms of job quotas and visas, for example, in return for clear medium-term targets for recruitment, development and promotion of locals.

Conclusion

We are not merely sitting on the sidelines, researching and theorizing about doing business in Africa. Ernst & Young has been doing business on the African continent for more than 163 years. Today, we have a physical presence in 33 African countries, and provide services in every one of Africa's 54 sovereign nations. We are the first and only professional services firm to integrate our firm across SSA, operating as one practice, with a single executive team, resource pool and partner profit share across the entire sub-region. Looking forward, we are also investing substantial capital amounts to increase capacity and capabilities in key markets such as Nigeria, Angola, Kenya and South Africa.

The reason that we are driving such a robust growth strategy in Africa is because we believe in the direction in which this continent is headed. We believe in the economic growth story and the increasingly sound fundamentals that underpin that growth story. We also believe that there is, increasingly, the leadership across government, business and civil society to sustain our growth and developmental path in the coming decades.

While the focus in looking ahead is often one of the challenges we still face, it is also important to emphasize the abundant potential. Imagine the opportunities that will continue to be unlocked as these challenges are addressed, even in part. The fact that so many African economies have achieved relatively high and sustained

growth is important, but not as important as the even higher growth rates that are possible going forward. Basic improvements in logistics and electricity infrastructure, for example, could lead to sustained double-digit growth in Nigeria; Zimbabwe is an economic success story waiting to take off; Mozambique is already taking off; the East African Community (EAC) is creating a platform for accelerated regional growth; Angola has financial clout and is investing in infrastructure development and economic diversification; and as the political situation stabilizes in Egypt and Cote d'Ivoire, they will re-emerge as regional powerhouses ... the list goes on.

The key point for us, though, is that African governments will not realize the continent's potential by themselves. Business has to be viewed as an essential partner in driving the growth and development agenda. However, as Africans, we also need to accept that, despite what seem like the obvious and irrefutable facts backing up the African growth story, skepticism remains deeply ingrained among many potential private investors. There are, however, a critical mass of multinational investors that are believers and actively investing for long-term growth in Africa.

African governments should engage in more collaborative and productive partnerships with these companies already doing business across the continent. There also needs to be greater focus on creating an enabling environment for doing business by more actively addressing the

priorities we have highlighted in this report: implementing anti-bribery and corruption initiatives, accelerating the execution of critical infrastructure projects, addressing customs and border management inefficiencies, and driving the regional trade and integration agenda.

Drawing on our own experience of growing an African practice across 33 countries, and of engaging with numerous private and public sector clients developing and executing strategies for growth in Africa, we have outlined a framework for collaborative action, intended to support accelerated, sustainable and mutually beneficial growth and development across Africa. With a critical mass of us pulling in the same direction, and with committed leadership from government, business and civil society, Africa will continue its rise in the decades to come.

Africa

Maya Angelou

Thus she had lain
sugercane sweet
deserts her hair
golden her feet
mountains her breasts
two Niles her tears.
Thus she has lain
Black through the years.

Over the white seas
rime white and cold
brigands ungentled
icicle bold
took her young daughters
sold her strong sons
churched her with Jesus
bled her with guns.
Thus she has lain.

Now she is rising
remember her pain
remember the losses
her screams loud and vain
remember her riches
her history slain
now she is striding
although she has lain.

Extract: The poem 'Africa' is from *The Complete Collected Poems of Maya Angelou*, Random House, 1994.



Methodology

Ernst & Young's 2013 Africa attractiveness survey is based on a twofold, original methodology that reflects:

1 The "real" attractiveness of Africa for foreign investors

Our evaluation of the reality of FDI in Africa is based on fDi Markets. 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. Mergers and acquisitions (MandA) 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. Project creation and number of jobs generated are widely available on FDI. 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, Ernst & Young 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.

2 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 a country or area's ability to provide the most competitive benefits for FDI. Field research was conducted by the CSA Institute in December 2012 and January 2013, via telephone interviews, based on a representative sample of 503 international decision-makers. Business leaders were identified and interviewed in 38 countries. Globally, of the 503 companies interviewed, 63% operate in Africa.

Our survey was conducted among business leaders who had considered views and experiences of Africa. They were drawn from businesses across five regions.

The geographic representation was as follows:

- ▶ 57% European businesses
- ▶ 19% North American businesses
- ▶ 11% Asian businesses
- ▶ 8% Middle Eastern businesses
- ▶ 2% Oceanian businesses
- ▶ 3% other businesses

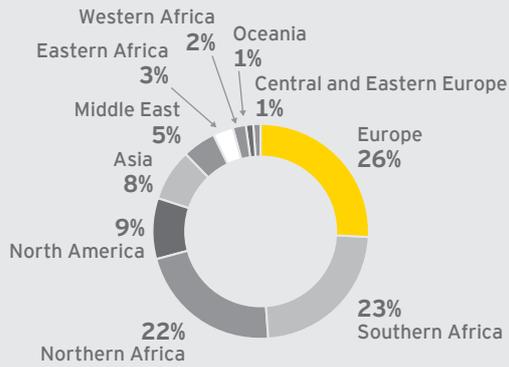
These businesses are representative of the following key economic sectors:

- ▶ Private and business services
- ▶ Industry and automotive
- ▶ High tech and telecommunication
- ▶ Consumer products
- ▶ Life sciences
- ▶ Energy and cleantech
- ▶ Real estate and construction
- ▶ Private equity

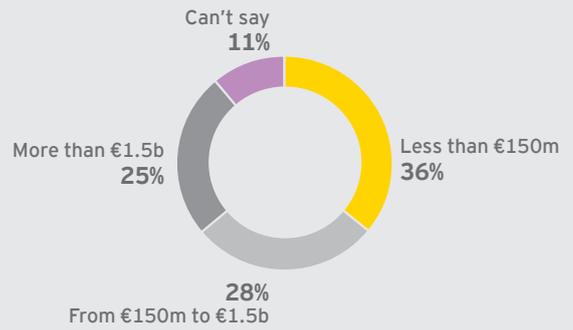


Profile of companies surveyed

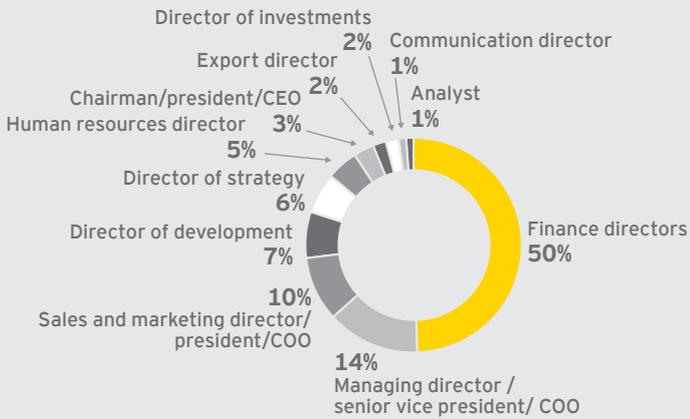
Geography



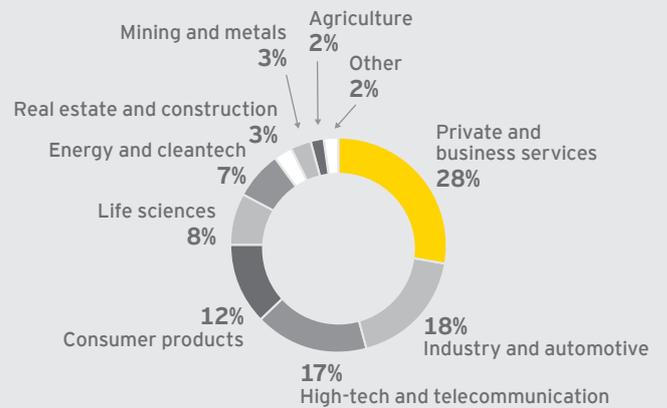
Size



Job title



Sector of activity



Ernst & Young in Africa

Ernst & Young Africa

Many companies that have been doing business across Africa for decades understand the real risks and opportunities associated with the continent. These companies invest in Africa for growth. We are ourselves among such investors. We do not simply analyze from the sidelines, but we actively drive our growth and integration journey in Africa.

While this journey has not been without its share of challenges, we have been successfully doing business on the continent for 163 years. Ernst & Young has integrated representation in 33 countries across Africa. This immense achievement has been described by media as "one of the biggest changes in the accounting profession in more than 100 years."

"It's time for a shift of emphasis and mindset away from the 'why' of investing in Africa toward the 'how' of driving successful growth of private enterprise across the continent. The emphasis should be on what needs to be prioritized in order to further improve conditions for those already doing business across the continent."

Michael Lalor, Partner, Africa Business Center™, Ernst & Young

Growing Beyond Borders™

To further support our activity on the continent and strategy co-development with businesses, we have developed the Growing Beyond Borders™ software. This is an Ernst & Young owned software that visually maps data through the lens of the world's geography, in a highly intuitive manner. It helps to navigate the challenges and opportunities in doing business across the globe. Publicly available data, as well as our own surveys, are depicted in heat maps, competitive footprint views and comparison tables across the map, to help companies make business decisions and grow beyond their current borders.

Africa Business Center™

We use the learning, experience and knowledge that we have garnered over our 163 years in Africa to help other companies navigate the opportunities and challenges of doing business across the continent. We do this through the Africa Business Center™ (ABC™). The sole purpose of the Africa Business Center™ is to assist clients in making their investment and expansion decisions in Africa.

Our integration and ABC™ benefits our clients through:

- ▶ A network of people across Africa and the rest of the world, enabling 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* and *Growing Beyond series*
- ▶ 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

Contact us:

- ▶ **Michael Lalor**, Africa Business Center™ Leader
Mobile: + 27 (0) 83 611 5700 Email: michael.lalor@za.ey.com
- ▶ **Sylvester Taku**, Africa Business Center™
Mobile: + 27 (0) 83 411 0005 Email: sylvester.taku@za.ey.com

Unlocking value in

Africa



Our Africa footprint



Country leaders

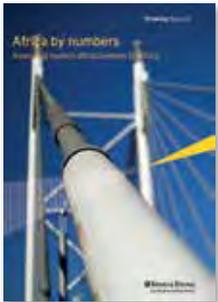
Country	Name	Email
Algeria	Philippe Mongin	philippe.mongin@fr.ey.com
Angola	Luis Marques	luis.marques@pt.ey.com
Botswana	Bakani Ndwapi	bakani.ndwapi@za.ey.com
Cameroon	Joseph Pagop	joseph.pagop.noupoue@cm.ey.com
Chad	Joseph Pagop	joseph.pagop.noupoue@cm.ey.com
Congo	Ludovic Ngatse	ludovic.ngatse@cg.ey.com
Cote d'Ivoire	Jean-Francois Albrecht	jean-francois.albrecht@ci.ey.com
DRC	Lindsey Domingo	lindsey.domingo@cd.ey.com
Egypt	Emad Ragheb	emad.ragheb@eg.ey.com
Equatorial Guinea	Erik Watremez	erik.watremez@ga.ey.com
Ethiopia	Zemedeneh Negatu	zemedeneh.negatu@et.ey.com
Gabon	Erik Watremez	erik.watremez@ga.ey.com
Ghana	Ferdinand Gunn	ferdinand.gunn@gh.ey.com
Guinea Conakry	Rene-Marie Kadouno	rene-marie.kadouno@gn.ey.com
Kenya	Gitahi Gachahi	gitahi.gachahi@ke.ey.com
Libya	Waddah Barkawi	waddah.barkawi@jo.ey.com
Madagascar	Gerald Lincoln	gerald.lincoln@mu.ey.com
Malawi	Shiraz Yusuf	shiraz.yusuf@mw.ey.com
Morocco	El Bachir Tazi	bachir.tazi@ma.ey.com
Mauritius	Gerald Lincoln	gerald.lincoln@mu.ey.com
Mozambique	Ismael Faquir	ismael.faquir@mz.ey.com
Namibia	Gerhard Fourie	gerhard.fourie@za.ey.com
Nigeria	Henry Egbiki	henry.egbiki@ng.ey.com
Rwanda	Allan Gichuhi	allan.gichuhi@rw.ey.com
Senegal	Makha Sy	makha.sy@sn.ey.com
Seychelles	Gerald Lincoln	gerald.lincoln@mu.ey.com
South Africa	Ajen Sita	ajen.sita@za.ey.com
South Sudan	Patrick Kamau	patrick.kamau@ss.ey.com
Tanzania	Joseph Sheffu	joseph.sheffu@tz.ey.com
Tunisia	Noureddine Hajji	noureddine.hajji@tn.ey.com
Uganda	Muhammed Ssempijja	muhammed.ssempijja@ug.ey.com
Zambia	Alasdair Stewart	alasdair.stewart@za.ey.com
Zimbabwe	Walter Mupanguri	walter.mupanguri@zw.ey.com

Industry leaders

Industry	Name	Email
Banking and capital markets	Emilio Pera	emilio.pera@za.ey.com
Insurance	Malcolm Rapson	malcolm.rapson@za.ey.com
Asset management	Chris Sickle	chris.sickle@za.ey.com
Public sector	Yunus Naidoo	yunus.naidoo@za.ey.com
Public sector	Kuben Moodley	kuben.moodley@za.ey.com
Government and infrastructure	Joe Cosma	joe.cosma@za.ey.com
Mining and metals	Wickus Botha	wickus.botha@za.ey.com
Oil and gas	Elias Pungong	elias.pungong@cm.ey.com
Power and utilities	Norman B. Ndaba	norman.ndaba@za.ey.com
Retail and consumer products	Derek Engelbrecht	derek.engelbrecht@za.ey.com
Telecommunications	Serge Thiemele	serge.thiemele@ci.ey.com

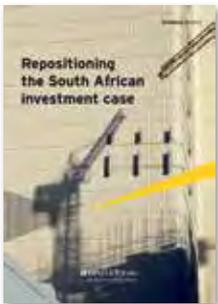
Publications

Africa by numbers



Foreign direct investment (FDI) into Africa has increased significantly over the last decade and this trend is set to continue, but the decision on where to invest in this vast and diverse continent can prove challenging. The report sets out the risk profile of 17 of the most popular countries for investment in Africa and balances them against the rewards on offer.

Repositioning the South Africa investment case



According to our research, the view that SA is losing out to the rest of Africa in the competition for FDI is factually incorrect. Despite the very real socioeconomic challenges facing SA, the trends demonstrate that FDI both into SA and from SA into the rest of the African continent is growing substantially. At the same time, and, again, contrary to prevailing perceptions, various independent global indices and indicators of

investment risk and attractiveness highlight SA's potential as a blue chip RGM investment destination.

Doing business in Africa



The size, diversity and inherent complexity of doing business across the continent will continue to test even the best-laid corporate strategies for growth in Africa. Yet the rewards to be had are very real, and African governments and communities will continue to welcome responsible and committed investment. While there is certainly no "paint-by-numbers" approach to doing business in and across Africa's many and diverse markets, we do hope that the framework

provided here helps to further enhance confidence in your growth strategies for Africa, and to accelerate the transition from strategy development to execution mode.

Ernst & Young's Rapid-Growth Markets Forecast April 2013



Rapid-growth markets, the dominant force in global trade.

In the April edition of our quarterly economic forecast, you will find out how growing trade between rapid-growth markets (RGMs) over the coming decade will create a wide range of new opportunities for them and advanced economies. You will also discover how reliance on commodity revenues in Latin America brings opportunities as well as challenges.

Africa on the move: the quest for sustainable growth



As parts of Africa are well on the way to becoming some of the most dynamic places in the world for investment, attention is geared toward how the continent will be able to sustain its growth trajectory. *Africa on the move* reveals the drivers behind Africa's economic transformation, while it also unveils some of the keys for further improving its performance.

Looking beyond the obvious: globalization and new opportunities for growth



As globalization enters its next phase, companies must prepare to make decisions on markets and investments without always knowing all the possible outcomes. Learn more from Ernst & Young's 2012 globalization report that suggests how companies, in the face of uncertainty, will need to tailor their strategies and look for growth in new ways and from new places to prosper in our increasingly connected world.







About Ernst & Young

Ernst & Young is a global leader in assurance, tax, transaction and advisory services. Worldwide, our 167,000 people are united by our shared values and an unwavering commitment to quality. We make a difference by helping our people, our clients and our wider communities achieve their potential.

Ernst & Young refers to the global organization of member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit www.ey.com.

© 2013 EYGM Limited.
All Rights Reserved.

EYG no. AU1582



In line with Ernst & Young's commitment to minimize its impact on the environment, this document has been printed on paper with a high recycled content.

This publication contains information in summary form and is therefore intended for general guidance only. It is not intended to be a substitute for detailed research or the exercise of professional judgment. Neither EYGM Limited nor any other member of the global Ernst & Young organization can accept any responsibility for loss occasioned to any person acting or refraining from action as a result of any material in this publication. On any specific matter, reference should be made to the appropriate advisor.

The opinions of third parties set out in this publication are not necessarily the opinions of the global Ernst & Young organization or its member firms. Moreover, they should be seen in the context of the time they were expressed.

EMEIA MAS E246.0113
ED None



Scan here to visit
our Emerging Markets
Center portal and
download the report.

Growing Beyond

In these challenging economic times, opportunities still exist for growth. In *Growing Beyond*, we're exploring how companies can best exploit these opportunities – by expanding into new markets, finding new ways to innovate and taking new approaches to talent. You'll gain practical insights into what you need to do to grow. Join the debate at www.ey.com/growingbeyond.

Contacts

Michael Lalor
Lead Partner Africa Business Center
Ernst & Young
Tel: +27 83 611 5700
Email: michael.lalor@za.ey.com

Sylvester Taku
Africa Business Center
Ernst & Young
Tel: + 27 83 411 0005
Email: sylvester.taku@za.ey.com

Sarah Custers
Africa Marketing
Tel: +27 11 772 3300
Email: sarah.custers@za.ey.com

Fathima Naidoo
Africa Press Relations
Tel: +27 11 772 3151
Email: fathima.naidoo@za.ey.com

Sandra Sasson
Marketing and Communications Director
Emerging Markets Center, EMEIA Marketing
Tel: + 30 210 2886 032
Email: sandra.sasson@gr.ey.com

Bijal Tanna
EMEIA Press Relations
Tel: + 44 20 7951 8837
Email: btanna@uk.ey.com