

EY's Africa Attractiveness Program 2016

# Staying the course



Building a better  
working world

**EY's Attractiveness surveys** and reports 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, reports and analysis are designed to help businesses to make investment decisions and governments to remove barriers to future growth. Our methodology in this report, *EY's Africa Attractiveness Survey 2016: staying the course* analyzes the reality of FDI in the respective countries or regions across Africa. The source data is January to December 2015, and covers the Africa continent with a focus on Sub-Saharan Africa (SSA).

### Methodology

Our evaluation of the reality of FDI in Africa is based on data provided by fDi Markets, a service from The Financial Times Limited (2015). The fDi Markets database tracks new greenfield and expansion FDI projects. Joint ventures are only included where they lead to a new physical (greenfield) operation. M&A and other equity investments are not tracked. There is no minimum size for a project to be included. However, every project has to create new jobs directly. Data on FDI project creation and the number of jobs created is widely available. However, many analysts are more interested in quantifying projects in terms of physical assets, such as plant and equipment, in a foreign country.

These figures, rarely recorded by institutional sources, provide invaluable insights as to how inward investment projects are undertaken, in which activities, by whom and, of course, where. To map these real investments carried out in Africa, EY uses data supplied by 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.

For more information, please visit:  
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EY in Africa

# Glossary

**AGOA:** African Growth and Opportunity Act

**AREI:** African Renewable Energy Initiative

**ASEAN:** Association of Southeast Asian Nations

**BPO:** Business process outsourcing

**CFTA:** Continental Free Trade Area

**COMESA:** Common market for Eastern and Southern Africa

**CPR:** Consumer products and retail

**DIP:** Diversified industrial products

**EAC:** East African Community

**ECOWAS:** Economic Community of West African States

**EU:** European Union

**FDI:** Foreign direct investment

**IRENA:** International Renewable Energy Agency

**LAPSSET:** Lamu Port-South Sudan-Ethiopia Transport Corridor

**MW:** Megawatts

**PPP:** Public-private partnership

**RCEP:** Regional Comprehensive Economic Partnership

**REC:** Regional Economic Community

**RHC:** Real estate, hospitality and construction

**SADC:** Southern African Development Community

**SEZ:** Special Economic Zone

**SGR:** Standard gauge railway

**SSA:** Sub-Saharan Africa

**TFTA:** Tripartite Free Trade Area

**TMT:** Technology, media and telecommunications

**TPP:** Trans-Pacific Partnership

**TTIP:** Transatlantic Trade and Investment Partnership

**WTO:** World Trade Organization



# Foreword

It is interesting to observe the manner in which discourse on Africa has shifted recently. After several years of growing optimism, based partly on sustained GDP growth rates, sentiment regarding Africa's prospects seems to have turned more negative. Doubts about the sustainability of Africa's growth momentum are perhaps inevitable, given the vast perception gap that has been a consistent theme of our Africa Attractiveness surveys, as well as a tendency by many to easily see and believe the worst when it comes to Africa.

Indeed, the past year has been a tough one for those of us doing business in Africa. For a decade, Sub-Saharan Africa (SSA) average GDP growth rate was close to 6%. In 2015, growth slowed substantially to 3.4%, and this year it is set to be even lower. Some of our key economies – including Angola, Nigeria and South Africa – are under significant pressure and are likely to remain so over the next year.

And yet, for those of us committed to a long-term growth strategy in Africa, it is important that we do not get distracted too easily and by the wrong things.

It is important to note, first, that, although economic growth across the region is likely to remain slower over the next few years, the main reasons for a relative slowdown are not unique to Africa. The negative factors impacting many African economies are the same as those weighing down the global economy: a general slowdown in emerging market economies, and in particular the rebalancing of China's economy; ongoing stagnation in most developed economies; lower commodity prices; and higher borrowing and capital costs.

While putting Africa's challenges in a global context, it is also important to note that although there has been a substantial slowdown in growth, SSA will remain one of the fastest-growing regions in the world for the foreseeable future.

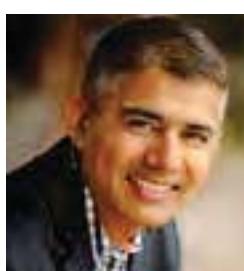
In other words, slower growth does not equate to no growth, and, from our perspective, does certainly not signal a cyclical decline in African economies.

If anything, the current economic environment reinforces the diversity of Africa's many markets. While some economies struggle, the International Monetary Fund's most recent forecast indicates that 17 SSA economies will still be growing at more than 5% this year – including Kenya, Tanzania, Mozambique and Côte d'Ivoire.

Yes, the environment for investing and doing business in Africa is uncertain and volatile, but this is nothing new. The critical point here is that anyone serious about doing business in Africa needs to take a long-term view on particular markets and should be staying the course. Of course, our resolve will be tested by what seem like ever greater levels of uncertainty – the most recent being the still as yet unclear impact of Brexit on African economies – and it may be necessary to make adjustments based on changing market conditions. However, shorter-term tactics should not be confused with long-term strategies.

In this report, we have therefore reintroduced our strategic 7-Ps framework – a tool designed to support investors to focus on the right questions at the right level of analysis to keep them on track to stay the course in Africa.

In the end, and despite current uncertainties, it remains our view that the longer-term outlook for economic growth and investment in Africa remains positive. The next few years will be tough – partly, even largely, as a result of a fragile and possibly fragmenting global economy. But many African economies remain resilient, and when conditions improve globally, much of Africa will be well positioned to accelerate the growth momentum once again.



**Ajen Sita**

Chief Executive Officer,  
Sub-Saharan Africa

# Executive summary



## Investor confidence in Africa remains strong, despite slowdown in growth

GDP growth for SSA slowed to about 3.4% in 2015 compared to an average of 6% over the past decade. Africa experienced stronger headwinds in the past year than in recent times, including soft commodity prices, the slowdown in China's economic growth rate and macroeconomic volatility. Despite these headwinds, SSA remains one of the fastest-growing regions in the world. This is also reflected in the FDI levels in 2015. During the year, FDI project numbers increased by 7% compared to 2014.

### GDP growth (2016-20)



Source: fDi Markets, EY analysis

Though down year-on-year, both capital investment and jobs created were ahead of the average for 2010 to 2014. Significantly, the year-on-year increase in FDI project numbers in Africa in 2015 occurred in a context in which the total number of FDI projects globally dropped by 5%. In fact, Africa was one of only two regions in the world in which there was growth in FDI project levels over the past year.

### FDI landscape in Africa

7% rise in FDI projects in 2015

**US\$71.3b**  
capital investment in 2015 vs.  
US\$68b average in 2010-14

### Among the only two

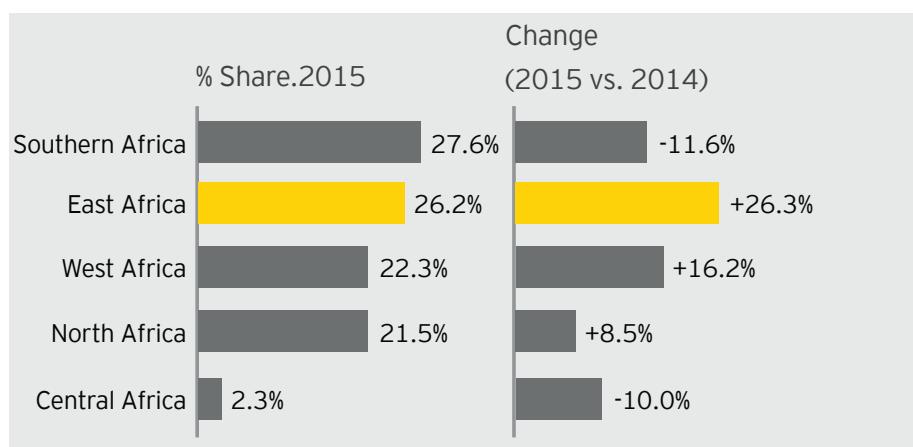
global regions to witness growth in FDI projects

## East Africa gathers momentum, with Kenya the star performer

2015 proved to be a milestone year for Africa, marked by a more balanced playing field at the subregion level. With an 11.6% drop in FDI projects versus 2014, Southern Africa's lead narrowed in favor of East Africa, now accounting for 26.2% of projects. Factors such as recent oil and gas discoveries, growing consumer markets, accelerating regional integration and infrastructure development have put East Africa firmly on investors' radars.

Of these destination countries, Kenya was the biggest gainer, with year-on-year FDI project numbers growing by over 50%, and moving into second spot overall, after South Africa.

### FDI projects by destination sub-region



Source: fDi Markets, EY analysis

## Historical investors gain strength, new investors emerge

Africa attracts FDI from a diverse and growing group of investors. In 2015, the US retained its position as the largest investor in the continent, despite a 4.0% fall in FDI projects. Historical investors including the UK, France, the UAE and India expressed renewed interest in Africa.

Interestingly, in 2015, Kenya replaced South Africa as the largest intraregional investor, more than doubling its number of outward FDI project into other parts of Africa. Other notable investors were Italy and Luxembourg, which became among the largest 15 investors in 2015.

### FDI projects by source country

Source country	FDI projects (2015)	Change (2015 vs. 2014)
 US	96	-4.0%
 UK	77	45.3%
 France	58	16.0%
 UAE	50	35.1%
 India	45	60.7%

Source country	FDI projects (2015)	Change (2015 vs. 2014)
 Kenya	36	140.0%
 Italy	16	100.0%
 Luxembourg	16	166,7%

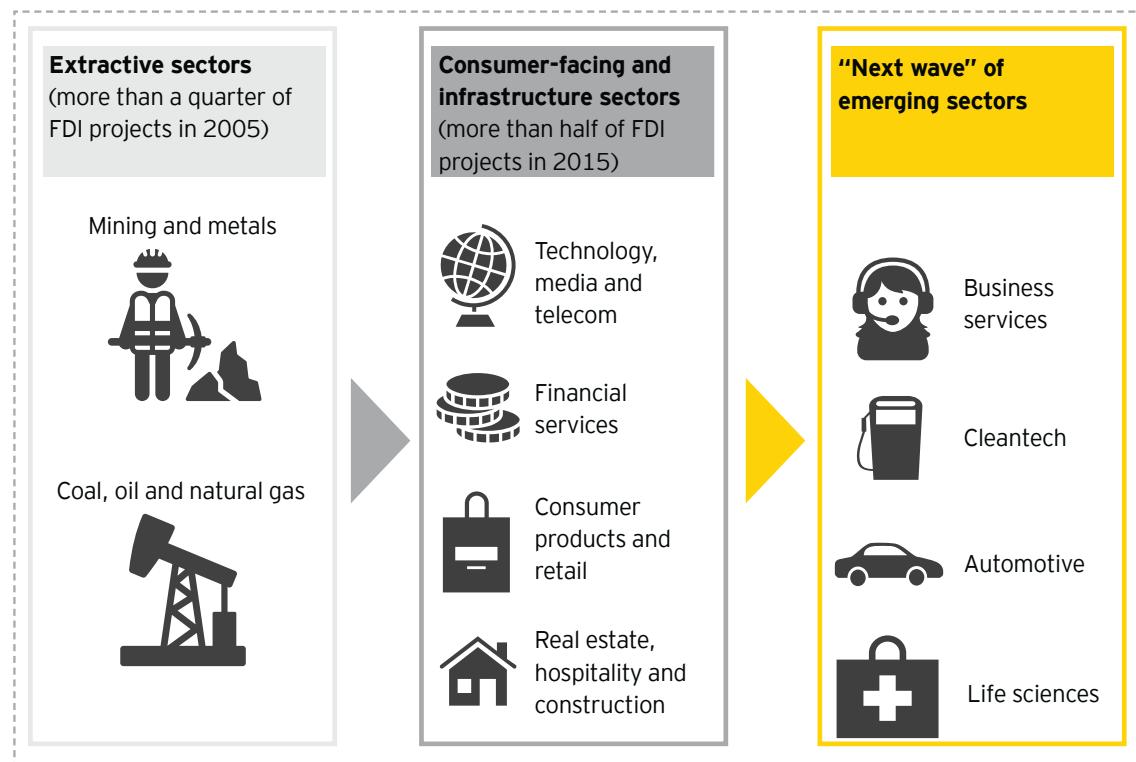
Source: fDi Markets, EY analysis

## Investments shift from extractive to consumer-facing and next-generation industries

Over the past decade, we have seen a shift across sectors from extractive to consumer-facing industries. Mining and metals, and coal, oil and natural gas, which were previously the key sectors attracting major FDI flows, have given way to consumer products and retail (CPR), financial services (FS) and technology, media and telecommunications (TMT), accounting for 44.7% of FDI projects in 2015. In our 2014 edition of the *Africa Attractiveness Survey*,

we also highlighted the emergence of real estate, hospitality and construction (RHC) as an increasingly attractive area of investment. 2015 saw further evidence of sector diversification, with business services, automotive, cleantech and life sciences all rising in significance and becoming the likely "next wave" for investors.

## FDI projects by sector



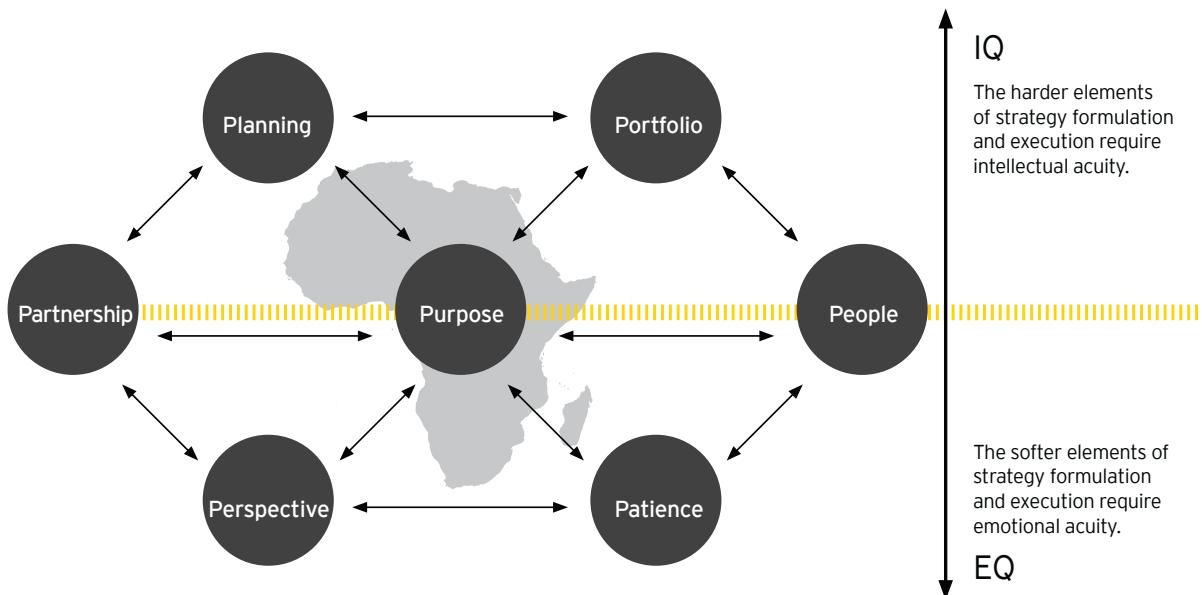
Source: fDi Markets, EY analysis

## Focusing on effective execution in Africa

As the emphasis of many organizations in Africa with a growth strategy shifts from rapid expansion to consolidation and optimization, effective strategy execution is key to tackle the increased uncertainty and complexity. In this regard, we have

reintroduced our 7-Ps model, which distills the lessons learned from growth leaders in Africa into a set of seven capabilities. By rating themselves on these seven capabilities, businesses can assess the robustness of their strategies for growth in Africa.

## EY's 7-P model for effective strategy execution in Africa



Source: EY's Africa Business Centre™

# Reality



# Africa's growth: meltdown or slowdown?

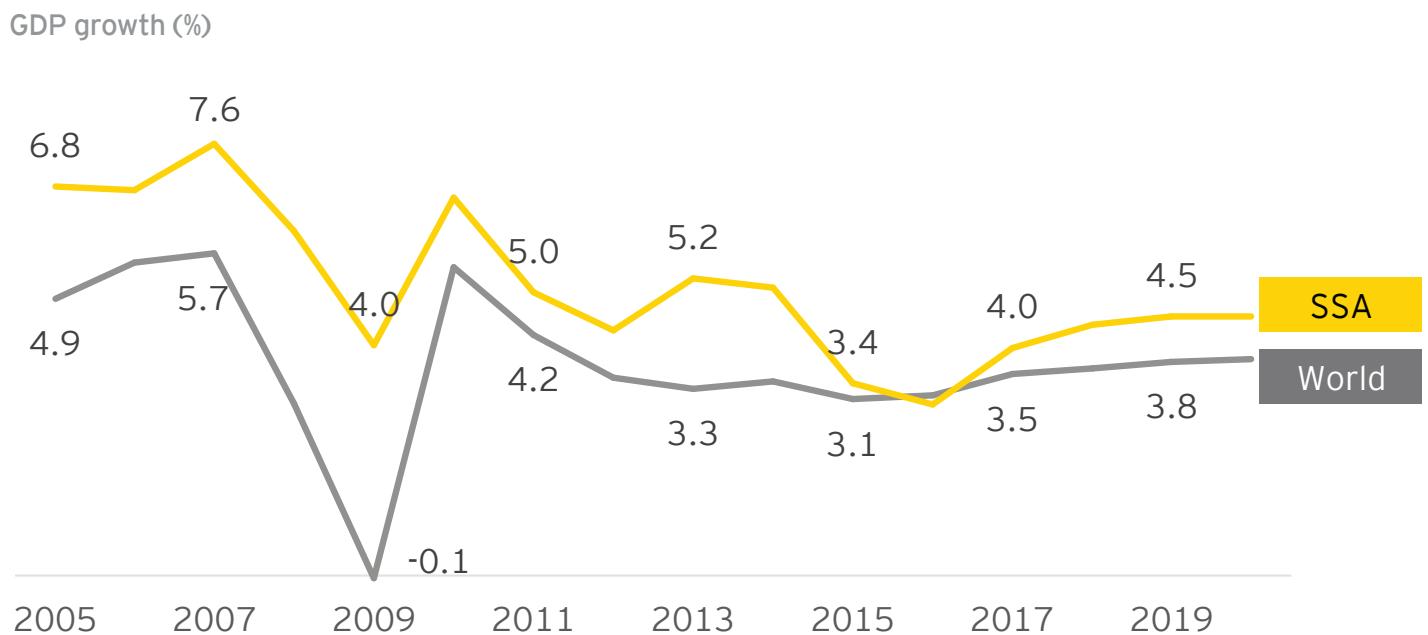
2015 was another tough year for the global economy generally, and, relatively speaking, for SSA specifically. After a decade of GDP growth averaging close on 6%, the International Monetary Fund's estimated growth for the region in 2015 is 3.4% (down from 5.1% in 2014).

The projection for 2016 is now down to 3%<sup>1</sup> the previous forecast of 5.1% in April 2015.<sup>2</sup> In other words, the growth momentum has slowed quite significantly in the past 18 months.

## How will the slowdown impact sustainable growth in Africa?

The reality is that economic growth across the region is likely to remain slower in coming years than what it has been over the past 10 to 15 years. The main reasons for a relative slowdown are not unique to Africa and are the same as those weighing down the global economy: a general slowdown in emerging market economies, and in particular the rebalancing of China's economy; ongoing stagnation in most developed economies; lower commodity prices; and higher borrowing costs.

A key word here, however, is relative. Although growth in the region has slowed, SSA will remain the second-fastest growing region in the world for the foreseeable future, after emerging Asia. In other words, slower growth does not equate to no growth, and certainly does not signal a cyclical decline in most African economies.



Source: IMF World Economic Outlook, April 2016

<sup>1</sup> Regional Economic Outlook Sub-Saharan Africa: Time for a Policy Rest, International Monetary Fund, 2016.

<sup>2</sup> Regional Economic Outlook Sub-Saharan Africa: Navigating Headwinds, International Monetary Fund, 2015.



## EY point of view

Our view remains that Africa's rise over the past 15 years is real; what we have witnessed has been a structural evolution rather than cyclical change that has marked previous boom and bust periods in Africa's postcolonial history. Although exports from many African economies remain commodity-orientated, private consumption has become a key growth driver, as has investment in infrastructure. The services sector constitutes an increasingly significant proportion of most African economies, and, while still small, the role of (and investment into) manufacturing is increasing. This process of structural evolution – as with anywhere else in history – will likely take decades. However, most African economies are in a fundamentally better place today than they were 15 to 20 years ago, and overall growth is likely to remain robust relative to most other regions over the next decade.



## Donald Kaberuka

Former President, African Development Bank

When I took office at the African Development Bank in 2005, the G8 had just concluded the Gleneagles conference. Africa was a key topic on the agenda, and the question they were asking was "how can we help Africa?" The narrative was still very much that of the 80s and 90s, with Africa essentially viewed as a basket case. Just over a decade later, that narrative has certainly shifted, with former British Prime Minister, Tony Blair, recently declaring Africa as "the most exciting continent on the planet."

As President of the African Development Bank, I was fortunate to be in a position to influence a new dynamic on this continent. The strategic choices we made were to focus on helping create an enabling environment for doing business, a particular emphasis on infrastructure, and ultimately accelerating progress towards an African single market - to try and move the narrative from what we could do for Africa, to what we can do together with Africa.

During this relatively short period we have seen tremendous change in Africa. Perhaps more important, we have seen tremendous resilience. In the face of various crises - the global financial crisis, Arab Spring and Ebola crisis being among them - the general wisdom out there was that African

economies would suffer huge damage. That resilience is something which has helped in the reshaping of the narrative.

Many of the challenges that the continent faces today - such as weak local currencies and soaring debt repayments - are a result of global headwinds. These include a strong US dollar and low commodity prices that are placing pressure on current accounts. However, these changes are global in nature, and are being felt across the world. Africa should not be treated as an exception. We are no longer different; Africa is no longer an exotic market. It is a market like any other.

What we need to be careful of too is misinterpreting temporary tactical challenges as long-term strategic issues. It is equally important though not to be starry-eyed; we certainly have to rebuild our shock absorbers, which have been weakened by the global financial crisis and a prolonged period of slow global growth. Nevertheless, and despite any short term challenges we will face, the continent has come a long way over the past decade, and that momentum will continue.

# Despite economic headwinds, FDI flows to Africa remain robust

Summary of key 2015 FDI numbers in Africa



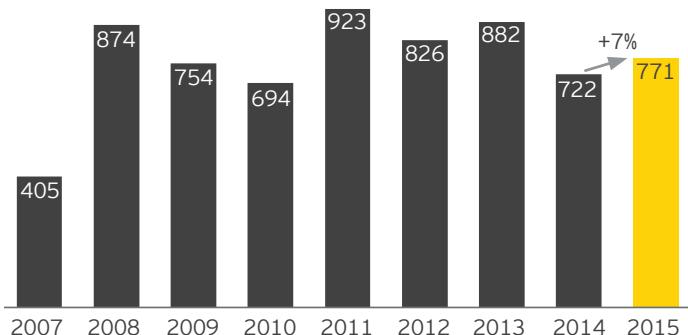
Source: fDi Markets, EY analysis

Despite a more challenging economic environment, and more generally negative sentiment toward emerging markets, investments remained relatively strong in Africa. In 2015, the continent saw higher average FDI flows than it did during the 2010-14 period, both in terms of capital investment and jobs created.

During the year, FDI project numbers increased by 7%. Although the capital value of those projects was down from US\$88.5b in 2014 to US\$71.3b in 2015 – this was still higher than the 2010-14 average of US\$68b. Similarly, jobs created were down 7% year-on-year, but, again ahead of the average for 2010-14.

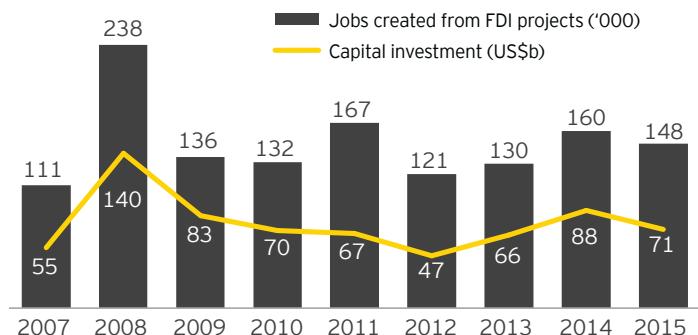
FDI projects in Africa up 7% in 2015, capital investment and jobs created beat 2010-14 average.

FDI projects



Source: fDi Markets, EY analysis

Value and jobs created from FDI projects



Change in 2015 versus 2010-14 average

**4.9%** higher capital investment

**4.4%** more jobs created

Interestingly, the drop in capital investment is likely due to structural economic changes – with several African countries diversifying away from their historical extractive base. Amid global concerns over the price of oil and other commodities, the diversification of investment into new emerging sectors appears to be accelerating. Financial services, CPR and TMT remain prominent, but business services and cleantech featured particularly strongly over the past year. These sectors are less capital and labor-intensive than traditional oil and gas and other extractive projects.

Source: fDi Markets, EY analysis

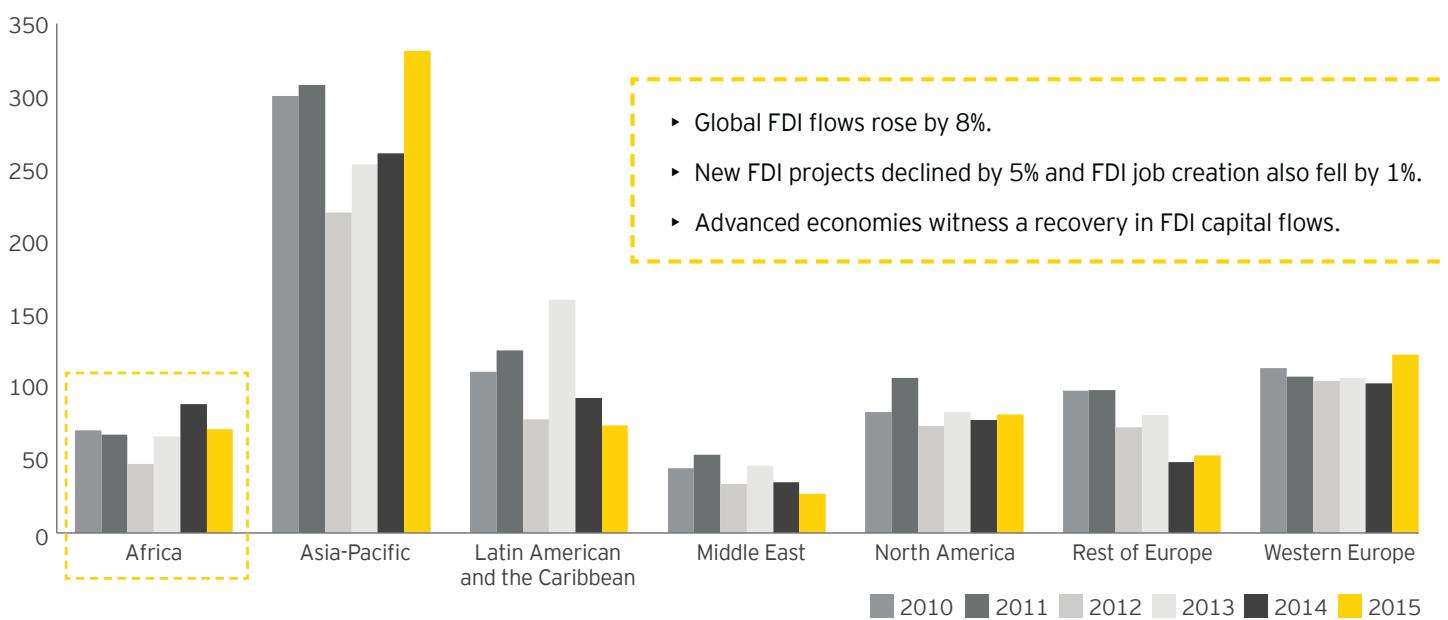
## Africa performs well, considering the global investment context

In 2015, the total number of FDI projects globally saw a drop of 5%, with a similar trend visible across North America, the Middle East, Asia-Pacific, Latin America and Western Europe.

In terms of capital investment, the global picture was somewhat stronger. FDI capital flows across the globe rose by 8% in 2015, after declining 11% in 2014. However, there were some changes in terms of the regions attracting capital flows. FDI capital flows to

developed economies rebounded in 2015, with North America and Western Europe rising 5% and 19%, respectively. This shift can be attributed to the ongoing recovery in major advanced economies as well as an increasing drive by multinational companies toward adopting more technology-centric models, and in tandem, adopting a less labor-intensive approach.

### FDI flows (US\$b)



Source: fDi Markets, EY analysis



## Gerald Mahinda

Managing Director, Sub-Saharan Africa, Kellogg Company

### Kellogg's: Investing beyond the headlines

Kellogg's has been operating in South Africa since 1923, and is one of the most trusted consumer brands in the country. I joined the company just over two years ago to drive growth off our mature base in South Africa into the rest of SSA. As part of our expansion strategy, in 2015, we announced one of the largest and most significant partnerships in Kellogg's history with a growing and dynamic food company in Africa – Tolaram, a company headquartered in Singapore, with a strong presence and track record of success in Nigeria.

Key elements of the deal with Tolaram include:

- ▶ The creation of a joint venture between Kellogg's and Tolaram Africa to develop snacks and breakfast foods for the West African market;
- ▶ The acquisition of 50% of Multipro (owned by Tolaram), a premier sales and distribution company operating in Nigeria and Ghana; and
- ▶ The right to acquire a stake in Tolaram Africa Foods (which owns 49% of Dufil Prima) in the future. Dufil Prima manufactures and markets several leading food brands, including Indomie noodles (often consumed at breakfast) Minimie snacks, Power oil and Power pasta.

The partnership with Tolaram is a truly unique opportunity that will unlock tremendous potential in an area of the world that has seen explosive growth. Lack of knowledge and experience in the region can lead people to misunderstand the opportunities that the region presents. It is true that oil prices have been volatile, growth rates inconsistent and suggestions that consumer potential is not living up to what it is made out to be. This has led to skepticism by some of the opportunities and the potential.

What I have seen and have confidence in, is SSA has experienced economic growth that has outpaced emerging and developed economies and Nigeria has been one of the biggest and fastest-growing countries in the region. This

growth has been driven by population growth, increasing urbanization, the rise of dual income families and an increased desire and willingness to pay for premium and high-quality packaged and branded foods.

My own view is that many people are too "short-termist" in their views on Nigeria specifically and Africa generally – the headlines are often too sensationalist; both positive and negative. This causes large swings in mood, between optimism and pessimism.

For over 20 years, I have traversed Africa, working with various multinationals – AIG, Standard Chartered, Diageo and now Kellogg's. I am more convinced than ever that, despite the real challenges, the long-term African growth story is real. It is very important to keep this long-term perspective front of mind, whatever the headlines might say.

During this time, I have had a front row seat to some of the very real change that has occurred. Ten years ago, when I was living in Lagos, not many people believed that the transition to democracy in Nigeria was real, let alone sustainable. Retail options were limited. There was only one supermarket where all the expats shopped; driving around Lagos, it was rare to see a new car. This has all changed. After four elections, there is real confidence in the sustainability of the democratic system and the retail sector has been transformed.

We are looking beyond the current cycle and at the underlying development of the market, which is why we have made this investment in a partnership with Tolaram. Critically, it gives us not only deep operating experience in Nigeria, but also provides us with an established route-to-market – getting the product to the consumer at a price that they can afford – surely the critical success factor for any FMCG company serious about growth in African markets. I am convinced that this is the right investment at the right time, and will provide Kellogg's with a platform for substantial growth as the market begins to turn again.



## Michelle Gavin

Managing Director, The Africa Center

Africa's economic fortunes over the past several years make plain that there is no magic formula for US investors in Africa. A handful will simply get lucky. For the rest, success will require a medium-to-long-term perspective, appreciation for the complexity of African markets and business climates, and a commitment to invest time and energy in building relationships and deepening understanding of what drives developments on the ground. The opportunities are real, rewarding, and attractive indeed, but seizing them requires no small amount of work.

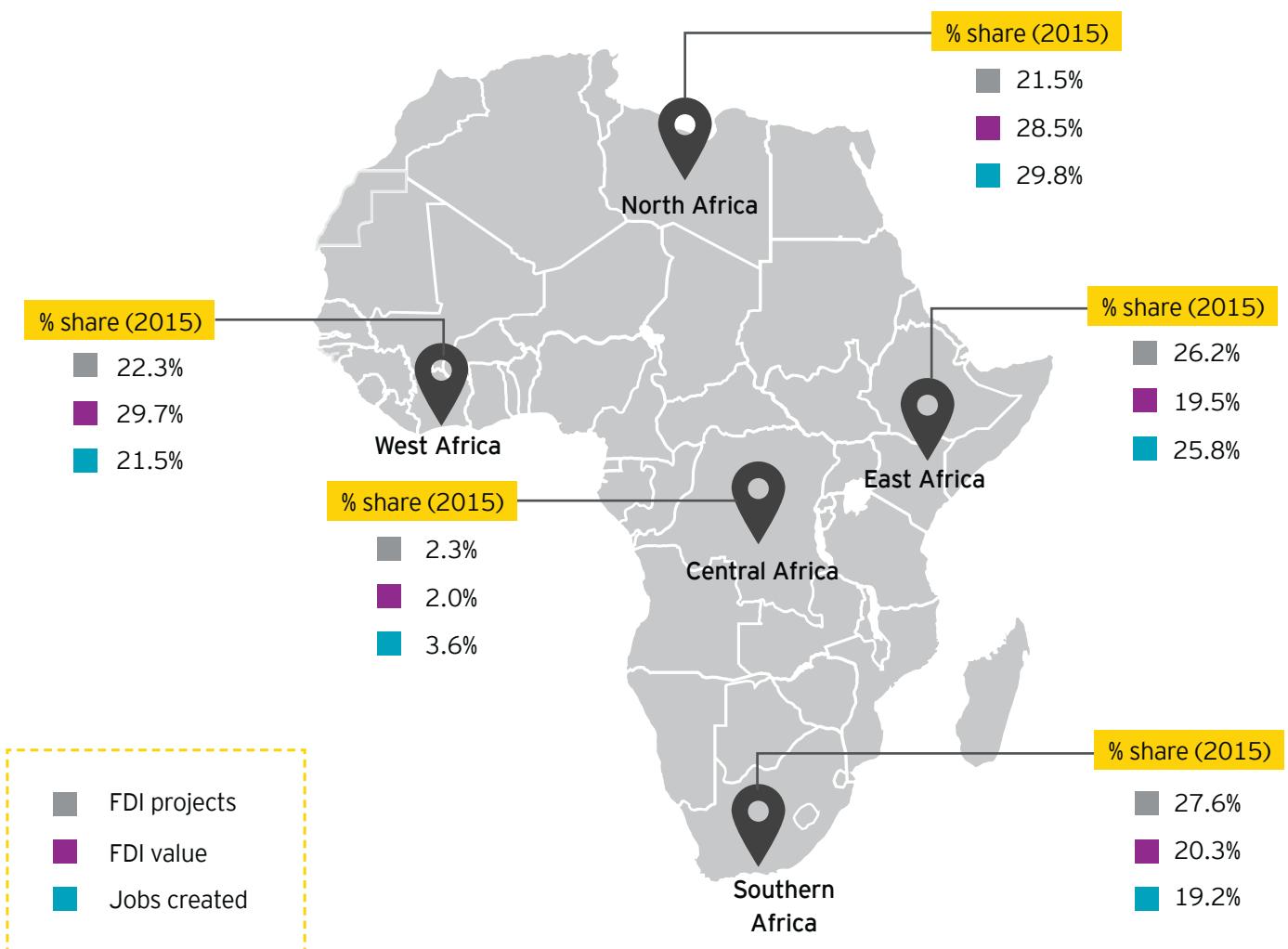
Those committed to staying the course need to be prepared for some ongoing volatility. African politics remain potent and, in some parts of the continent, still fairly unpredictable. While the African Union has been gaining strength, at least two major regional powers will be primarily focusing inward for the foreseeable future, requiring more attention to multiple countries' election cycles, leadership changes, and border tensions to develop a plausible vision of what the next several years may bring.

Smart investors will be thinking about the consistent African trends and priorities. Neither changes in commodity prices, nor political volatility, nor global demand shifts alter some of the most important dynamics on the ground, namely the job-creation imperatives baked into the continent's demographic realities and the unstoppable tilt toward more urbanized societies. Partners who can help African public and private sector leaders deliver more jobs, more skills, more reliable access to power, more affordable housing, and more resilient urban infrastructure – particularly in coastal cities vulnerable to climate change – will be pushing on an open door.



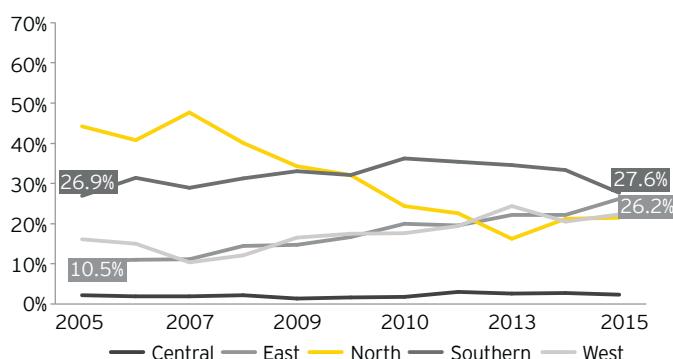
# East Africa closes the FDI gap, with Kenya a big gainer

Southern Africa's lead narrows; East Africa and West Africa gain prominence in terms FDI projects and value, respectively.



Source: fDi Markets, EY analysis

FDI projects, 2005-15 (% share)

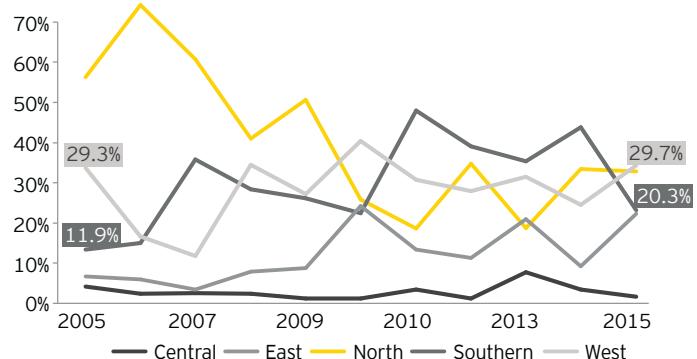


In 2015, East Africa recorded its highest ever share of FDI projects in the continent, achieving 26.2% of total projects. This means that the sub-region could pose a challenge to Southern Africa's historical FDI leadership.

Kenya, East Africa's anchor economy, posted a resurgence in FDI in 2015. The country has bucked the trend of slowing economic growth experienced across most of Africa. It posted a GDP growth rate of 5.6% in 2015, which is set to accelerate to 6.0% in 2016.<sup>3</sup> In line with this, the country saw its FDI project numbers surge more than 50% over 2014 levels, becoming the 2nd largest FDI recipient, after South Africa. UK investors were particularly active during the year, as were those from India. By sector, TMT was the clear leader, with FDI projects doubling from 12 in 2014 to 24 in 2015. Financial services and RHC also saw noticeable increases in FDI projects.

Other East African economies – **Uganda, Tanzania and Rwanda** – also reported higher inward investment project numbers. While recent oil and gas discoveries in Uganda and Tanzania have placed them on investors' radar, Rwanda has gained interest largely due to the country's strong economic growth record and its pro-business climate.

FDI capital, 2005-15 (% share)



The World Bank ranks it as Africa's second most business-friendly destination.<sup>4</sup> Rwanda is increasingly marketing itself as a continental hub for services.<sup>5</sup> According to the 2015 National ICT Strategy, government aims to transform Rwanda from an agrarian economy to an ICT-driven, knowledge economy by 2020.<sup>6</sup>

**Ethiopia** is another economy of interest to investors, also highlighted as an emerging FDI destination in our previous edition of the Africa Attractiveness survey. In 2015, the country retained its position as the eighth-largest investment destination in Africa, despite a 6.3% drop in FDI projects from 2014. The Ethiopian Government has prioritized developing a light manufacturing hub for light manufacturing a key priority. Wages in Ethiopia are about a quarter of those in China and half of those in Vietnam. Power costs are also relatively low. A number of investors have recently set up operations in the country, with Unilever building a local factory and retailer Hennes & Mauritz sourcing supplies from Ethiopia.<sup>7</sup>

<sup>3</sup> World Economic Outlook Database, International Monetary Fund, 2016.

<sup>4</sup> Doing Business 2016: Measuring Regulatory Quality and Efficiency, World Bank, 2015.

<sup>5</sup> "Kagame seeks lasting economic miracle for Rwanda," Financial Times website, www.ft.com, accessed 3 June 2016.

<sup>6</sup> Rwanda: A new model for growth, Financial Times, 2016.

<sup>7</sup> Ethiopian industry: still banking on China," Financial Times website, next.ft.com, accessed 16 June 2016; "Ethiopia predicts record \$1.5bn overseas direct investment in 2015," Financial Times website, next.ft.com, accessed 16 June 2016; Edmund Blair, Aaron Maasho, "INSIGHT-Ethiopia bets on grand projects in drive for industrial power," Reuters News, 9 February 2015, via Dow Jones Factiva, © 2015 Thomson Reuters.

## East Africa on investors' radars

- ▶ **Recent oil and gas discoveries:** East Africa is emerging as the world's most promising frontier for oil and gas exploration. Over the past decade, about 2.3 billion barrels of oil have been discovered in Uganda and Kenya. Tanzania, too, has discovered more than 50 trillion cubic feet of natural gas, among the largest reserves in the world<sup>8</sup>. While Uganda and Kenya are expected to begin oil commercialization in 2017, Tanzania aims to kick-off this process in 2019.<sup>9</sup> Thus far, East Africa has benefitted from low oil prices. This can be attributed to their more diverse, consumer-driven economies than most other African countries.<sup>10</sup>
- ▶ **Ample market opportunities:** Home to more than 300 million people, East Africa's appeal for consumer-facing industries is rising. With private consumption and household spending stimulating GDP growth, several consumer goods companies and retailers are eyeing the region.<sup>11</sup> For instance, large retailers, including Walmart and Carrefour have made inroads into Kenya in recent years.<sup>12</sup> Opportunities also exist in the TMT sector. Despite the exponential increase in mobile phone subscriptions in the region, penetration rates still have scope to increase further. Mobile penetration stands at 52.4% in Uganda, 62.8% in Tanzania and 73.8% in Kenya, way below South Africa's 149.2%.<sup>13</sup> East Africa is also emerging as a future hub for banking and other financial services.
- ▶ **Accelerating regional integration:** Through the auspices of the East African Community (EAC), made up of Kenya, Uganda, Tanzania, Rwanda and Burundi, intercountry linkages across East Africa are deepening. Progress includes the creation of the East African Customs Union, the establishment of the Common Market in 2010, and the ongoing implementation of the East African Monetary Union Protocol. In 2016, South Sudan received approval to become the sixth member of the EAC.<sup>14</sup> As a result of these steps, the EAC has been recognized as the most advanced in regional integration of all the Regional Economic Communities (RECs) in Africa.<sup>15</sup>
- ▶ **Infrastructure development:** Several large infrastructure projects are currently underway in East Africa, which will boost connectivity across the region. Kenya hosts the ambitious Standard Gauge Railway (SGR) project between Mombasa and Nairobi. The SGR forms part of the broader Lamu Port-South Sudan-Ethiopia Transport Corridor (LAPSSET), which aims to connect East Africa via oil refineries, ports and railway lines.<sup>16</sup> Another project is the construction of the Konza Tech City housing universities, research facilities and IT centers.<sup>17</sup> Ethiopia is also involved in several infrastructure projects, including the Grand Ethiopian Renaissance Dam, which will generate 6,000 megawatts (MW) of electricity and position the country as a key exporter of hydroelectric power.<sup>18</sup>

<sup>8</sup> "Falling crude price hits prospects for east Africa," *Financial Times* website, [www.ft.com](http://www.ft.com), accessed 3 March 2016.

<sup>9</sup> "East Africa: Why East Africa Has to Hold Onto the Oil and Gas Dream to Spur Economic Growth," *All Africa* website, [allafrica.com](http://allafrica.com), accessed 28 February 2016.

<sup>10</sup> "East Africa set to grow despite endemic problems," *Financial Times* website, [www.ft.com](http://www.ft.com), accessed 3 June 2016.

<sup>11</sup> *Industry Trend Analysis - East Africa: The Next African Consumer Hotspot*, BMI Research, 2016.

<sup>12</sup> "Walmart lines up for slice of Kenyan retail," *Financial Times* website, [next.ft.com](http://next.ft.com), accessed 3 June 2016; "France retailer to open store in Kenya," *CNBC Africa* website, [www.cnbcAfrica.com](http://www.cnbcAfrica.com), accessed 3 June 2016.

<sup>13</sup> *Mobile-cellular subscriptions*, International Telecommunications Union, 2016.

<sup>14</sup> "South Sudan joins East African Community club," *CNBC Africa* website, [www.cnbcAfrica.com](http://www.cnbcAfrica.com), accessed 6 June 2016.

<sup>15</sup> *Africa Regional Integration Index Report 2016*, United Nations Economic Commission for Africa, 2016.

<sup>16</sup> "Kenya's ambitious infrastructure projects will improve links with neighbours," *Financial Times* website, [next.ft.com](http://next.ft.com), accessed 3 June 2016.

<sup>17</sup> "Kenya's megaprojects: What can \$50 billion do for a country?," *CNN* website, [edition.cnn.com](http://edition.cnn.com), accessed 31 May 2016.

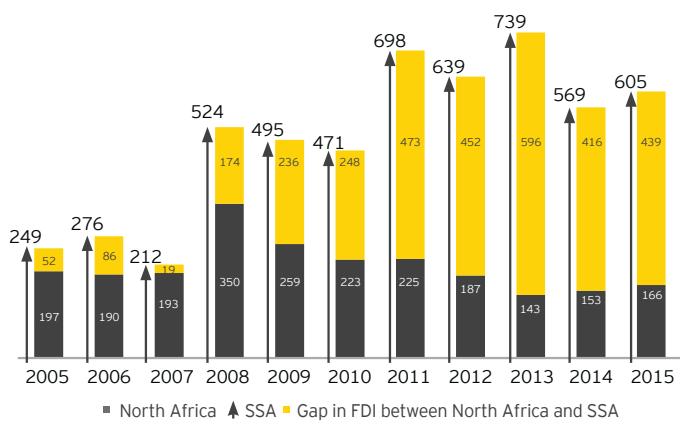
<sup>18</sup> "Egypt: 'Sudan, Egypt Have to Accept Ethiopian Renaissance Dam' - Expert," *All Africa* website, [allafrica.com](http://allafrica.com), accessed 30 May 2016.

## North Africa gradually regains lost ground

In our previous edition of the Africa Attractiveness Survey, we had highlighted the rebound in investor appetite toward North Africa, after its seeming recovery following political uncertainty. This recovery continued in 2015, with the region registering 8.5% year-on-year growth in FDI projects. However, while projects are increasing in North Africa, they are increasing at a much faster rate in SSA. The gap in FDI projects between North Africa and SSA was relatively small prior to the Arab Spring revolution, but widened dramatically between 2011 and 2013. This narrowed to 416 projects in 2014, but widened again in 2015 with SSA receiving 439 more projects than North Africa.<sup>19</sup>

### North Africa in 2015

FDI projects (200-15)



Source: fDi Markets, EY analysis

Within the subregion, **Morocco** is increasingly a key attraction for investment. The country's administration remained stable even as the Arab Spring unraveled around them. In 2015, Morocco was the third-largest recipient by FDI projects and the largest recipient of jobs created on the continent. During the year, the country attracted 74 projects, up from 67 projects in 2014. By sector, TMT and diversified industrial products (DIP) received more projects than 2014. Of particular interest was the automotive sector, which received double the number of investment projects compared to 2014 levels.

In 2015, Ford Motor Co. and PSA Peugeot Citroen announced plans to expand operations in Morocco.<sup>20</sup> Peugeot is aiming to construct a US\$632m assembly plant near Kenitra, with capacity to build 90,000 vehicles a year, scheduled to start production in 2019.<sup>21</sup> Following Peugeot's investment announcement, Morocco expects its annual automotive exports to reach US\$10.2b by 2020.<sup>22</sup>

**Egypt**, which became Africa's second-largest economy in 2016, is another country of interest to investors in North Africa.<sup>23</sup> In 2015, the country garnered 11.9% more projects than 2014. By sector, cleantech saw a large rise in FDI projects. There was an uptick in investment from the Middle East, particularly the UAE. Three Gulf economies, namely the UAE, Saudi Arabia and Kuwait, pledged a total of US\$12b in aid to Egypt at an international investment conference in Sharm el-Sheikh in March 2015.<sup>24</sup> Egypt is beginning to realize the benefits of economic reforms such as reduction in income tax rates and new mechanisms to resolve commercial disputes. Even so, the economy still needs up to US\$300b in coming years to reach its potential.<sup>25</sup>

### Southern Africa loses its clear lead

While remaining the largest investment region on the continent, Southern Africa's lead narrowed for the first time in 2015. Investment activity for the subregion was down almost across the board. FDI projects were down 11.6% from 2014 levels. Capital investment and job creation also declined, by 56.7% and 19.6%, respectively.

Interestingly, however, investment continued to flow to **South Africa** in 2015, even as macroeconomic indicators remained soft. After declining in 2014, the country reported 8.3% year-on-year growth in FDI projects, with capital investment up a strong 32.5%. Both the US and the UK announced more projects into South Africa in 2015, as did investors from India and Germany. By sector, there was an increase in inward investment projects in business services (up 71.4%), CPR, cleantech and automotive.

<sup>19</sup> "North Africa fails to regain lost ground in 2015," *fDi Intelligence* website, [www.fdiintelligence.com](http://www.fdiintelligence.com), accessed 16 March 2016.

<sup>20</sup> "Paying Less in Slump Lifts Morocco Above Oil-Pumping Neighbors," *Bloomberg* website, [www.bloomberg.com](http://www.bloomberg.com), accessed 17 March 2016.

<sup>21</sup> "Peugeot Plans \$632 Million Morocco Car Plant in Africa Push," *Bloomberg* website, [www.bloomberg.com](http://www.bloomberg.com), accessed 18 February 2016.

<sup>22</sup> Aziz El Yaakoubi, "REUTERS SUMMIT-Morocco sees \$10 billion from auto industry exports by 2020," *Reuters News*, 3 November 2015, via Dow Jones Factiva, © 2015 Thomson Reuters

<sup>23</sup> "S.A is now Africa's third largest economy," *CNBC Africa* website, [www.cnbcAfrica.com](http://www.cnbcAfrica.com), accessed 7 June 2016.

<sup>24</sup> David D. Kirkpatrick, "3 Persian Gulf Nations Pledge \$12 Billion in Aid for Egypt," *The New York Times*, 14 March 2015, via Dow Jones Factiva, © 2015 The New York Times Company.

<sup>25</sup> Summer Said, "Egypt's Sisi Closes Economic Conference With Call for Further Investment; Egypt needs up to \$300 billion to reach potential, president says at end of economic conference in Sharm el-Sheikh," *The Wall Street Journal Online*, 15 March 2015, via Dow Jones Factiva, © 2015 Dow Jones & Company, Inc.

Investors remain interested in South Africa's well-developed economy and its status as a launch-pad into Africa.

In contrast to South Africa's more positive performance, investment flagged in other countries across the region. Mozambique reported a 36.0% drop in FDI projects. This was led largely by a slowdown in financial services-destined FDI in the

country, where projects fell from 23 in 2014 to just 2 in 2015. The region's other resource-rich economies, namely **Angola** and **Zambia** bore the brunt of lower oil and commodity prices. While Angola saw no change in the number of FDI projects, investment activity was subdued in Zambia, where projects fell 13.3% since 2014.

## West Africa rebounds

The West Africa subregion regained traction after a sluggish 2014, with FDI projects up 16.2%. Interestingly, in 2015, West Africa became the leading recipient of capital investment on the continent, outpacing Southern Africa.

2015 proved to be a landmark year for **Nigeria**. On the one hand, the country enjoyed a smooth transition of power following its elections, providing a fillip for democracy across Africa.<sup>26</sup>

On the other hand, plunging oil prices piled pressure on the Nigerian economy, triggering a slowdown in growth as foreign exchange shortages crippled business and led to rising shortages.<sup>27</sup> Nevertheless, from an FDI perspective, Africa's largest economy recovered from weaker 2014 levels, with FDI projects up by 8.2%. Most of the activity was centered on business services, where projects grew from just 4 in 2014 to 12 in 2015.

## A bumper year for Kenyan FDI, with most SSA countries ticking upward

Top 15 destination countries by FDI projects (2015)

Rank	Country	Number of FDI projects			Share in % (2015)	FDI value (share in %)	Jobs created (share in %)	Kenya becomes biggest gainer, with year-on-year FDI project numbers growing by over 50%.
		2015	2014	Change				
1	South Africa	130	120	8.3%	16.9%	6.8%	8.8%	
2	Kenya	95	62	53.2%	12.3%	3.6%	8.0%	
3	Morocco	74	67	10.4%	9.6%	6.3%	17.4%	
4	Egypt	66	59	11.9%	8.6%	20.5%	8.6%	
5	Nigeria	53	49	8.2%	6.9%	12.1%	9.2%	
6	Ghana	41	39	5.1%	5.3%	2.0%	1.5%	
7	Mozambique	32	50	-36.0%	4.2%	7.2%	7.1%	
8	Ethiopia	30	32	-6.3%	3.9%	2.5%	9.7%	
9	Cote d'Ivoire	28	15	86.7%	3.6%	5.0%	3.3%	Cote d'Ivoire enters the top 15 list
10	Uganda	24	23	4.3%	3.1%	6.5%	1.4%	
11	Tanzania	23	20	15.0%	3.0%	1.9%	1.6%	
12	Cameroon	15	8	87.5%	1.9%	2.6%	0.9%	
13	Tunisia	13	11	18.2%	1.7%	0.6%	1.3%	
13	Algeria	13	13	0.0%	1.7%	1.1%	2.5%	
13	Rwanda	13	11	18.2%	1.7%	1.7%	1.2%	

↑ Increase in FDI projects (2015 vs. 2014)

↓ Decrease in FDI projects (2015 vs. 2014)

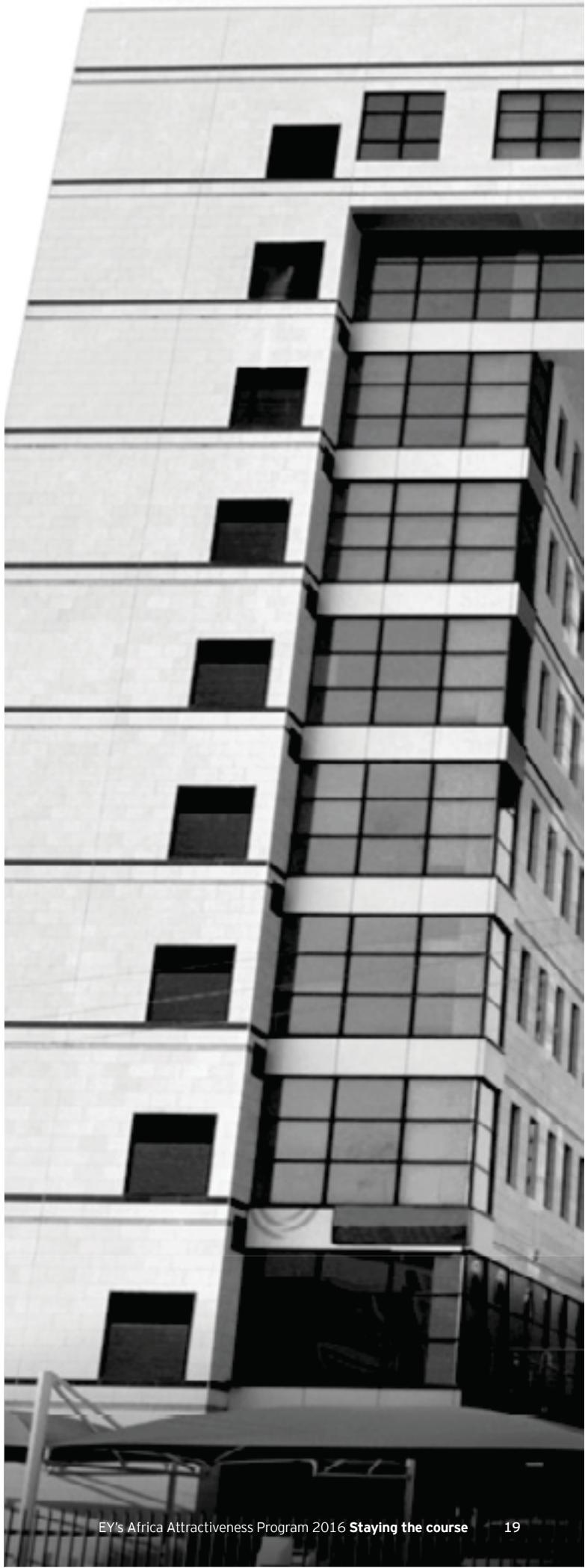
Source: fDi Markets, EY analysis

<sup>26</sup> "Muhammadu Buhari returns to fight new battles for Nigeria's future," *Financial Times* website, [www.ft.com](http://www.ft.com), accessed 14 March 2016.

<sup>27</sup> "Plunging oil prices pile pressure on Nigeria's finances," *Financial Times* website, [www.ft.com](http://www.ft.com), accessed 19 March 2016.

**Ghana** also saw stronger FDI numbers, attracting 5.1% higher projects on 2014, even as it battled lower economic growth and a less supportive external growth environment.<sup>28</sup> Nigerian and French companies were particularly active in the country. By sector, financial services was the clear leader, where projects more than doubled from 6 in 2014 to 16 in 2015. Other sectors that registered increases were business services and coal, oil and natural gas.

**Côte d'Ivoire** staged a strong comeback in FDI following greater political stability over the last few years. In 2015, the country attracted 28 FDI projects, up 86.7%, emerging as the ninth most attractive investment destination in Africa. Financial services drew the most interest, accounting for 21.4% of projects, with Germany's Commerzbank and South Africa's Standard Bank among those announcing investment plans. Other notable announcements came from Dutch brewer Heineken, food chain Burger King and French retailers Carrefour and Groupe Fnac SA.<sup>29</sup> Investors in Côte d'Ivoire are encouraged by its robust economic growth (averaging 8.9% since 2012), and strong focus on developing infrastructure.<sup>30</sup> The country has also made steady progress in improving its business climate, evident from its move up the World Bank's Doing Business rankings to 142nd in 2016.<sup>31</sup>



<sup>28</sup> "Ghana: The Bumpy Road to Economic Recovery," *International Monetary Fund website*, [www.imf.org](http://www.imf.org), accessed 4 April 2016.

<sup>29</sup> "Buzzing Abidjan puts Ivory Coast on road to revival," *Financial Times website*, [www.ft.com](http://www.ft.com), accessed 18 March 2016; "Burger King to Open First West Africa Restaurant in Abidjan," *Bloomberg website*, [www.bloomberg.com](http://www.bloomberg.com), accessed 21 March 2016.

<sup>30</sup> *World Economic Outlook Database*, International Monetary Fund, 2016; Clár Ní Chonghaile, "Ivory Coast aims to entice investors with 'new vibe' of stability and growth," *The Guardian*, 7 March 2016, via Dow Jones Factiva, © 2016 The Guardian.

<sup>31</sup> *Doing Business 2016: Measuring Regulatory Quality and Efficiency*, World Bank, 2015.

# Africa's FDI sources: diversity supports ongoing resilience

## Where does Africa fit in the changing global trade and investment landscape?<sup>32</sup>

According to the World Trade Organization (WTO), Africa accounted for merely 2% of global merchandise exports in 2015.<sup>33</sup> Trade and FDI are interlinked, considering they are simply two ways of servicing foreign markets. A significant opportunity exists to strengthen Africa's role in the global trade and investment order.

At present, several mega-regional trade agreements are in progress around the world. First, among them, is the Trans-Pacific Partnership (TPP), comprising the US, Australia, Brunei Darussalam, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore and Vietnam. Signed in February 2016, the TPP affects 40% of the world economy. Besides the TPP, the US is also negotiating the Transatlantic Trade and Investment Partnership (TTIP) with the European Union (EU). Another mega-regional agreement under negotiations is the Trade in Services Agreement (TiSA), which will focus on liberalizing barriers to trade in services. Finally, the Association of Southeast Asian Nations (ASEAN) along with China, Japan, South Korea, India, Australia and New Zealand are negotiating the Regional Comprehensive Economic Partnership (RCEP) agreement.

Africa is not involved in any of these mega-regional trade negotiations, whose rules are expected to become de facto global standards. With new rules and market access preferences, African countries are likely to be impacted by increased competition and could experience erosion of preferences in markets that form part of mega-regional trade agreements.

In this regard, the continent's steps toward regional integration are a top priority. In June 2015, 26 African countries agreed to establish the Tripartite Free Trade Area (TFTA), comprising the EAC, the Common Market for Eastern and Southern Africa (COMESA) and the Southern African Development Community (SADC). The TFTA is expected to provide a US\$8.5b boost to intra-African trade, with processed food, light manufacturing and heavy manufacturing the largest beneficiaries.<sup>34</sup> The TFTA is also the building block toward a Continental Free Trade Area (CFTA), likely by 2017, which could lift intra-African trade by 52% or about US\$35b by 2022.<sup>35</sup>

Several RECs, including the EAC and the Economic Community of West African States (ECOWAS) continue signing new trade agreements among their members. The US and the EU are also inking trade deals with the continent's RECs. As such, policy is moving in the right direction, but efforts need to be stepped up to cement Africa's position in the global trade order.

<sup>32</sup> *Foresight Africa: Top priorities for the continent in 2016*, Brookings Institution, 2016; "Mega-regional trade agreements: Threat or opportunity for the future of African trade?," *International Centre for Trade and Sustainable Development website*, [www.ictsd.org](http://www.ictsd.org), accessed 7 June 2016

<sup>33</sup> "Trade growth to remain subdued in 2016 as uncertainties weigh on global demand," *World Trade Organization website*, [www.wto.org](http://www.wto.org), 7 April 2016.

<sup>34</sup> "Tripartite Agreement could boost intra-regional trade by one third," *United Nations Economic Commission for Africa website*, [www.uneca.org](http://www.uneca.org), accessed 7 June 2016.

<sup>35</sup> "African Union warms up for CFTA negotiations," *International Centre for Trade and Sustainable Development website*, [www.ictsd.org](http://www.ictsd.org), accessed 7 June 2016.

## The US remains the leading investor in Africa

With 96 investment projects valued at US\$6.9b in 2015, the US continues to lead Africa's FDI landscape. However, both FDI projects and capital investment were down from 2014, by 4.0% and 12.3% respectively.

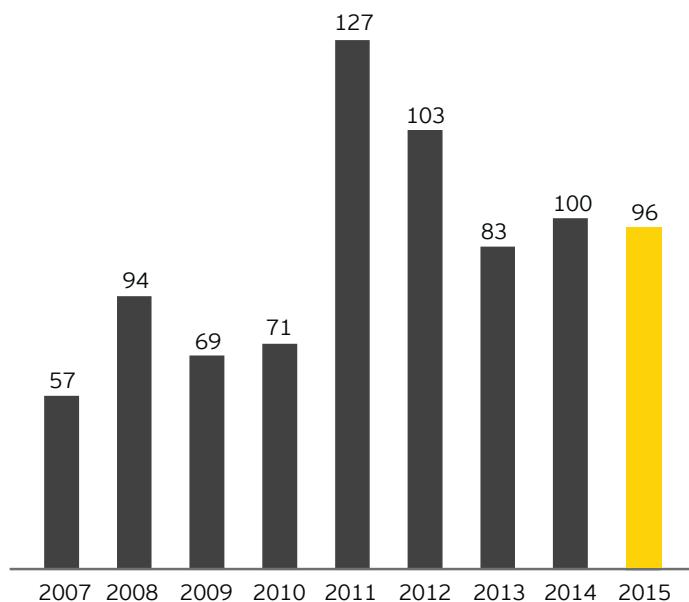
US investors continue to favor South Africa as an investment destination. In 2015, the country's share of US FDI projects grew to 35.4% in 2015, up from 22.0% in 2014. By sector, there is growing interest in Africa's industrial sector, where FDI projects grew from just 9 in 2014 to 22 in 2015. Both DIP and automotive posted higher FDI project numbers from the US.

As highlighted in our previous edition of the Africa Attractiveness Survey, the US continues to compete with other countries – especially China – to maintain and build its influence on the continent. In February 2015, the US reached a deal with the EAC to deepen trade and investment ties, following a similar deal with the ECOWAS in August 2014.<sup>36</sup> In June 2015, the African Growth and Opportunity Act (AGOA) was renewed for the next 10 years leading up to 2025. The AGOA grants qualifying African countries tariff-free access to the US market for several goods and services.<sup>37</sup> In July 2015, the incumbent US President, Barack Obama, also made a strategic visit to East Africa, focusing on entrepreneurship and counter terrorism.<sup>38</sup>



**US, number one investor in Africa**

**FDI projects created by the US**



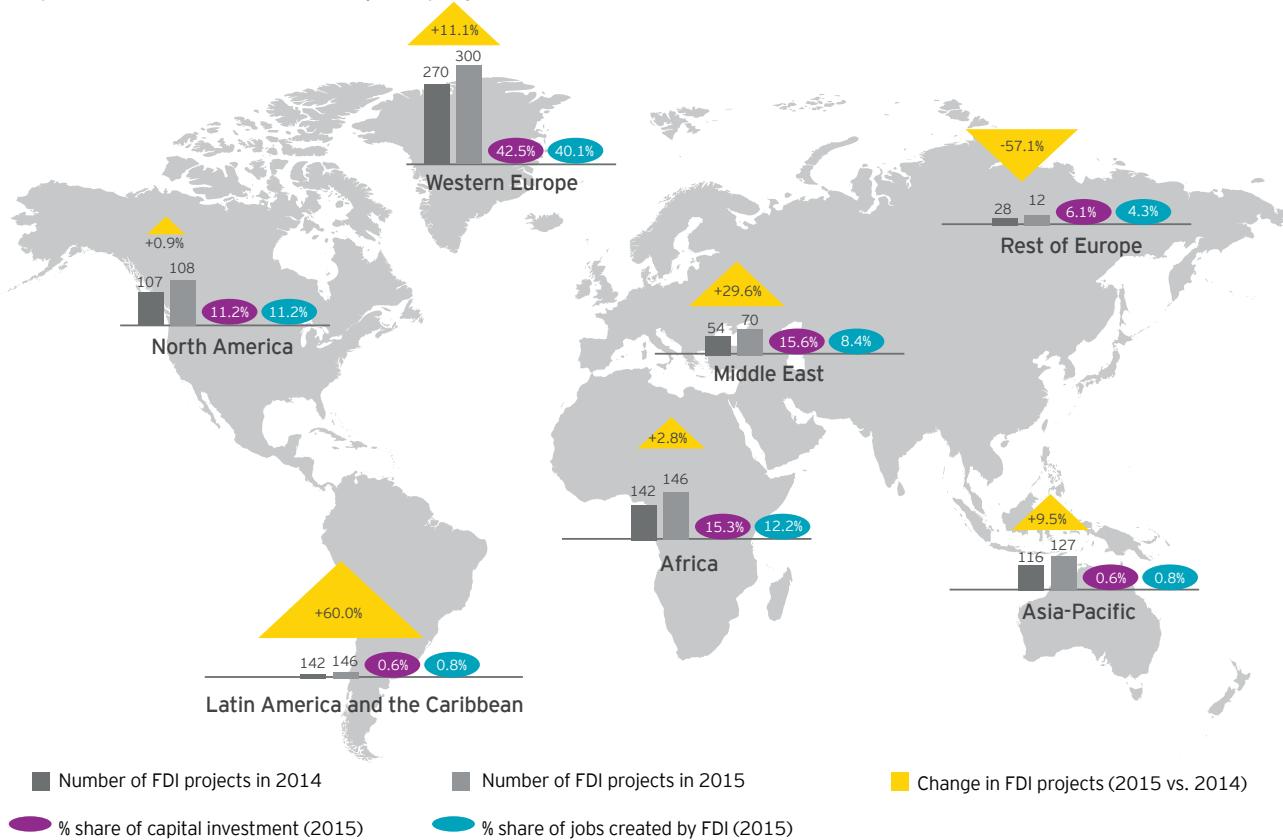
Source: fDi Markets, EY analysis

<sup>36</sup> "U.S. and East African Community Join to Increase Trade Competitiveness and Deepen Economic Ties," Office of the United States Trade Representative website, usrt.gov, accessed 7 June 2016.

<sup>37</sup> "Africa: On Trade, Here's What the President Signed into Law," All Africa website, allAfrica.com, accessed 7 June 2016.

<sup>38</sup> "What has Obama's visit done for Africa?," BBC website, www.bbc.com, accessed 7 June 2016.

All regions (except the rest of Europe)  
Increased FDI projects in Africa in 2015  
Top 15 destination countries by FDI projects (2015)



Source: fDi Markets, EY analysis

## Western European investment rebounds

In 2015, Western Europe (WE) investors created 300 FDI projects in Africa, an increase of 11.1% over the previous year. This is a marked turnaround from 2014, when FDI projects from WE dropped 18.4% to 270.

With a 45.3% jump in FDI projects, the UK regained its position as the second largest investor in the continent, supplanting South Africa, where slowing economic growth posed a challenge. The more notable trend was in capital investment, with year-on-year growth of 92.5%. UK investors were particularly active in services-oriented sectors, including business services (31.2% of FDI projects) and financial services (26.0%). South Africa was the favorite destination for UK FDI projects, securing 28.6% of the total, followed by Kenya (20.8%).

France became the third-largest source of FDI projects in Africa in 2015, moving up one notch. Though Morocco remained the

primary destination, French investors ramped up activity in Ghana, where projects increased to seven in 2015, from zero in 2014. This is interesting, considering that French companies are traditionally inclined to invest in Francophone countries.<sup>39</sup>

Italy proved to be an active investor in 2015. It became one of the 15-largest investors into Africa with FDI projects doubling from 8 in 2014 to 16 in 2015. Interestingly, Italy was also the largest source of capital investment in Africa during the year. This was largely on account of a single US\$6b project by Eni SpA, which plans to develop a newly discovered gas field in Egypt.<sup>40</sup> South Africa was the primary target for Italian FDI projects, followed by Morocco and Egypt. There was an uptick in investments in the CPR and cleantech sectors.

<sup>39</sup> "BUSINESS FRANCE MEETING: INVESTING IN GHANA," *Ghana Embassy Paris* website, paris.embassy.gov.gh, accessed 7 June 2016.

<sup>40</sup> fDi Markets, 2016.

## Intra-African investment recovers slightly, with Kenya taking the lead

Intra-African FDI projects rose 2.8% in 2015, with capital investment up 6.2%. Though it is still the second-largest source of FDI, the share of intra-regional investors in FDI projects dropped again, from a high of 23.9% in 2013 to 19.7% in 2014, and then 18.9% in 2015.

One key development in 2015 was Kenya replacing South Africa as the biggest intra-African investor. Kenya mirrored its strong inward FDI project performance, more than doubling its outward FDI project investments into the rest of Africa. Its ranking as a source of FDI also improved strongly (to 7th position in 2015 from

13th in 2014). Activity was largely concentrated in services, with financial and business services together accounting for nearly 78% of FDI projects originating from Kenya. Many Kenyan companies are playing the role initially adopted by South Africa's corporate sector, who were the first to venture outside their home markets. Kenya's Equity Bank, for example (present in Uganda, Tanzania, Rwanda and South Sudan), has expressed interest in entering an additional 10 African countries over the next decade.<sup>41</sup> East Africa is the primary destination for Kenyan investors, in line with overall subregional integration plans.

## Investment from the Middle East: more projects, more capital, fewer jobs

Together, Middle Eastern companies announced 70 projects in Africa in 2015, 9.1% of the total, entailing total investment of US\$11.1b, and creating 12,643 jobs. UAE investors were the fourth-largest overall investors in Africa, with 50 projects, up from 37 in 2014. The UAE was also the leading source of capital investment from the Middle East. In 2015, Middle Eastern investors took on a bigger role in financial services (projects up 64.3%) and

cleantech (+450.0%). One example is, in March 2015, Bahrain - headquartered Terra Sola, a photovoltaic power specialist, signed a US\$3.5b Memorandum of Understanding with the Egyptian government to develop an integrated project, providing 2,000MW in solar power.<sup>42</sup> North Africa remains the largest beneficiary of Middle East investments, receiving 39 FDI projects.

<sup>41</sup> Duncan Miriri, "INTERVIEW-Kenya's Equity Bank plans 10-nation Africa expansion," *Reuters News*, 13 May 2015, via Dow Jones Factiva, © 2015 Thomson Reuters.

<sup>42</sup> "Egyptian Electricity Holding Company signs USD3.5bln MOU with Terra Sola Consortium," *Terra Sola website*, [www.terra-sola.com](http://www.terra-sola.com), 15 March 2015.



## Ram Ottapathu

Chief Executive Officer, Choppies Group

### Choppies: driving intra-African expansion

Choppies was born in 1986 with a single store called

"Wayside Supermarket" in a town in Botswana called Lobatse, close to the border with South Africa. Soon after I joined the business in 1992, we embarked on an expansion drive across Botswana, establishing a superstore in Gaberone in 1999 and then a flagship hyperstore in 2003, while acquiring a number of franchise operations under the Spar, Friendly Grocer and OK brands. It was at this point that we made the fundamental decision to establish our own identity as Choppies and to go it alone.

Over the next few years, our growth was very strong and we became the market leader in Botswana – today, we have over 50% market share of formal grocery retail. Our model of providing high-quality retail products at good value (including our own branded products, including basics such as sugar, flour, rice, maize and cooking oil) to lower- and middle-income consumers via smaller format-stores has been very successful, in driving not only Botswana's transition from informal to branded convenience, but also our own growth.

We made our first move outside of Botswana – into South Africa – in 2008. We have targeted tier 2 and 3 towns in South Africa – in North West, Limpopo, Mpumalanga, Free State- rather than the major urban centres. More recently our acquisition of Jwayelani added 21 stores in Kwazulu Natal and the Eastern Cape, as well as a strong butchery component which will support Choppies operations in South Africa.

Our next move was in 2013, into Zimbabwe, where we acquired stores within the existing Spar network. We now have over 20 stores in Zimbabwe, and are targeting 40 by 2018. We extended our footprint into Zambia last year, with a greenfield store opened in Kanyama, and a further 5 stores planned for the current financial year.

We have now also acquired and are operating 10 Ukwala stores in Kenya (spread across Nairobi, Nakuru and Kisumu). This means we now operate in six SSA countries, are on track to meet our target of 200 stores by the end of 2016, and are very well- positioned to drive continued growth in the region.

We firmly believe in the potential of African markets and remain committed to our long-term growth strategy. At this point, only two countries in SSA have more than 50% formal retail – South Africa and Botswana – so the markets are still very under- penetrated. The upside as formal retail expands is huge. Taking a long-term view, this is the right place for us to expand.

We have 25 years of experience in several competitive markets and have been at the forefront of Southern Africa's changing consumer landscape. Our deep understanding of the market, large scale investments in logistical infrastructure, and continued refinement of cost-cutting processes means Choppies is in a very good position to take advantage of Africa's growth potential.



## Wenjie Chen

Economist, African Department, International Monetary Fund

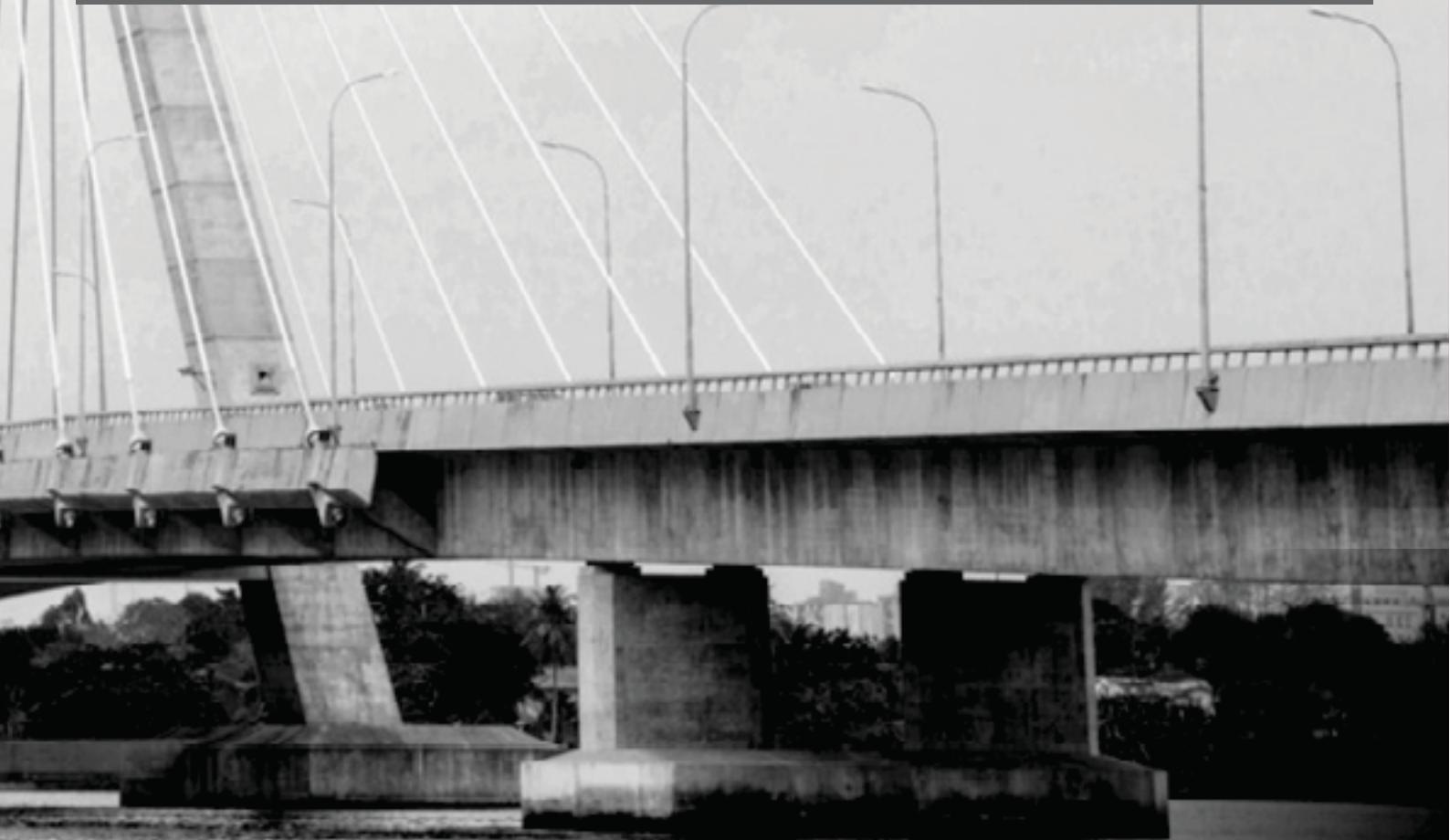
### Chinese FDI to Africa: dispelling a few myths

China's investments in Africa receive wide attention, but lack of work using actual data makes it hard to discern facts from fiction. In my work with David Dollar and Heiwai Tang, we use different official data to shed more light in this area. Chinese FDI to Africa is relatively small, representing only 3% of the stock of all foreign investments in Africa in 2012. Although China's share is rising, it started from a low base, and Western sources represent the majority of FDI in Africa. Yet, China's investment in Africa is big in a relative sense. The world as a whole has six times as much direct investment in the US as in Africa, but China has more investment in Africa than in the US, making China's relative focus on Africa large.

On the basis of aggregate data, Chinese and other countries' FDI across Africa has important similarities: both are attracted to larger markets and natural resource-

rich countries. Among private Chinese investors to Africa, however, we find that their investments are everywhere, not just in resource-intensive countries or sectors; services are the most common sector, followed by investments in manufacturing. During the latest 2015 Forum on China-Africa Cooperation, China pledged US\$60 billion worth of investments to Africa for the next three years.

With China's ongoing domestic investment deceleration and demand away from commodities, however, it remains to be seen how much of this pledge will turn into reality.



## The major investors remain entrenched, African investors see major change

Top 15 source countries by FDI projects (2015)

Rank	Change in rank vs. 2014	Source country	FDI projects			FDI value (US\$b)		Jobs created from FDI		
			2015	2014	Change	2015	Share	2015	Share	
1	-		US	96	100	-4.0%	6,9	9.7%	15,164	10.2%
2	+1		UK	77	53	45.3%	4,9	6.9%	12,813	8.6%
3	+1		France	58	50	16.0%	5,8	8.2%	14,245	9.6%
4	+1		UAE	50	37	35.1%	4,3	6.0%	5,446	3.7%
5	+3		India	45	28	60.7%	1,0	1.4%	8,988	6.0%
6	-		Germany	38	35	8.6%	2,6	3.7%	8,505	5.7%
7	+6		Kenya	36	15	140.0%	1,0	1.4%	1,781	1.2%
8	-6		South Africa	33	54	-38.9%	2,0	2.8%	3,939	2.6%
9	-2		China	32	32	0.0%	2,3	3.2%	14,127	9.5%
10	+2		Switzerland	18	18	0.0%	1,0	1.4%	2,176	1.5%
11	+10		Italy	16	8	100.0%	7,4	10.4%	3,812	2.6%
11	-1		Spain	16	26	-38.5%	0,9	1.3%	1,813	1.2%
11	+14		Luxembourg	16	6	166.7%	0,9	1.3%	4,256	2.9%
14	-3		Netherlands	15	21	-28.6%	0,9	1.3%	1,650	1.1%
15	-		Morocco	14	13	7.7%	3,4	4.8%	2,646	1.8%

 Improvement in rank in FDI projects (2015 vs. 2014) New entrant to the top 15 list by FDI projects in 2015

Source: fDi Markets, EY analysis

## Indian investors step up interest

In 2015, India became the fifth-largest investor in Africa, up from eighth in 2014. Indian companies invested in 45 FDI projects (up 60.7%) during the year. More than a third of these FDI projects were in the TMT sector, with investments in automotive, business services and life sciences also increasing. Kenya and South Africa each secured 22.2% of Indian FDI projects, followed by Nigeria with a 13.3% share. In recent years, India has made concerted

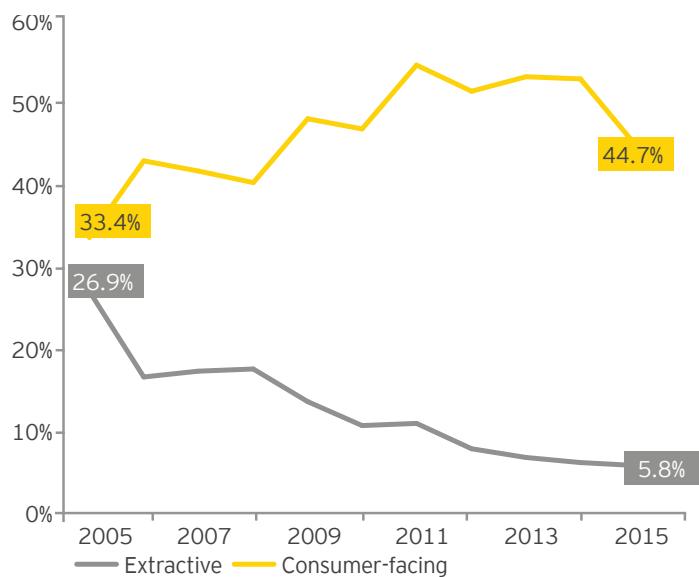
efforts to strengthen its engagement with Africa. In October 2015, the country hosted the third India-Africa summit, which saw participation from over 40 African country leaders. Discussions centered on bilateral trade, terrorism and climate change. During the summit, India announced a concessional credit of US\$10b over the next five years to the continent and a commitment to extend duty-free access to 34 African countries.<sup>43</sup>

<sup>43</sup> Suhasini Haidar, "India-Africa summit: beyond the event," *The Hindu*, 10 November 2016, via Dow Jones Factiva, © 2015 Kasturi & Sons Ltd.

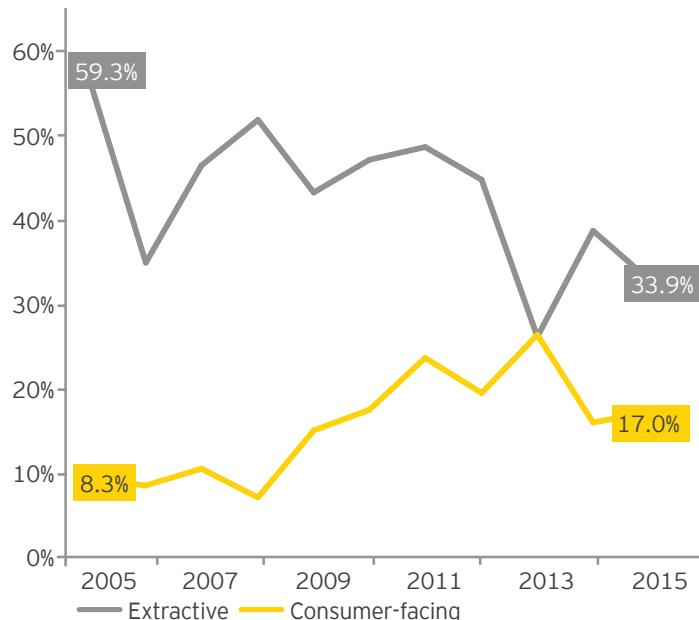
# Investors diversify focus across sectors

## Investors focus shifts from extractive industries to consumer facing business

FDI projects, 2005-15 (%share)



FDI value, 2005-15 (% share)



\* Extractive sectors include coal, oil and natural gas as well as mining and metals; consumer-facing sectors include TMT, CPR and financial services.

Source: fDi Markets, EY analysis

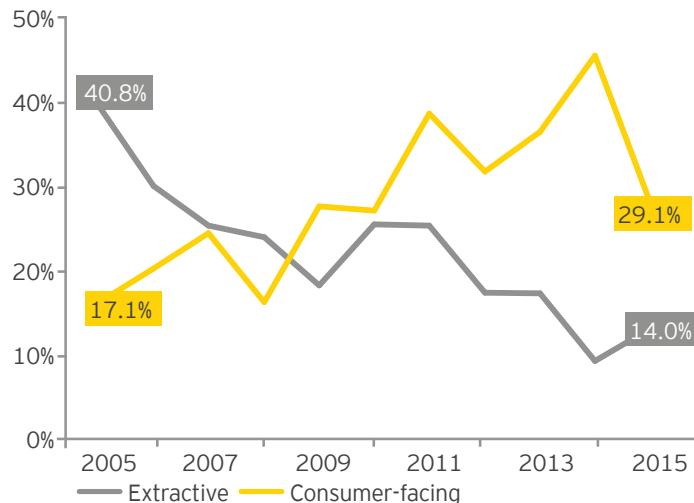
In 2005, mining and metals accounted for 15.9% of FDI projects while coal, oil and natural gas made up another 11.0%. Since then, investment into the extractive sectors has slowed sharply. In 2015, the extractive sectors' share of total projects stood at just 5.8% collectively, while consumer-facing sectors now account for an increasingly larger share of projects. Whilst the low commodity price environment and the broader global economic context may have slowed capital investment into coal, oil and natural gas in 2015, investment in the mining and metals sector was up 45.9% year-on-year, albeit from a low base.

From an initial strong focus on natural resources, a growing pool of foreign investors to Africa has resulted in diversified flows across more sectors. The promise of a large middle class has seen investors' attention shifting toward consumer-facing sectors. As a result, TMT, FS and CPR are the primary beneficiaries of FDI projects in Africa. These three industries have led investment into Africa almost every year since 2009. In 2015, these three sectors accounted for 44.7% of FDI projects, though investment was down on the previous year

In our previous edition of the Africa Attractiveness Survey, we highlighted the "arrival" of RHC as an increasingly key sector for investors. With a 12.8% increase in FDI projects in 2015, RHC became the fifth largest recipient of investments. A flurry of infrastructure projects in Kenya saw increased investments, as did opportunities in Morocco and South Africa. The continent is seeing a boom in the real estate and hospitality sector, marked by a fast-growing population with higher spending power and rapidly moving into cities. There is also significant potential for investment in infrastructure development across Africa. Finally, an underserved hospitality market (despite a strong outlook for tourist and business arrivals and increasing regional and international trade) has prompted several international hotel chains to invest across the continent.

2015 saw further evidence of sector diversification, with automotive, cleantech and life sciences all rising in significance and becoming the likely "next wave" for investors.

### Jobs created from FDI, 2005-15 (% share)



\* Extractive sectors include coal, oil and natural gas as well as mining and metals; consumer-facing sectors include TMT, CPR and financial services.

TMT, financial services and CPR together hold 44.7% of FDI projects

## Top 10 sectors by FDI projects (2015)

Top Sectors	Jobs created (share in %)		Top destination (by projects)		FDI value (share in %)	Jobs created (share in %)	
	Share (%)	Change (2015 vs. 2014)	Country	Share			
TMT	16.6%	-9.9%	► South Africa ► Kenya ► Morocco	25.0% 18.8% 10.2%	8.6%		6.2% 
Financial services	15.3%	-13.2%	► Kenya ► Ghana ► South Africa	16.1% 13.6% 8.5%	2.0%		2.1% 
CPR	12.8%	-2.9%	► South Africa ► Egypt ► Kenya	19.2% 14.1% 10.1%	6.4%		20.8% 
Business services	12.8%	80.0%	► South Africa ► Nigeria ► Kenya	24.2% 12.1% 11.1%	1.7%		7.8% 
RHC	6.9%	12.8%	► Kenya ► Mozambique ► Morocco	17.0% 9.4% 9.4%	16.4%		14.0% 
Transport and logistics	5.6%	-8.5%	► Mozambique ► Egypt ► Morocco	14.0% 11.6% 7.0%	4.1%		3.1% 
DIP	5.6%	10.3%	► South Africa ► Morocco ► Kenya	25.6% 18.6% 11.6%	1.1%		3.9% 
Cleantech	5.4%	82.6%	► Egypt ► South Africa ► Cote d'Ivoire	31.0% 19.0% 7.1%	17.0%		1.9% 
Chemicals	4.4%	41.7%	► South Africa ► Morocco ► Kenya	20.6% 14.7% 11.8%	2.8%		2.0% 
Automotive	4.0%	3.3%	► Morocco ► South Africa ► Nigeria	32.3% 22.6% 16.1%	3.8%		17.1% 

Source: fDi Markets, EY analysis



## Razia Khan

Managing Director, Head, Africa Research, Standard Chartered Bank

### Razia Khan: the truth about Africa's rising middle class

Opinion is divided on Africa's middle-class opportunity. Earlier this year, when Nestlé announced its disappointment with the scale and growth of Africa's middle class and cut its regional workforce 15%, the news dominated headlines. A few months later, AB InBev's takeover of SABMiller – one of the largest corporate takeovers yet of a UK-listed entity – was motivated in a large part by SABMiller's proven growth markets in Africa.

Middle-class households are typically defined as those that spend at least half of their income on goods

and services, beyond just food and basic necessities. The emergence of this "consumer class" helps to propel growth to the next level. Buoyed by supportive demographics, a rising middle class will mean that demand grows, businesses prosper, employment increases and economies flourish. It's a virtuous cycle.

The middle class has also played an important political role. In SSA, the rise of multiparty politics in the 1990s, with calls for greater accountability, was often closely correlated with improved economic management and faster growth. Newly democratic South Africa saw an impressive emergence of a middle class, even against a sometimes disappointing overall growth backdrop. According to the Unilever Institute, a decade after apartheid ended, SA's middle class had grown about 250% from 2004 to 2012. By the eve of the global financial crisis, the new "black" middle class exceeded the more traditional "white" middle class in spending power.

Elsewhere in Africa, accurate measurement is not as easy. Just how developed is Africa's middle class? Different studies offer very different interpretations. An African Development Bank study in 2011 attempted to generate a definition of middle class more suited to African conditions. Controversially, it defined middle class as those living on US\$2-US\$20 (adjusted for purchasing power parity) a day. This included the so-called "floating middle" – households living on US\$2-US\$4/day – who might be knocked back into poverty in a severe economic shock. The study, using this definition, suggested that roughly a third of Africa's population was middle class.

However, another study, published by Pew Research Centre this year using the narrower and more internationally

accepted definition of middle class (incomes of US\$10/day or more) suggested only 6% of Africa's population could be classified as middle income. Pew implied that while African economies had made strides in lifting households out of poverty, many had not yet made the middle-income level. According to Pew, the proportion of poor in Nigeria fell 18% from 2001 to 2011. But while the share of low-income earners grew 17%, the share of middle-income earners rose only 1% over this time.

#### Should we be concerned?

Africa's experience is not too different from other regions; three or four decades ago, most Asians lifted out of poverty remained on low incomes, for a while at least. Development does not stop there. A steady income is now increasingly recognized as the one factor that distinguishes those living in poverty from those able to emerge as middle-income earners.

The decline in poverty is encouraging to build further on progress so far. Our priority is to reduce volatility of growth, particularly volatility of employment. There is an important role for countercyclical policy.

What does Africa need to lessen the volatility of outcomes? More investment, consistency of capital inflows (especially countercyclical flows), more democracy, and greater progress in improving governance. There are no short-cuts to future prosperity. Recent regional trends that have narrowed the space for civil society risk are undoing a lot of the progress already made.

Important foundations for the emergence of Africa's middle class are in place with its success in poverty alleviation. It's in the ultimate interest of the global economy that this progress is built upon.

This article first appeared in Business Day on 13 November 2015.

## Investors line up to service Africa's "next-generation" sectors

### ► Business services

Armed with cheap, English-speaking labor and timezone proximity to Europe, several African countries are becoming more prominent as outsourcing destinations. For instance, Morocco, Kenya, South Africa and Tunisia are increasingly supplying Business Process Outsourcing (BPO) services to Europe.<sup>44</sup> In 2015, business services was the fourth largest recipient of FDI into Africa. After a drop in 2014, the sector attracted 99 projects in 2015, a surge of 80%. South Africa was the primary target, followed by Nigeria, Kenya and Uganda. UK companies were particularly active in this space, more than doubling FDI projects from 9 in 2014 to 24 in 2015.

### ► Cleantech

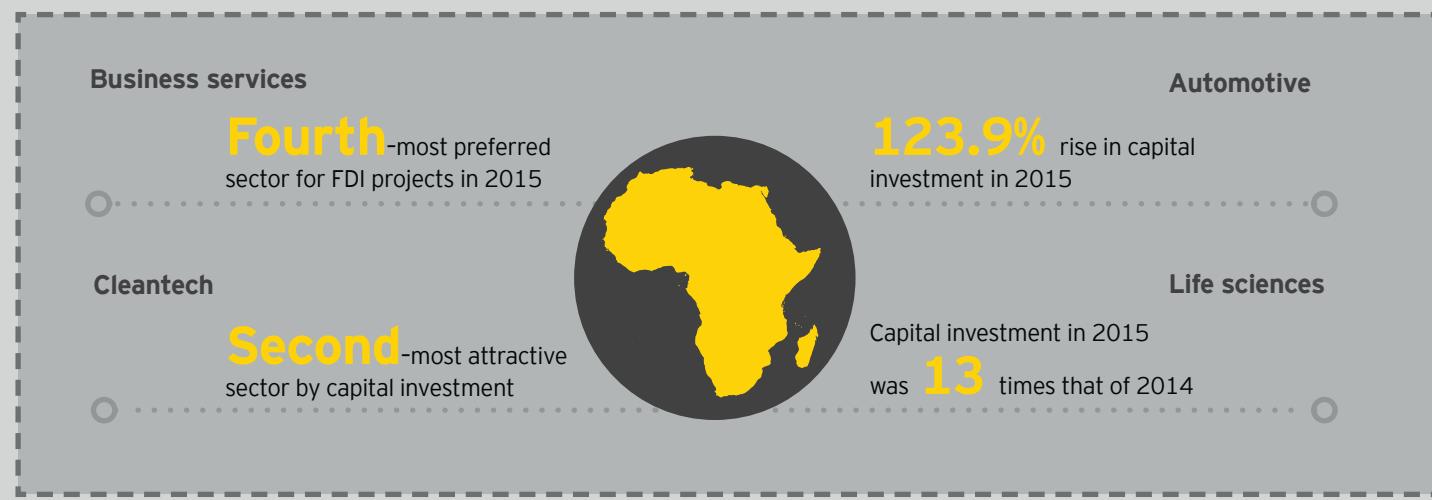
Foreign investors have a growing appetite for cleantech in Africa. The continent has abundant solar, wind and geothermal resources. Significant public sector support also exists.<sup>45</sup> For example, in December 2015, the African Renewable Energy Initiative (AREI) was launched, which aims to develop new renewable energy generation capacity of at least 300 gigawatts (GW) in the continent by 2030.<sup>46</sup> A report by the International Renewable Energy Agency (IRENA) estimates that modern renewable energy technologies could help meet nearly a quarter of the continent's energy needs

by 2030.<sup>47</sup> In 2015, there were 42 cleantech projects in Africa, up from 23 in 2014. Capital investment also rose, up 23.1%. The UAE was the largest investor with nine FDI projects, followed by Italy, Morocco, Norway and Canada. Egypt drew more than 30% of the projects. The Egyptian Government is aiming to increase the share of renewables in the country's energy mix to 20% by 2022.<sup>48</sup> In this regard, companies including Siemens and Engie have made investment announcements in the country.<sup>49</sup>

### ► Automotive

There was notable growth in capital investment into the automotive sector in 2015, with a jump of 123.9%. By capital, French companies were the largest investors, followed by those from the US and Germany. Most of the investment activity was centered in North Africa, particularly Morocco, which has positioned itself as an export base for Europe, the Middle East and Africa. In April 2016, French automaker Renault, which already has two plants in Morocco, committed to invest US\$1.0b in the country, along with its component suppliers to build an "industry ecosystem". Other notable auto investors in Morocco include Delphi and Eaton Corp.<sup>50</sup>

## The major investors remain entrenched, African investors see major change



Source: fDi Markets, EY analysis

<sup>44</sup> *Global trade unbundled*, Standard Chartered, 2014.

<sup>45</sup> *Power Up: Delivering renewable energy in Africa*, Economist Intelligence Unit, 2016.

<sup>46</sup> John Vidal, "Africa plans renewable energy drive that could make continent world's cleanest," *The Guardian*, 7 December 2015, via Dow Jones Factiva, © 2015 The Guardian.

<sup>47</sup> "Africa Can Quadruple Share of Renewable Energy by 2030," *International Renewable Energy Agency* website, [www.irena.org](http://www.irena.org), 5 October 2015.

<sup>48</sup> "Welcome to our website," *New & Renewable Energy Authority* website, [www.nrea.gov.eg](http://www.nrea.gov.eg), accessed 10 May 2016.

<sup>49</sup> "Egypt and Siemens to massively increase power generation capacity," *Siemens* website, [www.siemens.com](http://www.siemens.com), 14 March 2015.; "ENGIE signs energy agreements with Egypt," *Engie* website, [www.engie.com](http://www.engie.com), 18 April 2016.

<sup>50</sup> Aziz El Yaakoubi, "UPDATE 1-Renault and partners to invest \$1 bln in Morocco," *Reuters News*, 9 April 2016, via Dow Jones Factiva, © 2016 Thomson Reuters.

## "Made in Africa": can the continent become the next manufacturing hotspot?<sup>51</sup>

Confronted by depressed commodity prices and growing difficulties in sourcing international credit, now is an opportune time for Africa to grow its manufacturing base. According to the World Bank, over the next decade, Chinese manufacturing jobs could gradually shift to Africa, driven by companies' pursuit of a cheaper workforce as wages rise in China.

Africa already has some of the characteristics that could position it as a manufacturing hotspot. It has abundant natural resources, which can be used as raw materials for light manufacturing. Labor in the continent is cheap and plentiful. Encouraged by these factors, several apparel companies such as PVH Corp., J.C. Penney Co. and Levi Strauss & Co. are now sourcing from SSA countries such as Ethiopia<sup>52</sup>. Labor productivity has been improving in Africa, led by rising education standards. The continent also enjoys preferential access to both the US and EU markets through the AGOA and the Cotonou Agreement, respectively.

Despite these factors, Africa's share in global manufacturing has been stagnant over the past four decades, declining slightly from about 3% in 1970 to less than 2% in 2014.<sup>53</sup> Compared to locales such as India, Bangladesh and Vietnam, Africa seems to be less competitive on factors such as a productive labor force, reliable electricity supply and good infrastructure, all critical to driving an efficient manufacturing industry. Manufacturers have also struggled to enjoy economies of scale in Africa due to still-high barriers to trade between countries.

However, efforts are moving in the right direction. Drawing on lessons from the East Asian growth story, many African governments are now looking to establish special economic zones (SEZs) to attract export-oriented investment. For instance, in a bid to become Africa's top manufacturing destination, Ethiopia is targeting US\$1b in annual investment in industrial parks over the next decade. These parks will house textile, leather, agro-processing and other labor-intensive industries.<sup>54</sup>

Africa also appears to be tackling the "scale" issue. Three RECs in Africa, constituting 26 countries, have launched the TFTA to provide an integrated, larger market for companies.

Besides these measures, Africa needs to emphasize skill development, not just through education and training but also via industry-wide collaboration and protocols. Improving productivity is another area of focus, through a mix of innovation, use of latest technologies and smart introduction of mechanization. Most importantly, there is a definite need for collaboration between African governments, business, labor unions and communities.

### ► Life sciences

In 2015, the sector attracted 19 inward investment projects, up from 11 projects in the previous year. Capital investment also grew manifold during this period. By region, East Africa was the main recipient of FDI capital (US\$755.7m in 2015), particularly Sudan and Ethiopia. India provided the highest number of projects, while Egypt was the largest investor by capital investment. Demand for pharmaceutical products and services is set to grow across Africa on the back of a rising middle class, rapid urbanization, increased life expectancy and technological developments.

Other drivers behind this life sciences boom include steady economic growth across most parts of Africa as well as improvements in infrastructure.<sup>55</sup> Governments across Africa are also striving to improve healthcare systems. Encouraged by these factors, drugmaker AstraZeneca is seeking Africa's revenue to grow almost 10% a year. The company is building a plant in Algeria to manufacture drugs to treat cardiovascular disease, cancer and diabetes.<sup>56</sup>

<sup>51</sup> "Africa will become the world's manufacturing hub - AfDB chief," *CNBC Africa website*, [www.cnbcAfrica.com](http://www.cnbcAfrica.com), accessed 12 May 2016; "How can African manufacturing achieve its full potential?," *World Economic Forum website*, [www.weforum.org](http://www.weforum.org), accessed 12 May 2016; "Manufacturing in Africa: still struggling with the basics," *Economist Intelligence Unit website*, [country.eiu.com](http://country.eiu.com), accessed 12 May 2016.

<sup>52</sup> Christina Passariello, Suzanne Kapner, "Search for Ever Cheaper Garment Factories Leads to Africa: From H&M to Calvin Klein, brands look to Ethiopian factories where pay is as low as \$21 a month," *The Wall Street Journal Online*, 13 July 2015, via Dow Jones Factiva, © 2015 Dow Jones & Company, Inc.

<sup>53</sup> "Africa - 'Workshop of the world?' Manufacturing Strategies to Unleash a Continent - 'Industrialise Africa' (AfDB 'High 5s', #3)," *African Development Bank website*, [www.afdb.org](http://www.afdb.org), accessed 6 June 2016.

<sup>54</sup> "Ethiopia Plans Export Hubs With \$10 Billion Factory Parks," *Bloomberg website*, [www.bloomberg.com](http://www.bloomberg.com), accessed 17 May 2016.

<sup>55</sup> "Revitalizing Africa's pharmaceutical industry," *African Development Bank website*, [www.afdb.org](http://www.afdb.org), 4 June 2014.

<sup>56</sup> "AstraZeneca Targets Africa Sales Boost," *Bloomberg website*, [www.bloomberg.com](http://www.bloomberg.com), accessed 6 June 2016.

# Looking forward





## Rob Dongoski

Global Agribusiness Leader, EY

### Agriculture FDI in Africa

#### 1. Why is FDI in agriculture so complex and controversial?

The benefits and drawbacks of FDI remain a highly contested topic on the global stage and especially relevant for many of the countries in Africa. Despite the fact that a relatively small percentage of total FDI is related to Agriculture (ranging from 2% to 5%), the number is growing year-over-year and that trajectory is expected to continue as world populations grow and more food must be produced and transported across borders.

The continent of Africa faces an interesting dilemma; on the one hand, it has the largest proportion of untapped arable land and a significant yield gap which has attracted the attention of sovereign nations looking to secure future food supplies. On the other hand, the continent has one of the highest rates of malnourishment and a delicate food chain that relies on subsistence farmers and a fragile ecosystem of natural resources. Further compounding this dilemma is the growing interconnectedness of the global Agri-Food value chain and increasing demand for land (urbanization, bio-fuel production, etc.).

#### 2. How will FDI related to agriculture in Africa evolve?

Current FDI investments related to agriculture and food generally align to one of two themes; (1) multinational corporations pursuing joint ventures in established African companies combined with relatively small investments in targeted areas of the supply chain; and (2) foreign governments contracting large land deals with the intent of exporting food to supply growing populations. While there are benefits and drawbacks to both approaches, these investments in isolation will not support the domestic and global production requirements of the future.

According to a recent report published by *The Chicago Council on Global Affairs*, Africa is expected to have 2 of the top 10 largest cities in the world by 2050 and 7 out of 10 by 2100.<sup>1</sup> This presents a tremendous opportunity but also poses a significant risk to domestic food security. In order to serve these growing urban centers and the demand for more varied food (protein rich, packaged or convenient, etc.) supply chains will need to modernize and extend. This will require significant cooperation and coordination between governments, corporations, NGOs and the local workforce.

#### 3. Can agriculture sow the seeds of change?

Investments focused on productive FDI (e.g., R&D, production technology, education, etc.) have the potential to pave a new path in sustainable and inclusive development in Agriculture while boosting food supplies globally. To achieve this result, companies must take a long-term view and focus on three keys for success: (1) Strengthening both Regional and Global supply chains; (2) Leveraging public/private partnerships to improve supporting infrastructure and reduce execution risk; (3) Empowering smallholders, local communities and small and medium enterprises through inclusive development programs.

<sup>1</sup> *Growing food for growing cities: transforming food systems in an urbanizing world* (Chicago Council on Global Affairs, 2016) [https://www.thechicagocouncil.org/sites/default/files/report\\_growingfoodforgrowingcities2.pdf](https://www.thechicagocouncil.org/sites/default/files/report_growingfoodforgrowingcities2.pdf)

Although we maintain our view that Africa will sustain its longer-term growth momentum, it is likely that the next few years are going to be challenging for those pursuing growth strategies across the continent. This is not because the opportunities are no longer there, but rather, because the landscape is a lot more uneven than it has been over the past five years; across our diverse and often fragmented markets, opportunities and risks are far more variable.

These greater levels of unpredictability and uncertainty may well have a negative short-to medium-term impact on perceptions of Africa's relative attractiveness as an investment destination. However, we do not anticipate a fundamental impact on the number, value or quality of FDI projects. We believe that there are two key factors supporting our view:

1. A consistent theme of our Africa Attractiveness surveys since 2010 has been the wide perception gap between investors who already have operations in Africa and those who do not. Investors already doing business in Africa, who understand the real risks and opportunities, remain overwhelmingly positive about Africa's prospects and potential. Conversely, those not doing business in Africa have remained consistently and overwhelmingly negative. If anything, we would expect this perception gap to widen over the next few years.

## Perception gap in Africa



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

2. Our analysis of FDI focuses specifically on greenfield and significant brownfield projects, which are, by their nature, focused on the long-term. These are not investors chasing a quick profit; investments are generally initiated by people already doing business in Africa and who understand the

business environment; they are generally investing in the longer-term potential of many African markets, and will not be swayed by shorter-term economic vagaries.

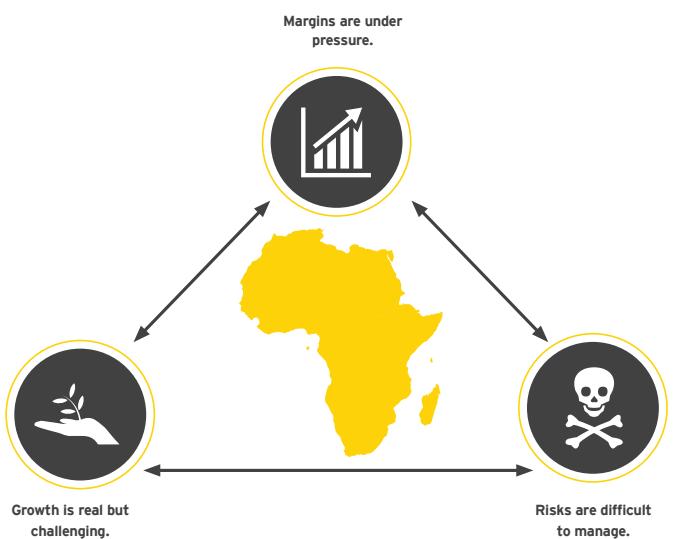
# Striking a balance between growth, profitability and managing risk

However, notwithstanding this relatively strong FDI performance, and despite our view that the longer term growth picture is positive, the fact remains that the medium-term outlook for many African economies remains uncertain. Although there remains pressure on many CEOs and CFOs to have a growth story for shareholders around their plans to capture the potential offered by emerging markets – and for many, Africa is an increasingly important part of that story – we do anticipate a change of emphasis.

Given the growth potential in and relative under-development of many African markets, the primary focus for many companies over the past few years has been on entering new markets, capturing market share and driving revenue growth. A combination of factors – including tightening economic conditions, increasingly well-informed consumers and citizens, intensifying competition, a heightened sense of global geopolitical uncertainty, and shifting priorities from global or regional HQ – is now driving a change in focus toward striking a greater balance between growth, profitability and risk management.

A shift in emphasis from growth to profitability is not a new trend in a broader emerging markets context. It is one that is backed by research conducted by the Institute for Emerging Market Studies at Skolkovo Business School in Russia. This research found that companies operating in emerging markets that adopt a profit-oriented strategy have much better prospects of generating both high sales growth and profits in the future than those that pursue an initial sales-growth strategy.<sup>57</sup>

However, achieving profitable growth in African markets is far from straightforward. It is no longer enough to simply be present in a market; levels of competition and barriers to entry are growing, and there is not a simple correlation between market share, revenue growth and profitability. Indeed, many companies underestimate the cost and complexity of building scale in these markets. In a 2013 EY survey of CFOs<sup>58</sup>, more than one-third said that the overall costs of investing in emerging markets were higher than they expected. Given the scale and diversity of African



markets, infrastructure challenges, financing costs, regulatory costs, and cost of inputs, we would expect at least similar results with regard to CFOs investing in Africa.

With a far greater focus on optimization and profitability, we expect many companies to adopt more of a “pay-as-you-go” system with their African investments and operations – in other words, self-funding (organic) growth via profits generated by the core business. At the same time, we expect a far greater emphasis on governance and risk management, not only because the perceptions regarding risk in Africa of those sitting at Global HQ may be heightened, but also because inadequate governance and controls can prevent profitable growth. The right decision-making parameters and accountability are essential for success. Managers in African markets must have some degree of autonomy to react quickly and make decisions locally, but this should be granted in the context of a strong risk and controls environment. This means that all decisions happen within agreed parameters, thereby preventing excessive variation across markets. A strong risk and controls framework also helps to influence the behavior of employees in local markets, deter unethical business practices and impose a strong “tone from the top.”

<sup>57</sup> Seung Ho Park, Gerardo R. Ungson, Nan Zhou, *Rough Diamonds: The Four Traits of Successful Breakout Firms in BRIC Countries* (Jossey-Bass, 2013).

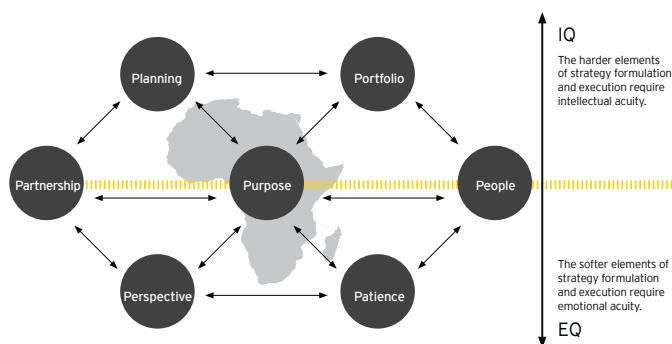
<sup>58</sup> *What lies beneath?: the hidden costs of entering rapid-growth markets*, EYGM, 2013.

# Focusing on effective execution in Africa

A couple of years ago we introduced a set of critical success factors for the effective execution of growth strategies in Africa, represented in the form of a model with seven interconnected capabilities - Ps. The model is similar in structure to the 7-S model popularized by Tom Peters and Robert Waterman in their book *In Search of Excellence*. The seven Ps are separated by a "yellow line," distinguishing between the harder elements of strategy formulation and execution (those that require intellectual acuity – IQ), which are above the yellow line, and the softer elements (those that require emotional intelligence – EQ), which are below the yellow line.<sup>59</sup>

As the model illustrates, thinking about strategy execution is not just a matter of formulating a clear strategy, re-engineering processes or implementing new systems or structures – which is often where organizations focus most of their efforts. In Africa, people and human relationships really do matter, and it is particularly important to emphasize the softer, human elements. Ultimately, though there needs to be a high degree of alignment among all the Ps.

The 7-Ps model was originally developed as a result of research conducted with and lessons distilled from fourteen organizations doing business across Africa.<sup>60</sup> We have subsequently used the model to help stress-test the strategies of dozens of other organizations. As levels of uncertainty and complexity increase, and those organizations operating in Africa seek to consolidate their positions, we believe that the interconnected elements of the 7-Ps model are more relevant than ever.



Source: EY, Africa Business Centre™

<sup>59</sup> The concept of the line is borrowed from Tim Dalmau, an Australian organizational psychologist and change consultant.

<sup>60</sup> The 14 organizations that formed part of our original study were Africa Infrastructure Investment Managers, British American Tobacco, Bharti Airtel, Coca-Cola Sabco, DHL, Ecobank, EY, Mara Group, GE, IBM, Nestle, Sanlam, SKF and Tullow Oil.

<sup>61</sup> Jim Collins, Jerry Porras, *Built to Last: Successful Habits of Visionary Companies* (Harper Business Essentials, 2004).

## Purpose

Whatever point we are at in business and financial market cycles, African markets will continue to offer many opportunities for growth. However, in more uncertain times, the challenges of doing business also tend to be accentuated – fragmented and immature markets, underdeveloped infrastructure, and sometimes erratic regulatory frameworks. Even in good times, effectively executing an African growth strategy will be complex and challenging; it should not be undertaken lightly, nor should it be a default because growth is sluggish in other markets.

Before even thinking about the "how" of growing in Africa, it is therefore, critical to clearly answer the "why" question. A clearly articulated business purpose will help provide a point of reference – a "true north" – on your strategic journey. Reasons could vary from following client demand, opening up of specific opportunities that make strategic sense, leveraging on the rising African consumer class or just geology. Part of this articulation should include clarity on core capabilities and how you will be able to effectively leverage these to create value and competitive advantage in different markets.

A clearly articulated business purpose should also arguably go beyond financial output and shareholder returns to the heart of your fundamental reason for being. As Jim Collins and Jerry Porras describe it, "an effective purpose reflects the importance people attach to the company's work – it taps their idealistic motivations – rather than just describing the organization's output or target customers. It captures the soul of the organization. Purpose gets at the deeper reasons for an organization's existence beyond just making money."<sup>61</sup>

While this may seem slightly esoteric, it is critical not to answer this question superficially. A compelling sense of purpose will provide both a rallying call and a marker, helping energize and direct people during tough times. We have found that the concept of shared value can be very powerful in this context; a fundamental business philosophy that recognizes that profit and purpose can coexist and be mutually reinforcing.

Successful organizations in Africa realize that there are no shortcuts and, more importantly, they understand that for their businesses to achieve continuing longer-term growth, the economies and communities in which they operate also need to grow sustainably. The bigger the skills pool, the more jobs and economic opportunities are created; the larger the spending power of consumers and government, the more the opportunities for business growth. A philosophy of shared value is fundamental to this win-win growth equation.

## Planning

Given the scale, complexity and fragmented nature of the African continent, making well-informed choices about which markets to enter when and via which mode are critical. Most organizations that are succeeding in Africa plan systematically and revisit their plans frequently to align and recalibrate. Given that the medium-term outlook for many African economies remains uncertain, it is all the more important to adopt a granular, fact-based approach to assessing investment and business opportunities in Africa.

To support our clients in this process, we have developed several tools – including Growing Beyond Borders™ and the EY Africa Attractiveness Index – to help assess variable opportunities and risks across the continent, and to rationally assess the pros and cons of different African markets.

However, planning for growth in Africa is a complex exercise, and too much time and energy can be spent looking for definitive answers in a spreadsheet. Ultimately, there is no substitute for spending time on the ground, in-market. It is also important to strike the right balance between sticking to the plan – and more fundamentally, the core business purpose – and adapting to different needs and circumstances across diverse markets. Successful companies will enable and encourage adaptability in differing circumstances, and will even be prepared to modify elements of the business model. However, they will also apply robust and proven policies, systems and processes that are non-negotiable, and will address that they retain what is core to their competitive advantage, whatever the context.

### Growing Beyond Borders™

For identifying and prioritizing markets for investments, there should be a thorough process of fact-based due diligence, including sector-specific tax, legal and regulatory factors (which are often material enabling or constraining factors in the African context). A key challenge in such a process is the apparent scarcity of information. However, once one starts digging a bit, there is actually a large quantity of Africa-related data available. The challenge more often is that data is fragmented across various sources, and so can be difficult

to collate and present in a coherent and meaningful way. We therefore developed Growing Beyond Borders™, a map-based interactive software tool, with a twofold capability to help our clients address this challenge. First, it provides an information portal, aggregating a range of indicators, indices and other data from various sources together for easy access. Second, we have found that the visual presentation of the information via the map-based interface is intuitive for most people, and provides a commonly understood reference point for strategic discussion on investment decisions.

## Africa Attractiveness Index (AAI)

To support investors in adapting to a more uncertain environment and to assess variable opportunities and risks across the continent, we have developed a tool that provides a balanced set of shorter and longer-term focused metrics. This tool, i.e., the AAI helps to measure both likely resilience in the face of current macroeconomic pressures, as well as progress being made in critical areas of longer-term development, namely governance, diversification, infrastructure, business enablement and human development.

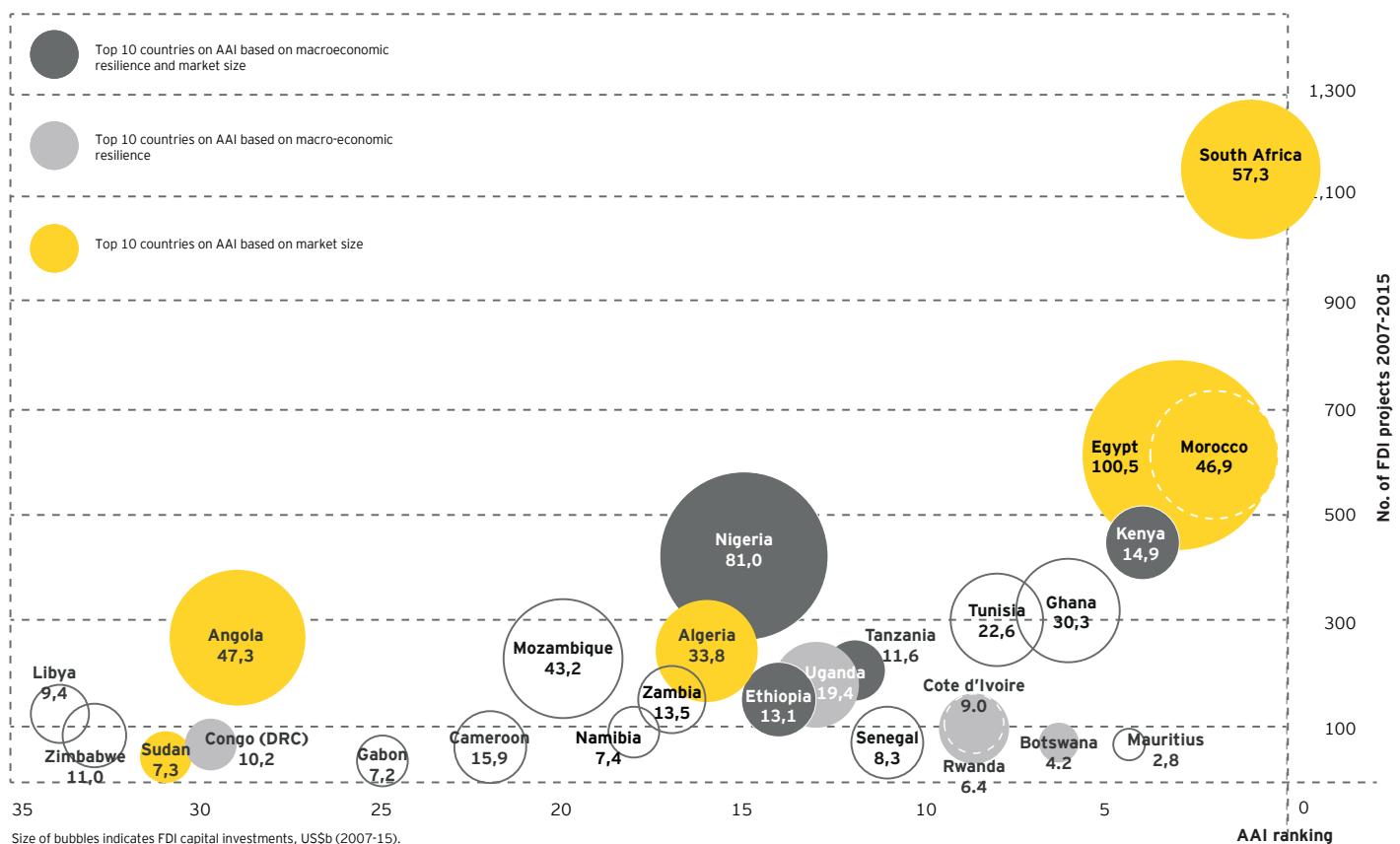
EY's AAI 2016 measures the FDI attractiveness of 43 African countries, constructed on the basis of six broad pillars that act as key determinants for choosing a location to invest. Within each pillar, a set of key indicators have been included with specific weightings to arrive at the overall pillar rank and score. The first two pillars - macro-economic resilience and market size - are considered shorter-term factors, and account for 40% of the total weighting; the other four pillars are longer-term factors, and account for 60% of the total weighting.

It is important to recognize that this kind of indexed ranking does not provide a definitive assessment of any of these markets; there are obviously no absolute answers in searching for market potential. In reality, there will be different answers for different organizations and investors with different priorities; and as priorities change over time, so will the answers. The AAI can, however, provide a useful starting point for analysis and enable strategic dialogue on growth priorities, risk appetite and investment criteria.

To add some more texture to this analysis, we have also created a matrix that maps AAI rankings against FDI trends over the period of 2007 to 2015 (with the AAI ranking on the horizontal or x axis; the number of FDI projects during the period on the vertical or y axis; and the cumulative capital value of those FDI projects represented by the bubble size).

Pillar	Description	Weighting
I. Macroeconomic resilience	Measures the stability of the macroeconomic environment	20%
II. Market size	Evaluates the size and appeal of the domestic market	20%
III. Business enablement	Determines the degree of ease in doing business in the country	15%
IV. Investment in infrastructure and logistics	Measures the efficiency of infrastructure and logistics networks to support the effective functioning of the economy	15%
V. Economic diversification	Determines the degree of dependence of the economy on resource-oriented sectors versus others such as manufacturing and services	15%
VI. Governance and human development	Measures the quality of governance and social development in the country	15%

## Africa investment attractiveness matrix



Source: fDi Markets and EY's Africa Attractiveness Index

## Portfolio

Greater levels of uncertainty and volatility across many African markets will result in uneven opportunities and risks for investors. These conditions reinforce the importance of the portfolio effect. While there is likely to be greater pressure on the performance of operations in individual markets, we would encourage companies operating in Africa to guard against making hasty decisions to rationalize investments based on shorter-term uncertainty.

A portfolio of investments (markets, products, projects, and/or assets) across different African markets will balance risks, and can help build a degree of stability and predictability in earnings. A portfolio-based approach provides 3 key benefits:

- Risk mitigation:** It will mitigate the risk of political or economic instability in any one country materially impacting overall earnings. For example, currency risk –likely to be a constraining factor over the next few years– can be spread over several diverse markets.

**2. Early mover advantage:** Spreading risk across a range of markets can also help enable earlier entry into less mature or supposedly higher-risk markets. The importance of (and opportunity for) early-mover advantage should generally not be underestimated. Early mover advantage has been a critical factor for several market leaders in sectors such as consumer products and telecommunications, where barriers to entry can later become high. The relative overall stabilizing impact of a portfolio enables companies to establish a presence in markets that are still at an early stage of development, while driving operational performance in other more mature markets.

**3. Critical mass:** Given their relative immaturity and often fragmented nature, many African markets will not yet be ready to generate significant returns for investors. However, grouping markets together in a coherent manner can help create sufficient critical mass to make the overall African portfolio material enough to matter and be taken seriously.

A portfolio effect is likely to be particularly important for services and consumer-facing companies, for whom it may take time to build a business of a worthwhile size in any particular country or region. That is why almost any company in these sectors that can lay claim to market leadership in Africa will be operating across multiple African markets, many in excess of twenty.

## People

Strategies are not self-executing. Boardroom-level strategy-making can map out the most exciting opportunities and solid risk mitigation measures across the continent, but effective implementation inevitably turns on the quality of people on the ground in the countries of operation.

A commonly cited challenge for many companies expanding in Africa is the shortage of skills – particularly technical, professional and management skills. As a result, people with required skills and experience are very expensive to hire and are very mobile, which creates an ongoing recruitment and retention challenge. As EY's Sub-Saharan talent trends and practices survey has indicated, competition for talent is becoming ever more intense.

There is, however, also abundant latent talent in Africa. What sometimes distinguishes the more successful companies in Africa is their ability to recognize this tremendous human potential, and to focus effort on developing local skills. Organizations that are serious about seeing through their African investment in the longer term will find that genuinely investing in people can bring significant rewards. This does require adopting a longer term view, investing in training and development (even if this makes employees more marketable to other companies), building of strong relationships with local communities and address that compensation packages remain competitive.

At the same time, expatriates can play a critical role in establishing a strong operational foundation, ensuring consistency and cohesion in terms of organizational culture and values, and in helping to develop skills and to transfer knowledge. Some market leaders are also tapping into the Africa diaspora, relocating current employees with African roots from other parts of the world back to Africa.

Sustainable success in Africa will increasingly turn on the ability to effectively bridge the gap between the skills required to operate effectively and the abundant human energy and potential of so many Africans; human resource development therefore, should be at the heart of strategy execution. For most sectors, it will be particularly critical to strike the right balance between a dynamic mobility programme and recruiting, developing and retaining talented and committed local staff.

## Talent trends

There is a rising war for talent in SSA. As companies gear up for growth, the demand for skills needed to support such ambitions has increased, and is being matched by greater mobility in the labor market. In order to remain competitive, companies need to be deliberate in how they plan and respond to these challenges.

### **Greater competitiveness is causing organizations to consolidate and enhance their positions.**

It would appear that conditions in SSA are becoming more competitive and that the opportunities for unrestrained growth are not uniformly high. As a result, most organizations surveyed are focused on protecting their businesses by increasing market share in current markets, optimising resources or processes, and building their organizational capabilities.

This general trend of focusing on entrenching and consolidating existing positions affects how organizations are approaching the labor market: many companies are recruiting only to support small growth ambitions, and expect that their recruitment needs will not change substantially within the next 12 months.

### **Competition also seems to be promoting greater mobility in the labor market.**

Another impact that greater competitiveness is having on the labor market is an increase in mobility. Whilst still low, staff turnover has increased; particularly in respect of executives, professional, and technical staff. The trend is most visible amongst local staff in these categories, rather than expatriates. A related trend is the greater time taken to fill positions across all staff categories, something that signals a rise in the competition for skills, and thus greater mobility for those who possess them.

### **Recruitment strategies remain constant**

In this context of a more competitive environment, local skills continue to remain the preferred employment option. But organizations recognize that expatriates can fill a valuable gap in providing specialist expertise so much so that while the demand for expatriates remains constant, participants' desire to reduce their reliance on this group has markedly declined. Despite the more favourable attitude of employers, hiring expatriates still presents challenges. It takes longer to hire expatriates, there is a strong perception that governments are making it harder to recruit expatriates, and managing the compliance risks associated with expatriates is a chief concern of organizations who do go this route.

Experience and expectations in respect of recruitment from other African countries and the returning African diaspora remain unchanged, suggesting that organizations are seeing these as supplementary rather than alternate labor markets.

#### **More than pay is needed to retain staff**

In a more competitive labor environment the ability to attract and retain skills becomes increasingly important. Organizations appear to be recognizing the significance of this trend. While the ability to offer competitive pay packages is recognized as key to attracting employees, factors relating to the workplace environment (learning and development opportunities and the quality of management) are viewed amongst the most important factors for retaining staff.

#### **Toward a more deliberate response to managing talent**

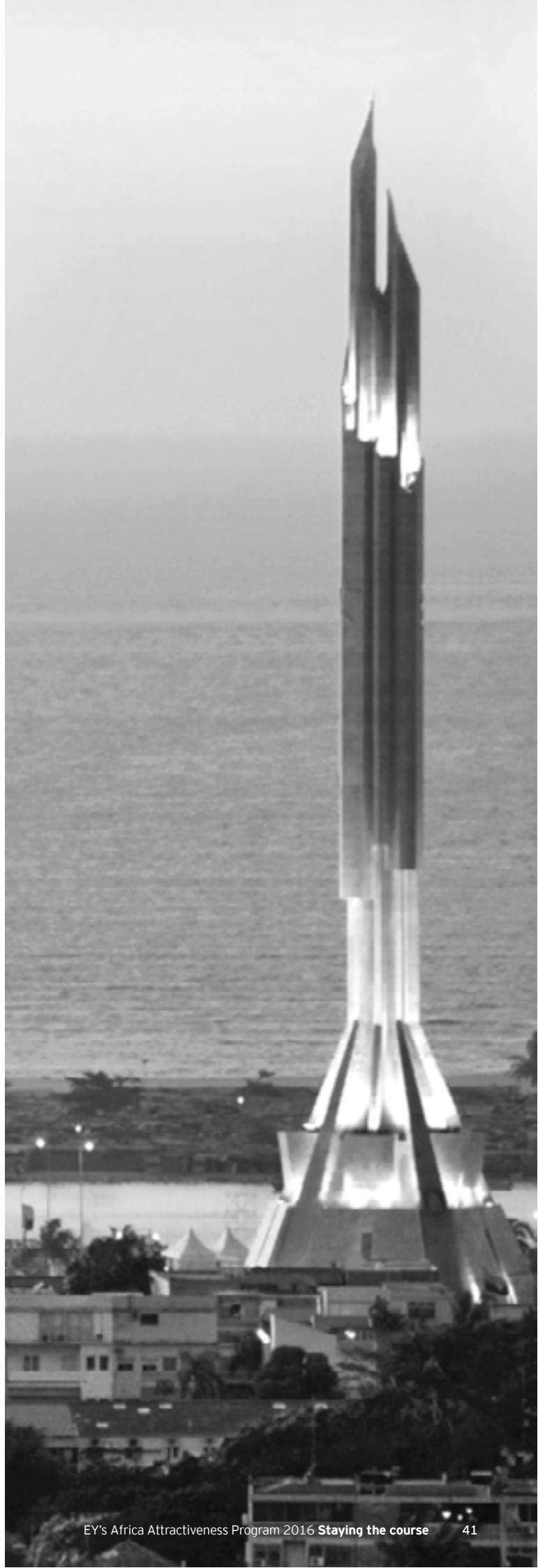
Organizations are also recognizing that the competitive labor environment demands a more deliberate, integrated response. A particular focus will have to be turning activities identified as HR priorities workforce planning, performance and reward, management and leadership development, and talent management and succession into formalised processes. Only once this is done will managers be fully empowered to help their staff be productive that their staff are productive, engaged and, ultimately, retained.

Source: *Realising potential*, EY 2014 Sub-Saharan Africa talent trends and practices survey

## **Partnerships**

The point has already been made that relationships matter, perhaps more so in Africa than in any other region, but it cannot be overemphasized. To develop relationships in Africa requires a significant investment of time and energy. Strong local business partnerships are often critical to success – an effective local partner can help a new market entrant to hit the ground running, providing support with, for example, navigating bureaucracy, coming to terms with local operating issues, and developing an understanding of consumer or client dynamics.

Of course, having a local business partner is not a guarantee of success, and selecting the wrong partner can even become a barrier to success. Conducting a thorough due diligence before entering into a partnership with a local company is therefore, critical; not only a financial due diligence, but also an "integrity due diligence." This should include ensuring that there is a good cultural fit between the two organizations, and obtaining information about the local company from a broad range of sources, including customers, regulators and suppliers, confirming that the potential partner has a good credit history, is ethical in its dealings and adheres to values that match those of your organization.



Besides some form of joint venture, a fairly common model is to provide local shareholders with a minority shareholding. Local shareholders are generally either local business people or, in certain cases, the government; ideally though, the former, with no dependency on or close ties to the government. In the best cases, local shareholders generally play an active role and often chair the local board. Some of the mature African operators have also listed their in-country operations on local stock exchanges.

But partnerships do not only have to be about equity ownership; they come in many different forms. For any consumer-facing company, distribution-related partnerships are likely to be a critical success factor. This is particularly true in environments where the infrastructure is often underdeveloped, there are large rural populations, distances are vast, and retail tends to be dominated by small-scale and informal traders. High performers in African markets have a well-designed distribution network that may feature a combination of direct coverage and partnerships with third party distributors, wholesalers and even micro-entrepreneurs.

There is also ever increasing pressure for multinationals to demonstrate their long-term relevance and commitment to local African economies as partners in a broader sense. Fostering good, proper relations across government and civil society will therefore be vital to realizing strategic aims. This may require dedicated government-relations professionals to support the efforts of management. More importantly, it requires a philosophy and culture that aligns the organization with the host country's longer-term growth and developmental objectives. This is where consciously adopting a philosophy of shared value, as referred to earlier, can be a powerful business driver.

## Perspective

A common belief in our engagement across various companies successfully doing business in Africa is that to succeed in the long-term one must adopt a perspective that is deliberately a glass half full rather than empty one; that it takes a positive mindset to succeed in Africa. There is no doubt that if you set out expecting difficulty and risk, you will find it easily enough, and this will probably put a brake on any growth plans. Those who have been successful in Africa have tended to look for the opportunities first, and then only then factored in risks. At the same time, those who are succeeding will also tend to have a "learning" perspective; entering new markets with a genuine respect for local dynamics, and with a belief that the organization has both something of value to contribute, but also much to learn to be able to operate effectively in the local environment.

In terms of macro risks, Africa's countries and regions can be difficult places in which to do business. But our research tells us that Africa is not fundamentally more risky than other emerging market regions. Indeed, on some key indicators, the much-vaunted BRIC countries are more risky than many important African markets. At the same time, however, some negative perceptions have a basis in fact. Although some African countries score relatively well on various risk-related metrics, others continue to lag significantly behind in almost all such indices.

However, for companies seeking growth in Africa, it may be better not to focus on absolute rankings and other such "frozen-in-time" snapshots. This is particularly so in more uncertain and volatile times such as we are currently experiencing. The tendency can be to only focus on the short- to medium-term economic growth and/or risk outlook, which is limiting, and can lead to exaggeration on either the upside or downside for any given market. Experience suggests that rather than trying to look for problem-free African markets, it is a better mindset to try to understand whether and where sustainable structural improvements are being made and adopting a perspective that tracks progress over time, rather than dismissing (or embracing) markets on the basis of current indices and cycles.

Perhaps more fundamentally, it takes a positive mindset to succeed in Africa – a commitment to seeing the glass as half full. This is a common theme across virtually all of the market leading companies in Africa that we engage with. This is not to encourage recklessness; effective risk management is critical to doing business successfully in Africa. However, it is only one factor in successfully operating in Africa; there is no doubt that, if you set out expecting difficulty and risk, you will easily find it, and this will probably put a brake on any growth plans. Those who have been successful in Africa have tended to first look for the opportunities, and only then to factor in the risks.

Hence, the significance of balancing an opportunity awareness mindset with a risk management approach. Moreover, risk and opportunity can often be viewed differently in African markets. Success can come from seeing the opportunities that are inherent in ostensible risks and constraints. For example, infrastructure deficits are typically viewed as constraints or risks to doing business in Africa. Yet meeting the pentup demand and backlog for infrastructure projects is also an opportunity. The informal nature of the retail sector in many markets may seem chaotic for those used to more formal markets, and yet this has opened up numerous opportunities for operators up and down the retail and consumer products value chain. The vibrant and highly profitable mobile telecommunications sector in Africa was developed by visionary pioneers who saw an opportunity where to many, there was only risk.

However, capitalizing on these opportunities does require a perspective that does not always come naturally to global multinationals: not only to see the opportunity, but also to actively adopt a developmental approach. Many markets and sectors are still very immature; local suppliers and distribution networks are fragmented; a full range of professional services are not always readily available; there are institutional gaps, and sometimes a lack of capacity in both the public and private sectors.

Rather than "sticking to the knitting," managers of multinationals operating in some African markets may need to get involved in elements of the value chain that would be unthinkable in more mature markets.

## Patience

Whatever one's answer is to the "why Africa" question, there is no doubt that one of the key drivers has to be financial returns. Given Africa's economic growth story over the past decade, and the fact that a number of organizations are already generating healthy returns from African operations, this is understandable. However, there is a very real danger that "HQ" will expect too much too soon from investments in Africa.

It generally takes time and investment to generate any kind of meaningful returns from African operations. Besides this, there are likely to be many bumps in the road, including currency volatility, political unrest, unexpected costs, and issues with business partners. Accepting that these will happen is part of investing in African growth markets. Yet in most cases, they should not affect the overall viability of the investment.

It is important to bear in mind that most of the companies that can be considered market leaders in Africa today have been operating across the region for many years. Over time, they have gained skills, experience and understanding, developed relationships and markets, established competitive positions, evolved operating processes and systems and built up a meaningful African portfolio. There are no short cuts, even for seasoned operators, but the eventual returns from the portfolio will be worth it.

It is essential, therefore, to align the expectations of the Group and of the regional management in terms of the scale of investment required, as well as the potential return on that investment. The reality is that each market will have its own opportunities and challenges, and that time lines for realizing the opportunities will often be longer than originally anticipated.



**Craig Mitchell**  
Africa Leader, Operating Model Effectiveness, EY

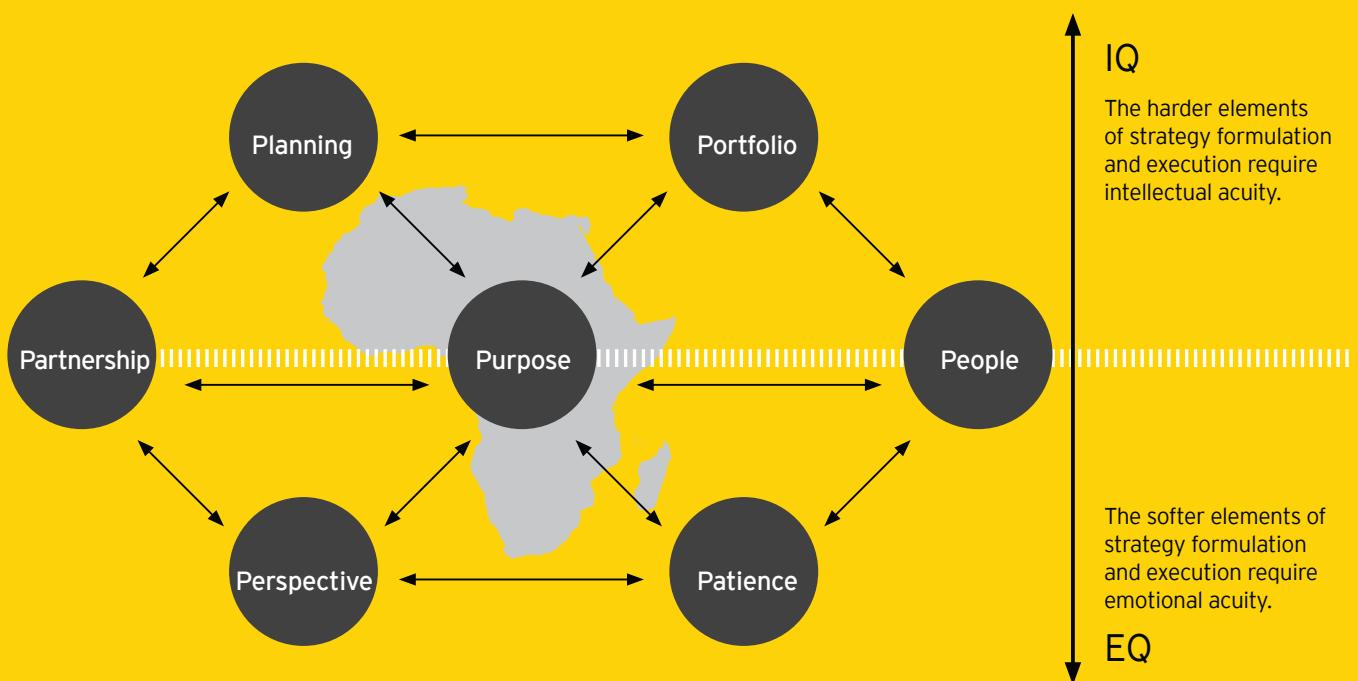
With the observed temporary slowdown in economic growth across the African continent, now, more than ever, having the right African operating model and structure in place to deliver your African strategy is likely to prove to provide multinationals with a competitive advantage. Whilst tactical cost savings and product portfolio optimization initiatives will undoubtedly continue to add some value and assist with preserving margins, leveraging scarce skills by creating effective and efficient above-market and in-market capabilities and structures to execute the African strategies is likely to prove to be significantly more valuable and an enabler of continued, profitable growth.

Profitable growth in Africa is, undoubtedly, a long-term game. In the current context, rather than panicking or looking for the next best margin protection measure, the courageous choice would most certainly be to pause, reflect and look to build for

the future, with the longer-term African growth prospects largely viewed as positive. The time has, therefore, never been better for multinationals operating in Africa to review their operating models and structures to confirm that they provide their African leadership with the ability to more effectively leverage their skill and their scale, and to manage complexity; and the empowerment and agility to make faster decisions in order to respond quickly and effectively to the rapidly evolving and increasingly volatile economic environment.

# 21 questions to stress test your African growth strategies

EY's 7-P model for effective strategy execution in Africa



Source: EY's Africa Business Centre™

## Purpose

1. Why Africa? Why now?
  - a. What are we passionate about?
  - b. What are/can we be the best at?
  - c. How do you make money and generate returns?
2. What are our core capabilities, and how can we leverage these into new markets?
3. What is our unique value proposition and what is/will be the basis of our competitive positioning?

## Planning

4. Are our priorities for growth in Africa clear and well-articulated?
5. Have we done a thorough analysis of needs, opportunities and risks (without getting stuck in analysis paralysis), and have we spent meaningful time on the ground in markets we are considering entering?
6. What are our non-negotiable business principles, policies and processes (and conversely, where can we be flexible)?

## Portfolio

7. Are we actively managing an African portfolio that spreads risk and balances revenue/profit generation with growth opportunity?
8. Can we be number one or two in the markets/sectors/segments we choose to enter and operate in?
9. Can our portfolio of regional markets provide enough critical mass to generate financial results that matter to HQ?

## People

10. Are we clear on what key skills and competencies are required in setting and scaling up in key African markets (and the investment required in human resources)?
11. Are we prepared to make sufficient investment in putting people on the ground in new markets?
12. Do we have the right balance between mobility/use of expats and a robust programme for recruitment and development of locals in the markets we operate in?

## Partnerships

13. Are we clear on our preferred mode of entry into new markets or ventures (e.g. acquisition, JV, license agreement, etc.)? Do we have a robust methodology and capabilities to deliver on our partnership/M&A model?
14. Do we have the culture, mindset and capabilities to support open and active engagement with external stakeholders?
15. Are we considered a "force for good" in the communities, businesses, sectors and/or economies in which we operate? How are we going to confirm that we are locally relevant over the long-term?

## Perspective

16. Do we consciously adopt a glass-half full perspective, looking for opportunities first before considering how to manage risks?
17. Are we actively working with government & communities in different African countries to contribute to a broader growth & development agenda?
18. Do we actively adopt a "learning" perspective, engaging with key stakeholders with humility and respect, and being prepared to adapt (even as we seek to contribute the value of our own insights and experiences)?

## Patience

19. Are we prepared to invest in sustainable growth without expectation of quick returns (what are our horizons)?
20. Are we prepared to invest ahead of the curve in developing and even creating new markets over the longer-term?
21. Do we have the appetite and will to invest in developing long-term relationships across different levels of government, business and civil society in the markets we operate?



# Conclusion

It is perhaps inevitable that as the prolonged global slowdown has exerted increasing pressure on many African economies, so too have doubts increasingly been raised about the sustainability of Africa's growth momentum of the past 15 years. The reality is that growth has slowed substantially in the last year. However, we remain confident that growth rates will be resilient in coming years – across the region as a whole, and in many of the key regional economies.

From an investment perspective, the next few years may be challenging. Not because the opportunities are no longer there, but rather, because these opportunities are likely to be more uneven than they have been over the past five years.

We remain confident though that levels of FDI will remain robust. While greater levels of uncertainty may have a negative short- to medium-term impact on perceptions of Africa's relative attractiveness as an investment destination, we do not anticipate a fundamental impact on the number, value or quality of FDI projects.

This view is partly borne out in the 2015 FDI data. In a context of heightened concerns about economic and political risk across the continent,

FDI flows remained robust, and in line with levels we have seen over the past 5 years. A key factor here is the structural shift in FDI – from a high concentration of source countries and destination markets and sectors, to a far more diverse FDI landscape. As a result, risks and opportunities are being spread much wider, and there is no longer an over-dependence on a limited group of investors or sectors to drive FDI performance.

As we look forward, we do anticipate that the emphasis of many organizations with a growth strategy in Africa is likely to shift from rapid expansion to consolidation and optimisation of African operations. And so, to help these organizations take stock and stress-test their long-term growth strategies in Africa, we have reintroduced the strategic 7-Ps framework. This should not, however, be read as a signal that investors are losing confidence in African markets; it is instead the next logical phase of growth for the many investors that continue to believe in Africa's longer-term prospects and are committed to staying the course.



## What does all this mean?

### Beyond the headlines: assessing investment opportunities in Africa

In 2015, Africa experienced stronger headwinds than in recent times, including a faltering global economy, soft commodity prices and slowing growth in China. Despite these headwinds, SSA remains one of the world's fastest growing regions.

For businesses	For governments
<ul style="list-style-type: none"><li>▶ Distinguish between shorter term volatility and longer term structural factors.</li><li>▶ Keep sight of the stable, fundamental factors that make Africa a compelling investment destination such as a strong resource base and burgeoning domestic markets.</li><li>▶ Maintain a strong balance between growth, profitability and risk management, factoring in availability of data, local versus central decision-making and cost structure, among others</li></ul>	<ul style="list-style-type: none"><li>▶ Formulate an appropriate response to the current economic environment and in particular, make strong progress on the following five longer-term focus areas: governance, diversification, infrastructure, business enablement and human development.</li><li>▶ Intensify the dialogue with business leaders and entrepreneurs with an emphasis on energizing and enabling the whole economic and social ecosystem. A stronger spirit of partnership between business and governments would be a powerful enabler of sustainable and inclusive growth.</li><li>▶ Get better at telling better stories about Africa. This can help to counter the enduring perception gap related to Africa being a high-risk, difficult, and sometimes, dangerous place to do business.</li><li>▶ Improve the availability and quality of data on the continent to facilitate the setting of the right priorities and for tracking performance efficiently.</li></ul>



## A diverse FDI landscape

There was a fundamental shift in FDI patterns in Africa post 2009-10 with focus moving away from extractive sectors. This key trend of diversification – not only in terms of sectors, but also destinations and sources – continues to develop.

For businesses	For governments
<ul style="list-style-type: none"><li>▶ Do not focus on "Africa" as a single unit of analysis but rather a set of diverse and fragmented markets (sub-regional, country and city-region levels, and across various sectors and segments).</li><li>▶ Adopt a granular, fact-based approach to assessing investment and business opportunities in Africa. As gaps between different African economies likely become more pronounced over coming years, choice of markets to operate in must be based on balance between short-term pressures and long-term critical success factors.</li><li>▶ Prepare for more sophisticated strategies to achieve the top-line growth that was more easily achievable in the past. As the sources of FDI become more varied, competition will intensify.</li><li>▶ Assess options given new wave of "emerging sectors" in Africa such as business services, automotive, cleantech and life sciences.</li></ul>	<ul style="list-style-type: none"><li>▶ Develop a distinct value proposition as an investment destination that can turn into a sustainable competitive advantage.</li><li>▶ Implement policies that help reduce dependence on natural resources and develop other strategic sectors urgently such as manufacturing, construction, agriculture and services.</li><li>▶ Improve education and training to upgrade labor skills. Easy availability of labor will allow African economies to market themselves to investors.</li></ul>



### Questions to consider?

For businesses	For governments
<ul style="list-style-type: none"><li>▶ What does it take to successfully do business on the continent?</li><li>▶ What are some of the hard lessons learned?</li><li>▶ What are the myths and what are the realities?</li><li>▶ How can organizations set up and grow their businesses? How can they access growth capital from local markets? How can they partner with the government to create an ecosystem that fosters investments and growth?</li></ul>	<ul style="list-style-type: none"><li>▶ How can African economies tackle the shorter term challenges while ensuring that they are accelerating progress towards inclusive, sustainable growth?</li><li>▶ What can be done to promote more productive partnerships and accelerate the process of business enablement?</li><li>▶ What can governments do to shape better stories for African economies? What are the mechanisms and underlying conditions that need to support these better stories? Are there existing success stories that others can learn from?</li><li>▶ What sectors offer the greatest potential for driving inclusive, sustainable growth?</li><li>▶ What can African governments do to improve labor skills? How can they ensure easy access to capital for investors seeking public-private partnership (PPP) mode of investment?</li></ul>



# The upside of disruption in Africa

EY recently launched a new report – *The upside of disruption: Megatrends shaping 2016 and beyond* – the focus being on uncovering the opportunities created by transformative global trends and helping our clients seize the “upside of disruption”. For those of us operating in Africa, we sometimes feel quite far removed from some of these transformative trends. It may be interesting when futurists talk of the transformative potential of the Internet of Things, virtual reality, artificial intelligence, robotics, but this kind of talk could seem fanciful in an environment in which a large proportion of the population still lives below the poverty line, one is struggling to get hard currency into or out of key markets, cross-border movement of goods and professional staff remains a critical challenge, and, quite frankly, many of us at the moment are just focused on hitting next month's (stretch) targets.

However, we need to resist the temptation to keep our heads down over the next few years, during what is likely to be the toughest period experienced in the past 15 years. In the face of what has been quite a dramatic economic slowdown, there is a danger that we Africans become increasingly pessimistic and inwardly focused. And yet, this is a time that we need to be more attuned than ever to what is happening in the world around us.

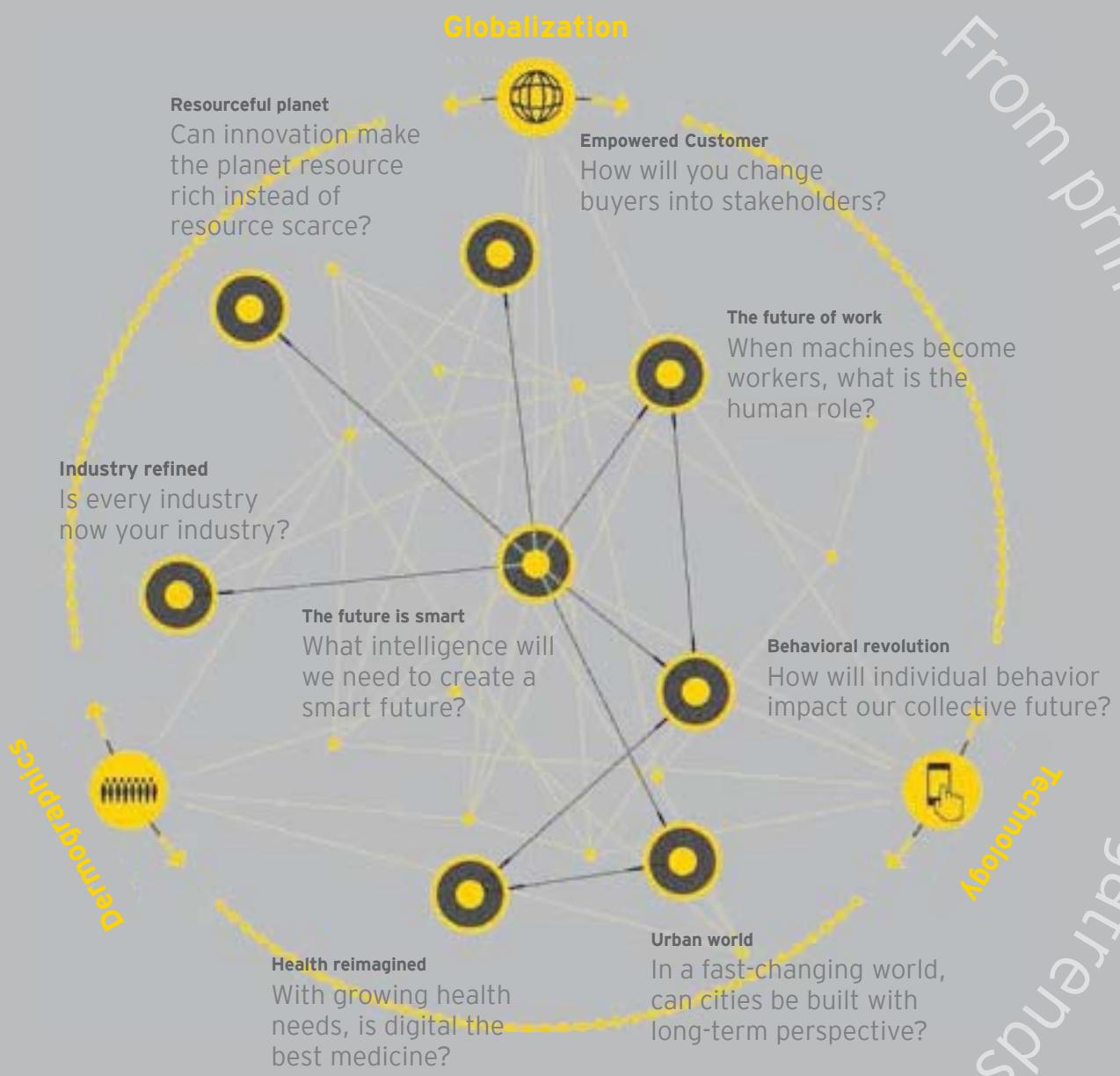
The EY research looks beyond what may be considered some of the futuristic fads at what are the root causes of transformative trends and, consequently, have identified three primary forces behind the current wave of disruption: technology, globalization, and demographic change.

**1. Technology:** Advances in technology have been disrupting business models for centuries. In our lifetime, successive waves of the IT revolution (PC, online, mobile, social) have democratized data, empowered consumers and citizens, and spawned scores of new industries. The impact of this disruption has been felt nowhere more than across Africa, where exponential growth in mobile and smartphone penetration, together with expanding internet and broadband access, has fundamentally changed the way we communicate, access information and conduct business. This has, in turn, opened up new and transformative opportunities in the health and education sectors, for the delivery of government services, and for the growth of local entrepreneurs.

- 2. Globalization:** Thanks to trade liberalization and emerging market growth, globalization has accelerated in recent decades. These trends disrupt existing business models by creating new competitors, reordering supply chains and lowering price points. The next waves – including the emergence of Africa and a more multipolar world – will increase complexity and require flexible business models to respond to global shifts.
- 3. Demographics:** In the decades ahead, relatively high birth rates will make Africa one of the engines of economic opportunity globally. Aging populations will transform everything from health care to real estate, while millennial-dominated workforces will reinvent the workplace. Meanwhile, urbanization will increase cities' economic and public policy clout, even as it strains their ability to grow in sustainable ways. Migration and immigration will also have profound impacts on workforces and economic development. All these demographic shifts will require new strategies and business models

Perhaps the fundamental point is that future is more uncertain than ever. In this context, it is critically important to shift the perception of disruption from that of threat to opportunity; to begin to embrace disruption to take advantage of the rapidly changing environment. At a time when there are so many unknowns and no easy answers, we believe we must ask better questions. As people are becoming less afraid of disruption and more accepting of its inevitability, the better question becomes: How do you seize the upside of disruption?

# From primary forces to megatrends



## Megatrends shaping 2016 and beyond

### How can we convert disruption to opportunity?

- ▶ Three primary forces drive the current wave of disruption: technology, globalization, and demographic change.
- ▶ By understanding the interaction between these forces, their interface generates eight global megatrends that are shaping the future.

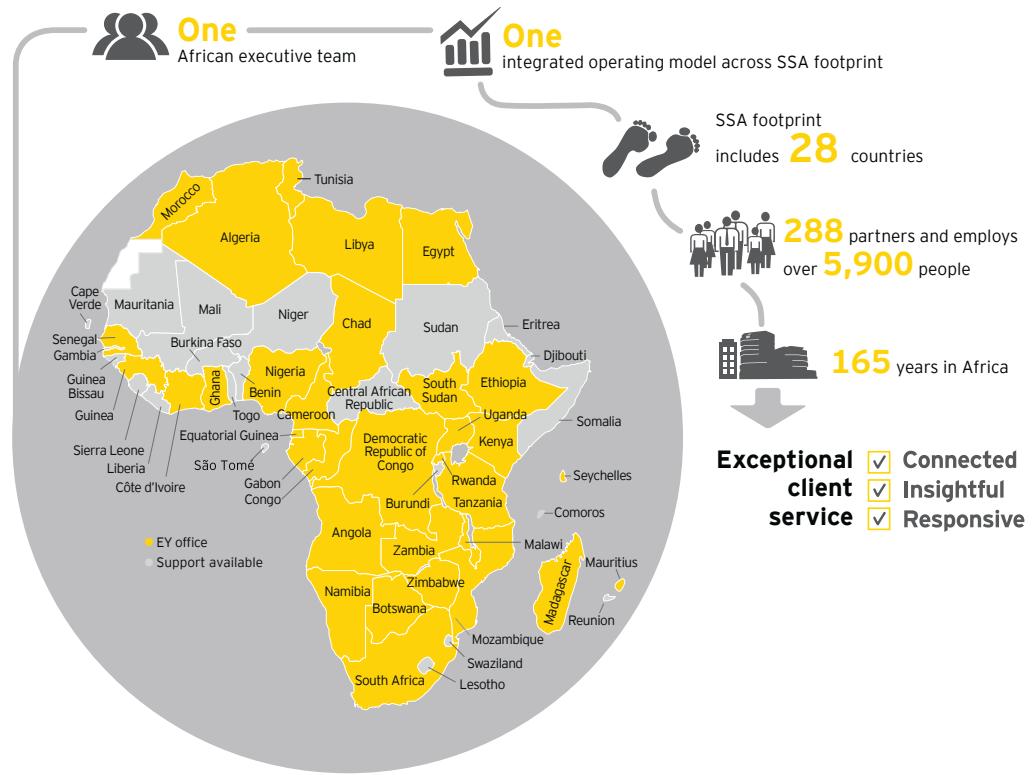
### How will you seize the upside?

- ▶ How does your organization view this wave of disruption?
- ▶ Who owns the disruption agenda?
- ▶ What are some of the key actions you have taken to realize the upside of disruption?

To discover more insights and stories on disruption:  
[ey.com/megatrends](http://ey.com/megatrends) and [betterworkingworld.ey.com/disruption](http://betterworkingworld.ey.com/disruption)

# EY in Africa

We have 5,900 professionals based in 48 offices across the Africa Sub-Saharan region – 288 of whom are partners – who provide audit, tax, advisory services and transaction advisory services to a range of industries, including power and utilities, industrial products, consumer products, media and entertainment, the public sector, oil and gas, manufacturing, real estate, technology, financial services, life sciences, health care, hospitality, retail, mining & metals and telecommunications.



## Our vision

EY is committed to doing its part in building a better working world. We understand the changing world and the challenges this can present, but more so, we see an opportunity to help the world work better. That is precisely the purpose that our EY people are committed to.

We believe, and research shows, the power of purpose can drive greater success for our people, our clients and our communities. We understand our obligation to look beyond our self-interest and engage with the world.

## We're committed to helping change the world so that:

- ▶ Trust increases
- ▶ Capital markets are strong
- ▶ Investors make informed decisions
- ▶ Businesses grow sustainably
- ▶ Employment rises
- ▶ Consumers spend
- ▶ Governments invest in their citizens
- ▶ Talent is developed
- ▶ Collaboration is encouraged

## A shared agenda

We realize we won't achieve our purpose alone, but by better understanding your world, we are most effectively able to tailor our insights and investments to meet your needs. Then, we will be best positioned to focus on the shared agenda and how we can move forward together, toward a brighter future.

## In Africa, we:

Contribute to the critical functioning of the world's capital markets, providing accurate, timely and transparent information

Assist our clients to improve and grow, leading to higher living standards and more opportunities for growing local economies

- ▶ Help entrepreneurs, who are key to economic health, through the Global EY World Entrepreneur Of The Year® award and a series of services specific to entrepreneurs
- ▶ Are an incubator when it comes to developing leaders who have successful careers at EY and go on to other roles in industry, government and academia
- ▶ Give back to the local communities in which we live and serve through individual and collective initiatives

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