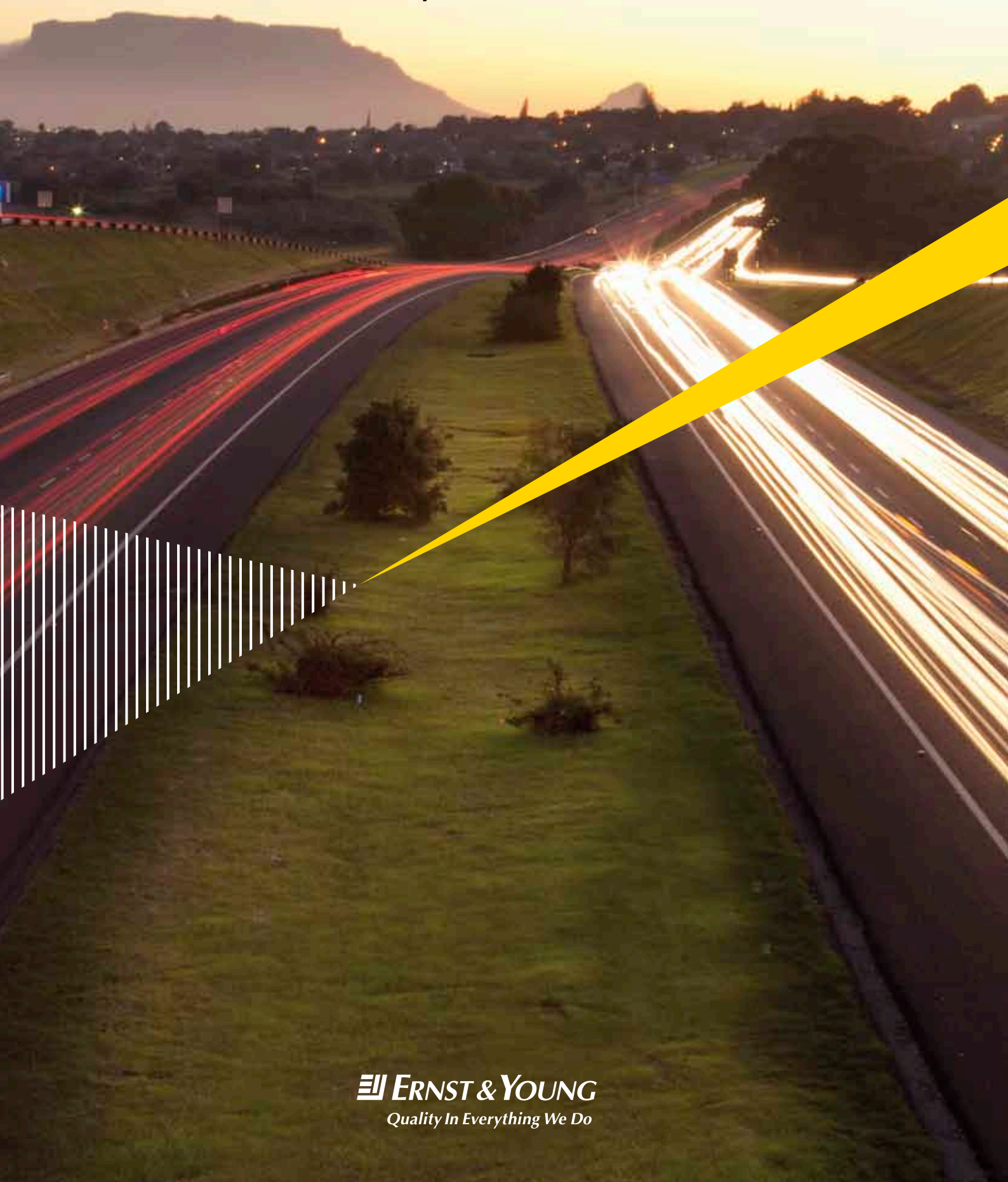


It's time for Africa



Ernst & Young's 2011
Africa attractiveness survey



Ernst & Young's 2011 Africa attractiveness survey reflects, first, Africa's attractiveness for foreign direct investors and, second, the perceptions of, and outlook for, Africa and its peers across a representative panel of 562 international decision-makers.

As we present our first Africa attractiveness survey, we would like to thank all the decision-makers and Ernst & Young professionals who have taken the time to share their thoughts with us.

We would like to extend our gratitude to the selected panel of observers from the business, political and institutional communities who expressed their views on the opportunities and challenges of Africa: Andrew Bing (CFO, MTN Nigeria), Nikolai Germann (Managing Director, Addax Bioenergy), Dirk Hoke (CEO Africa Region, Siemens), Olaf Meier (African Development Corporation), Leslie Rance (General Manager, East Africa Markets, British American Tobacco), Christo Wiese (Chairman, Shoprite/Pepkor), Michael Lalor (Ernst & Young South Africa) and Luke Davies (Ernst & Young South Africa).

The success of this particular survey is directly attributable to their participation and commitment.

Ernst & Young's 2011 Africa attractiveness survey

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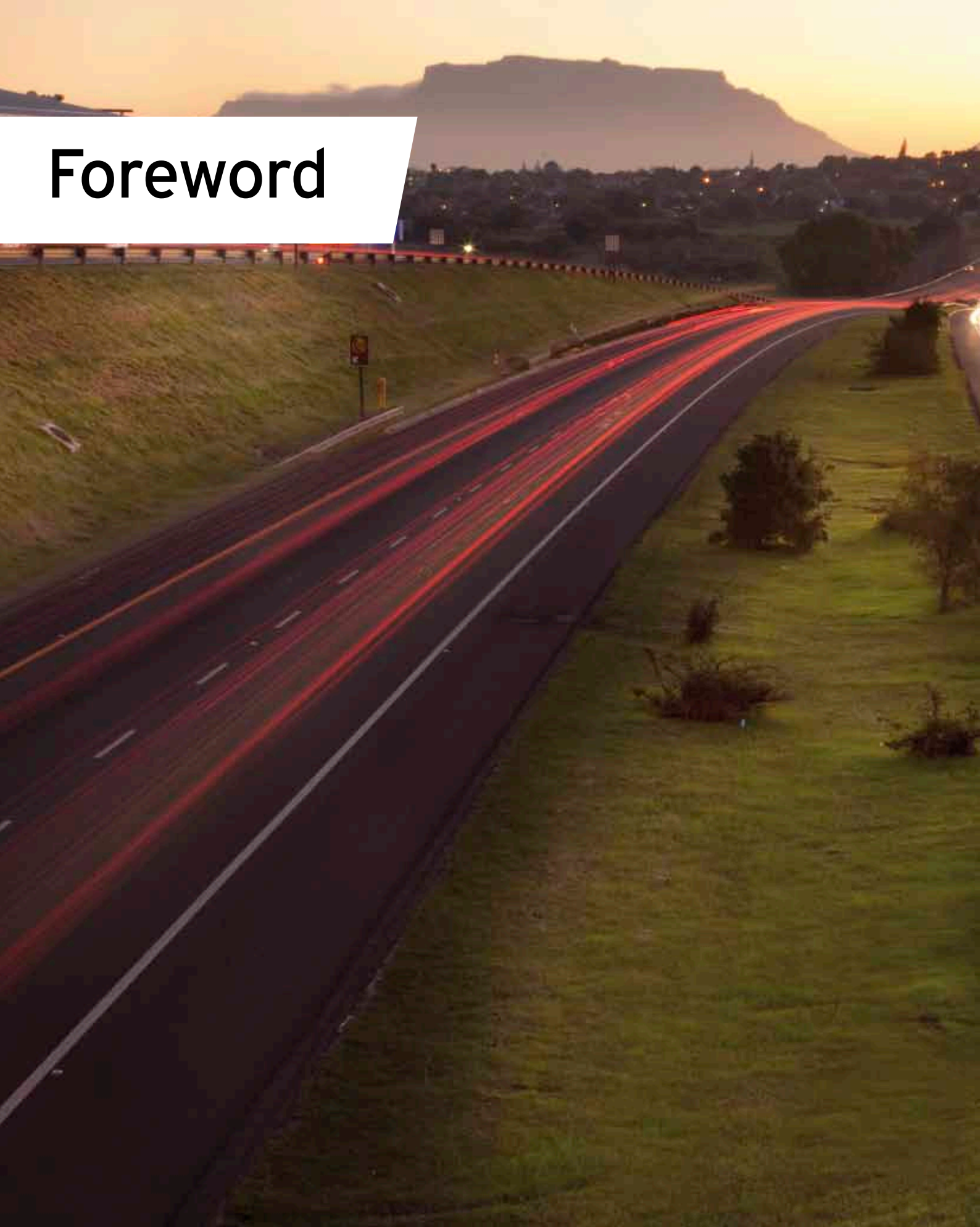
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Foreword



It's time for Africa!

The results of our first Africa attractiveness survey highlight what over 500 business leaders had to say about Africa's growth story, the latest foreign direct investment (FDI) trends and the region's growth potential. FDI flows have increased strongly in the past decade, investor perceptions of Africa are ever improving and the outlook is positive, with capital inflows forecast to reach US\$150b by 2015.

With a 160-year presence in Africa, and as a global organization that invests in the continent, we believe these trends are hugely encouraging.

At the same time, we recognize that much more could be done to realize the enormous potential that Africa offers. In spite of the growth trends, Africa still attracts less than 5% of global FDI projects. We believe that this does not fully reflect the attractiveness of a region that has one of the fastest economic growth rates, enjoys the highest returns on investment in the world and is making strong progress towards political reform, macroeconomic stability and social development.

Although the risks in investing in Africa may appear high, risk can be managed, and the rewards can be great. That is why we are investing heavily in growing our integrated African presence and capacity to serve our clients who are also investing in and across the continent. We now enjoy an integrated representation in 30 countries across Africa, described in the media as "one of the biggest changes in the accounting profession in more than 100 years." Today, we are able to navigate successfully through the complexity that our clients are experiencing across the geographies and the diversity of markets sizes and sophistication. We do this through our Africa Business Center™: its sole purpose is to assist clients in making their investment and expansion decisions in Africa.

At Ernst & Young, we are positive about the future of Africa in the short, medium and long term. While much of the world is still struggling with the repercussions of the global economic crisis, there remains a window of opportunity for investors competing for growth beyond market boundaries. Governments must also take full advantage of investment in the African growth story.

The time to act is now.



Mark Otty
Area Managing Partner
Europe, Middle East,
India and Africa
Ernst & Young



Ajen Sita
Area Managing Partner
Africa
Ernst & Young

Main African corridors



Africa today

- ▶ Total population: **1 billion**¹
- ▶ Population under 15: **41%**²
- ▶ Adult literacy: **62%**³
- ▶ GDP income per capita is **10th** of world average⁴
- ▶ Around **45%** living on US\$1 a day⁵
- ▶ Mobile phone subscribers: **37%**⁶
- ▶ Population living in urban areas: **40%**⁷
- ▶ Collective GDP (2008): **US\$1.6t**⁸
- ▶ Combined consumer spending (2008): **US\$860b**⁹

Africa tomorrow

- ▶ Total population: **1.4 billion** by mid 2025¹⁰
- ▶ Total population: **2.1 billion** by mid 2050¹¹
- ▶ **128 million** households with discretionary income by 2020¹²
- ▶ Consumer spending will be **US\$1.4t** by 2020¹³
- ▶ Collective GDP will be **US\$2.6t** by 2020¹⁴
- ▶ Around **47%** of Africans will be living in cities by 2025¹⁵

Trade zones in Africa



1. *Demographic Indicators*, www.africaneconomicoutlook.org, January 2011.
2. *2010 PRB World Population Datasheet*, www.prb.org
3. World Bank data, January 2011.
4. UN data, <http://data.un.org>, January 2011.
5. *Poverty and Income Distribution Indicators*, www.africaneconomicoutlook.org, January 2011.
6. *2010 PRB World Population Data Sheet*, www.prb.org
7. *The State of African Cities 2010*, UN Habitat – Statistical Annex.
8. "Africa - Growth Versus Corruption", *All Africa*, 20 December 2010.
9. "Domestic Resources and Diversification Key to Africa's Economic Growth - UN Official", *All Africa*, 28 October 2010.
10. *2010 PRB World Population Datasheet*, www.prb.org
11. *2010 PRB World Population Datasheet*, www.prb.org
12. "KFC intends to double its restaurants in Africa", *The Wall Street Journal Asia*, 9 December 2010.
13. "In Africa, consumers pick up pace", *The Wall Street Journal Europe*, 14 January 2011.
14. "Business in Africa, a whole new scramble", *Financial Mail*, 25 June 2010.
15. *The State of African Cities 2010*, UN Habitat – Statistical Annex.

Executive summary

"Africa could be on the brink of an economic takeoff, much like China was 30 years ago, and India 20 years ago."

The World Bank

Source: *Africa's Future and the World Bank's Support to It*, The World Bank, March 2011



Picture from an oil refinery, Nigeria.



Key findings

- 1 Africa is becoming increasingly attractive to international investors. Perceptions are becoming more distinctly positive over the longer-term horizon; in fact, the only emerging region that is clearly ahead of Africa in terms of investor perception is Asia.
- 2 Business leaders are planning new developments and expanding existing ones, demonstrating why Africa's share of new global FDI projects has steadily improved over the past decade. Looking forward, capital investments are set to grow, reaching a forecasted US\$150b in 2015.¹⁶
- 3 Africans themselves are leading the growth in investment across the continent, and display an overwhelming optimism about the growth prospects and investment potential of the continent. This optimism and self-belief is underlined by a 21% compound growth rate in Africans investing in other African countries from 2003 to 2010 (and in a diverse range of sectors).¹⁷
- 4 Our survey of international business leaders threw up an interesting difference between developed and emerging market investors, with emerging market investors generally more positive about Africa's attractiveness.
- 5 Capital investment from emerging market investors grew particularly strongly (at 13% CAGR between 2003 and 2010), with high concentration in the extractive and manufacturing sectors.¹⁸
- 6 While investors from developed markets are relatively more cautious about Africa, they still represent the largest proportional investment, and are investing in a diverse range of sectors beyond resources.
- 7 A key difference appears to be that emerging market investors regard Africa as critical to sustaining their own growth, whereas developed market investors see it as a potential future market that still needs to develop. In reality, both views represent only part of the total picture.

16. Oxford Economics research conducted on behalf of Ernst & Young.

17. fDi Intelligence, data as of 31 March 2011.

18. fDi Intelligence, data as of 31 March 2011.

The African growth story

It's time for Africa. While Africa's challenges are well documented, there is an increasing recognition that the continent is on an upward trajectory; economically, politically and socially.

The African growth story is underpinned by a longer-term process of economic and regulatory reform that has occurred across much of the continent since the end of the Cold War; a period during which inflation has been brought under control, foreign debt and budget deficits reduced, state-owned enterprises privatized, regulatory and legal systems strengthened, and many African economies opened up to international trade and investment.

Widespread reform has resulted in an ever improving business environment,¹⁹ and this, together with other factors, such as the commodities boom and increasing infrastructure investment, has contributed to a doubling of economic output over the past decade.

During this period, a number of African economies have recorded impressive growth rates. For example, 6 African economies were among the 10 fastest growing economies in the world in the period 2001-10, according to The Economist.²⁰

African economies proved resilient through the global financial crisis, with the sub-Saharan region, for example, rebounding very strongly from a slight dip in 2009 to grow, according to the International Monetary Fund (IMF) forecasts, by 5% in 2010, 5.5% in 2011 and 6% in 2012.²¹

In addition to fundamental economic and regulatory reforms, there have also been significant advancements in human development and governance indicators, with the Ibrahim Index of African Governance, for example, showing steady progress.²² African society is also becoming wealthier with greater spending power.²³ A growing middle class, together with technological and communications advancements, is also giving rise to an increasingly active civil society that is demanding a participatory voice and accountability from its politicians. Population growth is resulting in a flood of new entrants into the labor market, increasing social pressures but also founding the base for a new consumer market. Even more crucially, while Africa's rich endowment in natural resources has played an important role in its economic development, many economies are diversifying away from an overdependence on extractive industries.

Looking forward: the critical role of FDI

We believe that foreign direct investment (FDI) can play a critical role in helping to accelerate and sustain growth and development across the continent. Besides being a critical source of longer-term capital for reinvestment in infrastructure and other developmental initiatives, FDI also provides a positive ripple effect, including:

- ▶ Job creation – in the last eight years alone, FDI helped create 1.6m new jobs in Africa²⁴
- ▶ Development of local suppliers – local sourcing policies help to create extended supply chains of domestic providers
- ▶ Skills, technology and knowledge transfer
- ▶ A catalyst for economic diversification – helping African economies move beyond overdependence on natural resources

Africa currently attracts less than 5% of global FDI projects, which we believe does not reflect the increasing attractiveness of the African growth story. Africa is unusual in this respect. Although Africa's proportion of global FDI has grown to some extent over the last decade, it does not accurately reflect a region that has one of the fastest economic growth rates and highest returns on investment in the world.²⁵ The market for FDI is clearly fiercely competitive, and there is work that still needs to be done, on one hand, to articulate and market the African investment proposition effectively to international investors, and, on the other, for investors to gain a granular understanding of the risk/reward factors of investing into and across different parts of Africa.

19. As an example of "business friendly" reform, in the last four years, Ghana, Egypt, Kenya, Botswana, Burkina Faso, Senegal, Liberia, Cape Verde, Zambia and Rwanda (i.e., 10 African countries) have all featured in the World Bank's top 10 business reformers list.

20. "Africa's impressive growth", *The Economist*, 6 January, 2011.

21. *World Economic Outlook: Tensions from the Two-Speed Recovery*, IMF, April 2011.

22. The Ibrahim Index provides a comprehensive ranking of African countries according to the quality of governance in its broadest sense. It uses 84 outcomes-based criteria across 4 main categories (and 13 sub-categories): a) Safety and Rule of Law; b) Participation and Human Rights; c) Sustainable Economic Opportunity; and d) Human Development.

23. An analysis of shifting consumer trends is provided in *How to write yourself into the African growth story*, Ernst & Young 2010. In addition, in their paper, "African Poverty is Falling", Xavier Sala-i-Martin and Maxim Pinkovskiy reveal that there has been a sharp and widespread

reduction in poverty and income inequality in Africa since 1995; Alwyn Young, in "The African Growth Miracle" shows that African household consumption has grown 3 times faster than what is generally reported in international data sources.

24. Oxford Economics research conducted on behalf of Ernst & Young.

25. This assertion of high returns is supported by a number of studies, including: *Foreign Direct Investment in Africa: Performance and Potential*, UNCTAD, 1999; Collier and Warnholz, "Now's the Time to Invest in Africa," *Harvard Business Review*, Feb 2009; Warnholz, "Is Investment in Africa low despite high profits?" Working Paper, Centre for Study of African Economics, 2008; *Lions on the move: The progress and potential of African economies*, McKinsey Global Institute, June 2010; *The African Challengers: Global competitors emerge from the overlooked continent*, Boston Consulting Group, 2010.

Understanding investment perceptions and realities

This report constitutes a first step in this process. Closing the FDI gap requires a solid understanding of both the perceptions and realities of investment in Africa: how international investors view the continent as an investment destination, and how these perceptions compare to the actual investment trends into and across Africa.

The premise for this study is therefore to explore the changing face of FDI into Africa, to analyze trends and implications, and make some initial recommendations to African governments and potential hosts who want to sharpen their competitive edge, and to investors who want to participate or grow their participation in the emerging African growth story. The report is structured in three parts:

1. We present the highlights from Ernst & Young's perception-based Africa attractiveness survey of 562 business leaders from 38 different countries.
2. We cross-compare the perceptions of the relative attractiveness of Africa as an investment destination to what the actual FDI data (sourced from fDi Intelligence) is telling us.
3. We draw on research commissioned from Oxford Economics to provide some perspectives on the future and then offer some recommendations on the way forward.

Looking forward: Africa in an emerging markets context

The findings of this study form part of a broader process of articulating and analyzing Africa's relative attractiveness as an investment destination. The context is one of a fundamental shift in the global economy over the past few years, with emerging markets not only dominating investor attention and capital flows, but also playing an increasingly strategic role in defining the global economic agenda.

African markets must position themselves appropriately in this shifting landscape to accelerate growth and development, and avoid getting left behind by other emerging markets and regions. The bottom line is that, in the context of the global economy, we are in competition for the international capital and resources that will help drive and sustain growth and social development.

For those seeking to position Africa competitively in the market for global FDI, and for investors seeking to realize the high returns on offer from the continent, it will therefore make less and less sense to compare investment into Africa with investment into developed regions; the risk/reward factors, like those in other emerging regions, are fundamentally different. Levels of risk can be high, but levels of profitability are high too, with competition in some sectors comparatively low. This investment window may not remain open for long, but it suggests that Africa actually appears to be relatively well positioned, with the only emerging region clearly ahead in terms of investor perceptions at this time being Asia.

"So the point really [...] is not whether you should be doing business in Africa, but rather how."

Leslie Rance, British American Tobacco

Looking forward: recommendations

Africans and those investing into Africa have much to be positive about. We are confident that the region is on a sustainable growth curve and that FDI rates will steadily grow. However, to accelerate and take advantage of this growth process, governments and investors – foreign and domestic – should act now. The earliest to do so, and the canniest, will benefit the most.

For governments

What to do	Why
Market yourself effectively	<p>Africa competes for FDI in a global market. Many countries are already highly effective at presenting their right side to investors. This marketing is most effective on an African or a regional level in order to achieve critical mass.</p> <p>Executives in developed economies tend to be less positive about Africa than their peers in emerging economies. Yet developed economies still account for the lion's share of investment in Africa. This suggests that if perceptions of Africa can be improved in developed economies, FDI from these countries should increase significantly.</p> <p>Many people do not realize what strides Africa has taken forward. Company executives who are unfamiliar with Africa tend to be concerned about political stability, corruption and weak infrastructure. A lot can be done to emphasize improvements.</p>
Plan systemically and for the long term	<p>FDI is diversifying away from natural resources. But emerging economies still have an emphasis on extractive industries. These investments bring valuable capital into the African economy but governments must plan for the long term in order to ensure increased local benefit is realized from investment in these industries.</p> <p>Planning investment assistance to foreign investors must be systemic in taking account of adjacent markets, transport infrastructure and all of the legislative and administrative measures that will support the inflow of FDI.</p>
Create critical mass	<p>As a conglomerated market, Africa is large: its GDP (based on Purchasing Power Parity) share of world total was reported at 4% – on a par with India and greater than Russia or Brazil. If its countries and economic trade zones can work in unison, investors will find the critical mass they need.</p> <p>(Source: International Monetary Fund, World Economic Outlook, October 2010.)</p>

“One of the specific advantages of operating in Africa is that it is still possible to gain access to attractive investment targets with relatively low capital input due to the infancy of the industry. Early investors are therefore still able to catch the worm.”

Olaf Meier, African Development Corporation

For foreign investors

What to do	Why
Apply a more detailed focus to sectors with high growth potential	Looking at Africa as a conglomerate market can be useful in realizing critical mass. But the strengths of different sectors vary significantly from country to country. Investors must thoroughly investigate the growth prospects of different sectors before committing investment.
Expand from strategic economic hubs and think about non-conventional market groupings	Some African countries are significantly more developed than others in terms of financial services and transportation infrastructure. These countries can provide a useful local base from which to expand further into the continent. Expansion plans should look at non-conventional market groupings such as urban corridors and cultural affinities in order to find the highest return.
Invest to get the high-quality human resources	Africa has a combined working age population of over half a billion people, but in some countries, finding the right skills can be a challenge because of underinvestment in education and training. Securing a supply of the talented local people, transferring skills from other parts of the company and working to retain key staff will be an essential element of success.
Spread the risk of political instability by building a portfolio of investments	Events in North Africa and in Cote d'Ivoire have demonstrated how unexpectedly political turmoil can erupt and the extent to which it disrupts economic activity. Emerging economies around the world are prone to these challenges. If emerging growth rates are sought, such risks cannot be avoided. Instead, they can be diluted by investing in a portfolio of countries with different characteristics.

For domestic companies

What to do	Why
Position the company to be an indispensable facilitator of investment	Many foreign investors are unfamiliar with the environment in different African countries. This can raise concerns about barriers to investment and increase costs of investment when faced with bureaucracy and scarcity of supply. Domestic companies can partner with foreign investors to ease their entry to market.
Locate close to centers of production or infrastructure backbones	Urbanization is on an upward trend across the continent. Mid-sized cities and urban corridors are set to become increasingly important in the African economy. Companies located close to these centers of activity will be able to benefit from demand from foreign investors and from general economic generation.
Invest in growth areas ahead of FDI	Investment into Africa has been diversifying significantly. Domestic companies that can secure key parts of the supply chain for growth sectors will benefit the most from FDI. Part of this benefit will come from straightforward supply arrangements and from transactions: 28% of our survey respondents said they planned to invest through a joint venture; 21% through an acquisition.

Operating circumstances are challenging but not insurmountable

Nikolai Germann

*Managing Director,
Addax Bioenergy*



Addax Bioenergy has embarked on what we hope will be a remarkable project to introduce a large-scale "sugar cane to ethanol" plant in Sierra Leone to service the European Union market. Addax Bioenergy is a private company that descended from the fuel company Addax, which operates in five African countries and which was sold quite recently to the Chinese fuel company Sinopec.

Following the sale, the company sought new opportunities, and we recognized that our major competitive strength was our knowledge of African markets. The European Union has also introduced directives to increase the quantity of ethanol in petrol for environmental reasons.

Consequently, we proposed a major greenfield project to grow 10,000 hectares of sugar cane in central Sierra Leone to be converted into about 350,000 liters of ethanol per day. The project is currently under way, and has been well received by the farmers and landowners in the region, and also by the Government.

We strongly believe in the renewable energy model, and our project is a kind of "cut and paste" of similar clean energy plants in Brazil. The area is a savanna

location and consequently it's not environmentally destructive.

People are amazed that we have chosen to locate our plant in Sierra Leone, which underwent a long and gruesome civil war in the 1990s. But the situation is very different now and the popular perceptions are too often based on the movie Blood Diamond. But the political situation is much better now and current president Ernest Bai Koroma came from the party that was previously in opposition. He is a former insurance manager and strongly supportive of investment. He is particularly keen on diversifying the economy away from mining, even though there are some big mining projects under way, since this concentration on mining is now considered to be one of the causes of war.

The Government has really tried hard to keep corruption in check, and we have not experienced any corruption at all, although our situation might be different because we are such a high-profile project.

Over the past few years, like many other places in Africa, I have seen huge differences in Sierra Leone. Sometimes it's hard to get into a good hotel, there are so many new projects under way.

Operating in Sierra Leone was a logical choice for us for many reasons. Not only did we know the country well and we have good local partners, but only 20% of arable land is actually used, so there was a good opportunity and good support not only from the local Government but also from the European Union and the World Bank.

Operating circumstances are challenging but not insurmountable. Labor costs are low, but productivity is unfortunately still quite low too. We still need expatriates and we are trying to take advantage of the returning diaspora. But, as a result, this increase labor costs. Logistics costs are also high, and there are few workshops so getting equipment fixed is difficult. But these things will change over time. There will be better education, particularly once there is an outlet for higher skills.

In the meantime, we do need incentives to make things happen, including corporate tax breaks and duty-free imports of goods.

There really has been a paradigm shift that I think is irreversible. It is uneven, but this is not a one-off boom. Democracy is the key; it's what people want, that is obvious. And with democracy comes better business practices.





The perception of investors and executives

"Africa is the untold story, and could be the big story, of the next decade, like India and China were this past decade ... The presence and the significance of our business in Africa is far greater than India and China even today. The relevance is much bigger."

Muhtar Kent, CEO, Coca-Cola

"Africa: Coke's Last Frontier", Bloomberg Businessweek, October 2010

Picture from Cairo, Egypt.



Key findings

- 1** Perceptions of investment prospects in Africa are generally positive, particularly in the medium to longer-term.
- 2** Africans themselves are especially optimistic about the prospects for the continent, underlining growing self-confidence and belief.
- 3** Respondents from emerging markets view Africa as an attractive investment destination.
- 4** Respondents from developed countries appear to be less optimistic about Africa's shorter-term prospects, although a large majority of respondents are positive about longer-term growth potential.

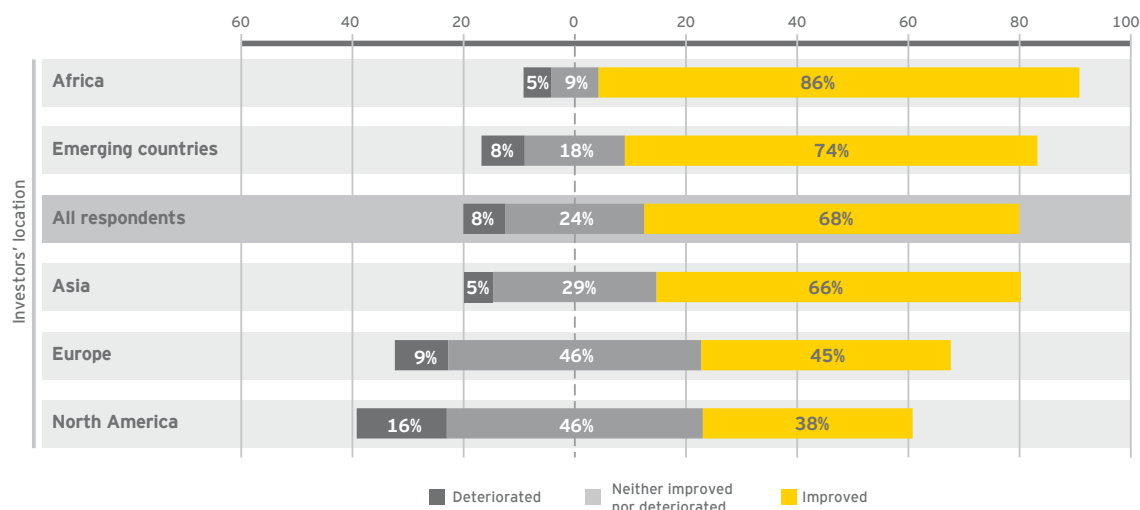
Africa's prospects have improved

To a large extent, perceptions of Africa as a place to do business mirror the improved political and economic conditions that are driving the continent's growth story. Generally speaking, investor perceptions have improved in the last three years, with a substantial 68% of respondents believing that Africa has become more attractive.

There are, however, some interesting variations in response depending on where investors are located:

- ▶ African respondents are overwhelmingly positive about the continent's progress in the last three years, with 86% noting an improvement.
- ▶ Investors from other emerging countries share this sense of optimism, with 74% saying that Africa has become more attractive.
- ▶ Developed regions such as Europe and North America are more ambivalent, as a large proportion of respondents from these regions appear to believe that Africa's progress has stalled over the last few years.

Has Africa become more attractive in the past three years: investors' perception by location.



Source: Ernst & Young's 2011 Africa attractiveness survey.

All respondents' figures based on 551 answers.

Note: Emerging countries includes all emerging and developing economies across the world, using the IMF definition, including those also represented in the "Asia" and "Africa" samples.

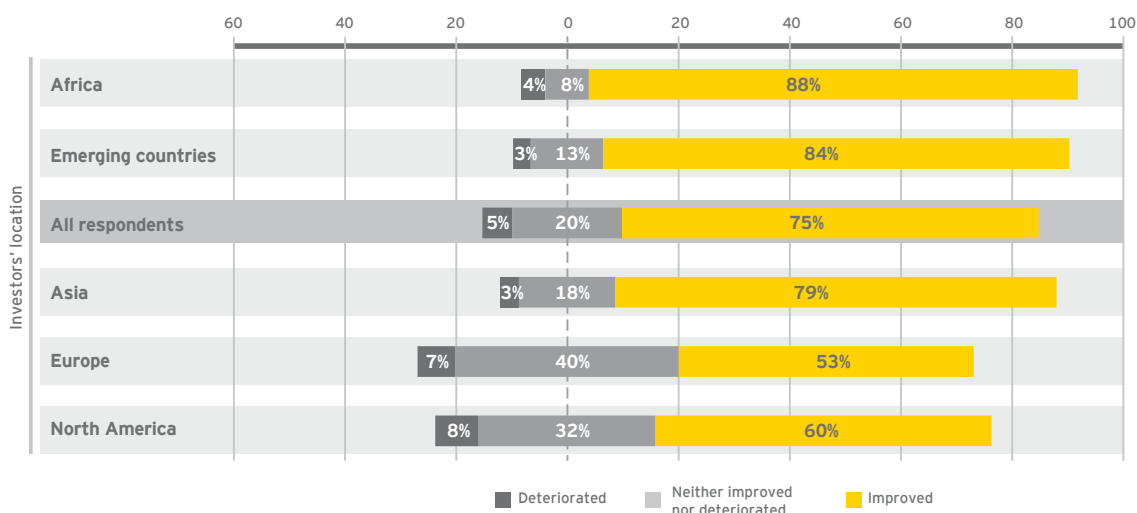
Investors are optimistic about the region's future

According to our respondents, Africa's performance will continue to improve. Some 75% of the business leaders interviewed are positive about the continent's prospects over the next three years. Across the board, our respondents appear to be more positive about Africa's future than about its past.

There are, again, variations in responses depending on the location of investors:

- ▶ Africans remain the most optimistic, with respondents overwhelmingly positive about the continent's attractiveness over the next three years.
- ▶ Investors from emerging countries are also very positive, and Asian investors in particular are more positive about Africa's future than its past.
- ▶ In terms of developed countries, North American respondents demonstrate the greatest level of improved optimism, while Europeans remain relatively pessimistic about the potential for Africa to become more attractive to investors.

Will Africa become more attractive in the next three years: investors' perception by location.



Source: Ernst & Young's 2011 Africa attractiveness survey.

All respondents' figures based on 544 answers.

Note: Emerging countries includes all emerging and developing economies across the world, using the IMF definition, including those also represented in the "Asia" and "Africa" samples.

It is still possible to gain access to attractive investment targets with relatively low capital input

Olaf Meier
African Development
Corporation (ADC)



I think investment prospects in Africa are favorable right now. Africa is the last uncharted territory on the investor's map and opportunities abound. The political climate is improving steadily and the countries are growing strongly.

When visiting, it is fascinating to feel the spirit of the people who want to leave their history behind and trust in a better future. You can even see that the construction sector is booming and new buildings are shooting up. Nevertheless, fundamental knowledge about the country, its background and system, is necessary to be successful in Africa as a foreign investor.

I think big misperceptions about Africa still exist, especially in the mainstream media where Africa is still considered as a place of civil unrest and war. Often, the big success stories of African countries are not even mentioned. What makes me confident is that within the last year, Africa was able to gain increased attention, not just in the media but also from large think tanks, research institutes, blue-chip companies and even from big global investors. For the first time also, conservative institutional investors and pension funds are starting to explore the opportunities on the continent. There is still a long way to go in order to dismantle prejudices but I think that we are on the right track and everybody who is supportive of Africa should contribute to close the gap of misperceptions.

One of the specific advantages of operating in Africa is that it is still possible to gain access to attractive investment targets with relatively low capital input, due to the

infancy of the industry. Early investors are therefore still able to catch the worm.

I think that finding qualified staff is still the most critical issue that Africa is facing. Especially in our focus, the financial services industry, you need qualified staff to ensure the growth of a well-governed institution. We developed our own approach to alleviate this problem by sending out our own managers to our portfolio companies, taking over the senior management positions and restructuring the institution according to the standards we know within the duration of their stay. A fundamental building block is that our managers transfer knowledge to the local staff, thus preparing the middle management for a future takeover of the top management. This is the time when our management staff leave the company.

So far, telecommunications is the biggest success story in Africa but the market shares are already secured by several big companies in most markets. Commodities are certainly something to talk about in many regions of Africa.

But the figures are clear. Independent forecasts tell us that the largest growth, 8% a year, can be seen in the financial area – even ahead of the commodities sector. It is simple: one of the main factors for the continued growth of economies is a functioning financial system, and that's exactly what we're doing.

Only 20% of the population of sub-Saharan Africa currently has access to the formal financial sector. But that will change with

the rise of a middle class, as purchasing power goes up and, in general, the gross national product continues to grow apace.

From an investor's point of view, sub-Saharan Africa has some quite developed capital markets among them South Africa, Nigeria and Kenya. Considering an investment in these markets is an interesting starting point, but so are others, and therefore valuations are high and to gain influential stakes, large investments are required. Therefore, we focus on smaller frontier markets with strong future growth potential and strengthening political environments. Frontier markets within sub-Saharan Africa are at a much earlier stage of economic and financial market development than emerging markets and are often at a turning point showing strong fundamentals. The less mature economies and capital markets typically leave room for growth, offering high, long-term returns and low correlations with other markets, but also bear higher risks, for example, higher political or liquidity risks.

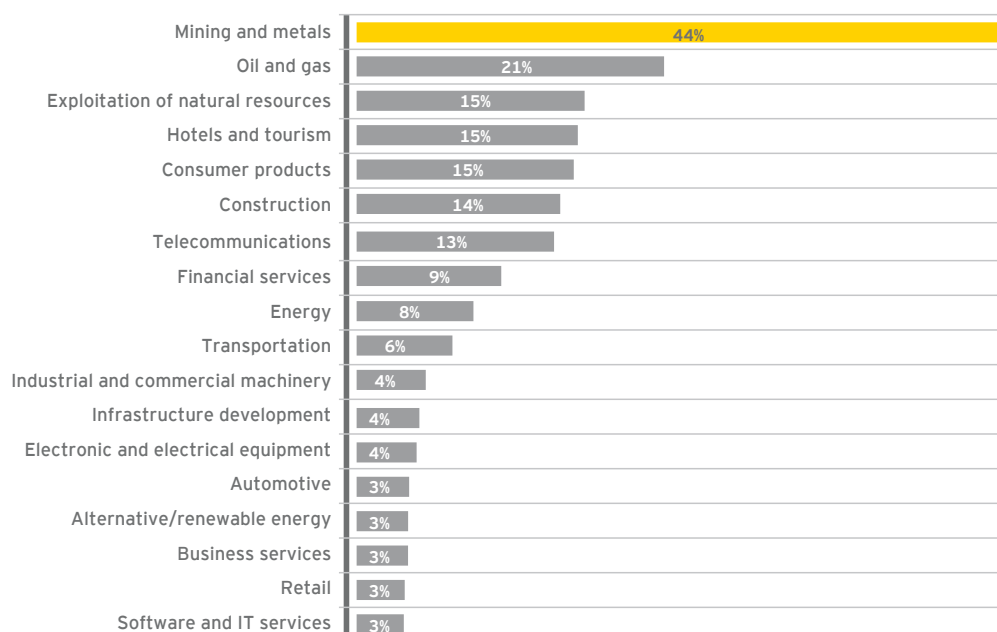
Standard Chartered Bank, which has its origins in Africa, Asia and India and possesses the corresponding expertise, predicts that over the next 20 years, Africa's economy will grow by an average of 7% annually – more rapidly than China's. And most importantly: while the whole world is already looking toward Asia and is investing there, most investors don't even have Africa on their radar. Africa, so to speak, is the better Asia and still has good gains to shower on investors.

Investment is focused on strategic resources

Perhaps unsurprisingly, the large majority of respondents view the extractive industries, including mining and oil and gas, as having the highest growth potential over the next two years. This perhaps reflects a more general perception that Africa's economic growth over the last few years has been largely driven by the commodities boom, but it underlines the increasing strategic importance of Africa's rich resource base.

It is also clear, however, that a more diverse range of sectors are beginning to emerge as attractive investment options, with tourism, financial services, telecommunications, consumer products and construction, among others, all featuring strongly as offering high growth potential among respondents.

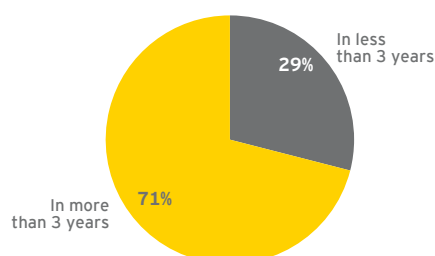
Top sectors that will offer the greatest potential in the next two years



Source: Ernst & Young's 2011 Africa attractiveness survey.
Respondents selected several answers. Total respondents: 562.

The continent's true potential is seen on a longer-term horizon

When do you think Africa will offer high and robust growth potential?



Source: Ernst & Young's 2011 Africa attractiveness survey.
Total respondents: 532.

Although the majority of our respondents are optimistic about Africa's future, most of them believe that the continent will only offer high and robust growth potential over the longer-term (i.e., beyond three years). Again, in our survey, investors from emerging economies appear to be marginally more positive than their developed peers about Africa's future.

A longer-term vision is crucial



Andrew Bing
Chief Financial Officer,
MTN Nigeria

Our cell phone company took a great leap in 2001, buying one of the three cell-phone licenses in Nigeria, which had just emerged from a period of political turmoil. The development of the business, and the economic changes that have taken place in the country since then, have been dramatic. MTN Nigeria now has around a 40% market share in Africa's most populous country and this market is a crucial component of MTN's overall African growth strategy.

We looked carefully at doing business in Nigeria for three years before we actually went in, and the early days were difficult. We had previously had experience in Uganda and Rwanda, which were questionable on paper, but the difficulties were in fact less than we anticipated. So we had already started on a journey of change.

There were positives and negatives at the start in Nigeria, but we were persistent and persevered, mainly due to a lot of resolve by senior management, who were committed to a longer-term vision. I think that is crucial. It really takes this kind of personal commitment. You need people who think, "We know this will work. Now, how do we make it work?"

When we arrived in Nigeria, the popular understanding of foreign investment was extremely jaundiced. The only real previous examples had been the mining and oil

industries, many of which were looking for a quick buck and had one eye on a quick exit. Initially, we struggled to raise money locally.

Many local people had a very negative view and were incredulous about how much we intended to invest. We had to be very careful about demonstrating that we could actually help people's lives and ensure that lots of members of the community could come in behind us and prosper too. Once people recognized that they too could benefit, attitudes changed. We always saw it as a partnership, even though some government officials were cautious and suspicious. It really takes time to understand each other's goals and aims.

The first step really had to come from Government. They had to take a great leap of faith in opening up the telecoms market, and they will have to do so in other sectors. This is difficult for politicians who have to face voters and who are often struggling with very emotional arguments about existing industries being under threat.

But eventually, as the telecoms market has shown, it has paid off.

When we arrived, there were barely half a million active phone lines in a society of over 120 million people. Now there are 47 million active phones, which has made

a huge difference to people's lives, from medical emergencies, to doing business, to just improving social interaction. But the first step came from Government.

The problems really were significant. For example, many African countries have tax laws that have not changed for 50 years and are very much a reflection of the colonial period. Africa has to make significant changes in its legal system to make investment worthwhile for the investors. The problem is that the effect of legal reform is often not clear for years. India and China made these changes twenty years ago now, but Africa has got to take that leap of faith and make the changes. If they do, it's highly likely that investment will follow.

There is definitely a perception gap, but this is not just a problem for outsiders. Africans must take control of perceptions about the continent and change that perspective about Africa, within Africa too. Foreigners need to be made aware of the changes and need to be convinced to come in and support countries that do make the necessary changes.

Africa competes in an increasingly globalized economy

Despite the relatively positive and improving perceptions of Africa, the reality is that Africa must compete for its fair share of FDI in a global market. An important factor is how well Africa compares with other regions in terms of investment attractiveness.

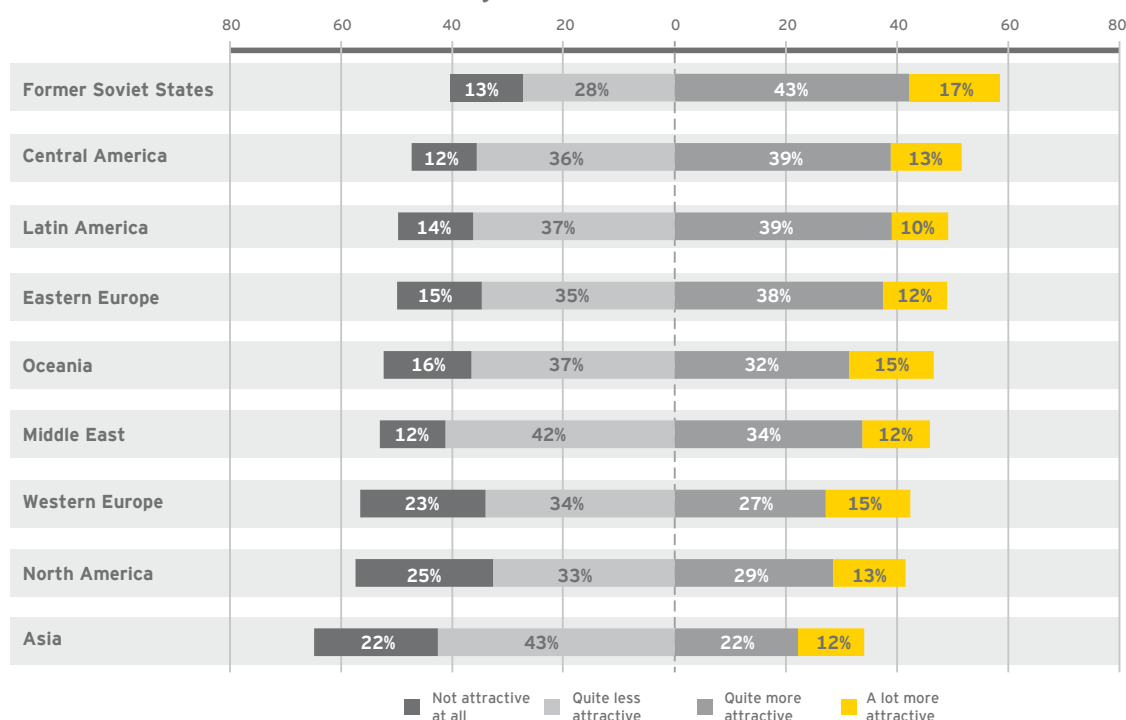
At face value, the results from our survey show that, relative to other regions, Africa is probably somewhere in the lower middle tier and:

- Is perceived more positively than the former Soviet States and Central America
- Is ranked in the same category as Latin America and Eastern Europe
- Is perceived more negatively as an investment destination than Western Europe, North America, Oceania, the Middle East and Asia

However, in interpreting this perspective, one should factor in the increasingly distinct differentiation between emerging and developed markets. Respondents from emerging markets, for instance, are more positive about Africa's attractiveness than are respondents from developed economies.

It also makes less and less sense to compare investment into Africa with investment into developed regions; the risk/reward factors, like those in other emerging regions, are fundamentally different. From this perspective, Africa actually appears to be well positioned, with the only emerging region clearly ahead in terms of investor perceptions being Asia.

Attractiveness of Africa relative to other regions



Source: Ernst & Young's 2011 Africa attractiveness survey.
Total respondents: 562.

"While the whole world is already looking toward Asia and is investing there, most investors don't even have Africa on their radar. Africa, so to speak, is the better Asia and still has good gains to shower on investors."

Olaf Meier, African Development Corporation

Perceptions of attractiveness do not align with investment itself

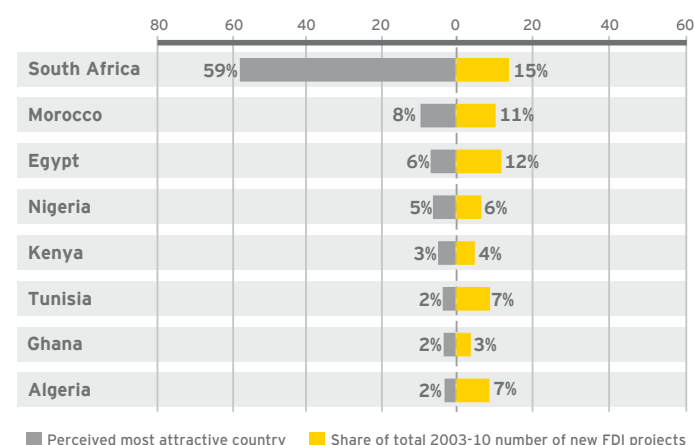
There are advantages, but also obvious dangers, in presenting the African continent as a single grouping. We must acknowledge the diversity among over 50 countries and one billion people. Investment is almost always going to be country-specific, so we must also consider investor perceptions at this more granular level. Unsurprisingly, perceptions of attractiveness are heavily influenced by the country of origin of the survey respondent, and often cultural or historical affinity. So for example, Morocco is regarded positively by many French respondents; South Africans tend to be more positive about Anglophone African countries (including, interestingly, being the most positive of all respondents about the attractiveness of Nigeria); Indians are positive about South Africa and Kenya, both of which have sizable Indian minority populations and strong historical ties.

Overwhelmingly though, the majority of survey respondents believe South Africa is the most attractive African country in which to do business. On one level, this is perhaps unsurprising, given

that South Africa is the most developed economy and perhaps the well-known country on the continent. Given South Africa's strong ratings relative to other emerging economies, particularly the BRICs (Brazil, Russia, India, China), in studies such as the World Bank's Ease of Doing Business Index, aspects of the World Economic Forum's Global Competitiveness Index, and Ernst & Young's M&A maturity index, the view could be taken as a comparative advantage to build upon, and encouraging foreign investors to use South Africa as a "stepping stone" to other parts of the continent.

However, it is also important to note that these perceptions of the relative attractiveness of individual countries do not reflect the actual distribution of FDI. When the number of actual new investment projects initiated in 2010 is compared with the perceptions of our survey respondents, it is clear that investment activity is distributed across a far greater range of countries.

Perception gap relative to main countries' attractiveness



Sources:

- Ernst & Young's 2011 Africa attractiveness survey. Respondents selected several answers. Total respondents: 481.
- fDi Intelligence, data as of 31 March 2011.

"Big misperceptions about Africa still exist, especially in the mainstream media where Africa is still considered as a place of civil unrest and war."

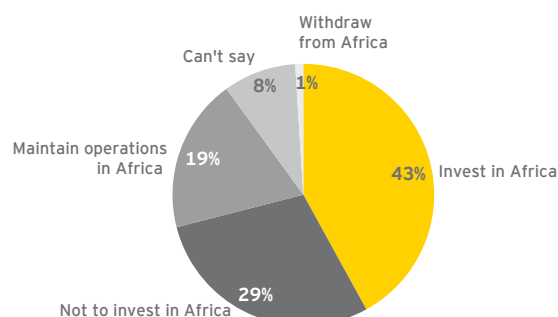
Olaf Meier, African Development Corporation

Perceived investment barriers for companies not yet in Africa

Africa is high on the agenda of investors, with 43% considering investing further in the region and an additional 19% of business leaders confirming they will maintain their operations on the continent. In addition, companies that have overcome the market entry challenges, and have already integrated Africa into their overall investment strategy, are satisfied by their return; they are not considering withdrawing or relocating their operations out of Africa.

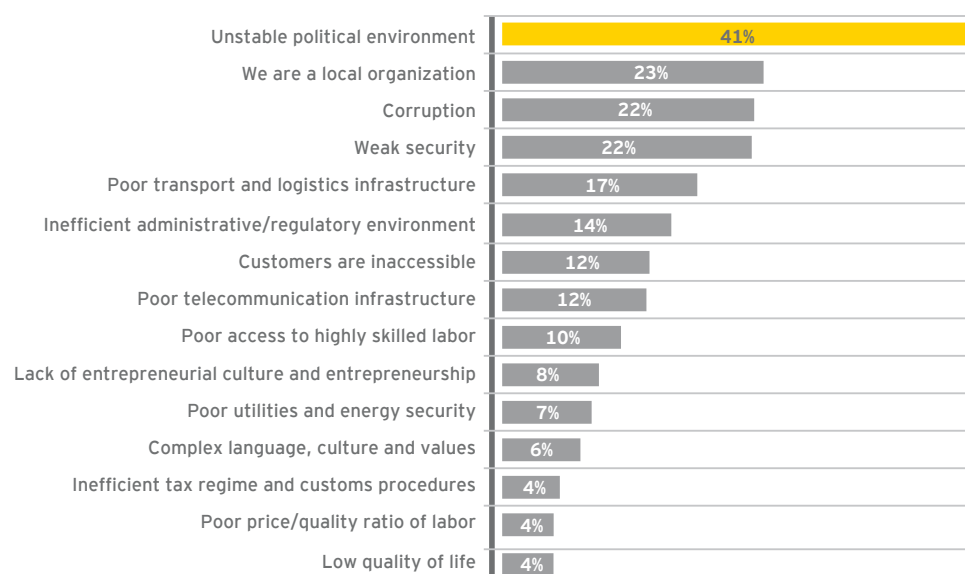
However, one-third of investors are still not considering investing in Africa. Despite 23% of them focusing on their local market and not considering international expansion, the reasons companies give for not wanting to invest in Africa are instructive in order to shape recommendations for the future. The most common barrier raised by business leaders surveyed is the instability of the political environment. Access to customers and the level of infrastructure (transport, logistic and telecommunication) are also cited as areas of concern. Corruption and security issues are considered as major barriers by one out of five of our respondents.

Investors' plans in Africa



Source: Ernst & Young's 2011 Africa attractiveness survey.
Total respondents: 562.

Barriers to investing in Africa



Source: Ernst & Young's 2011 Africa attractiveness survey.
Respondents selected several answers. Total respondents: 170.



FDI in numbers

**"The best time to plant
a tree is 20 years ago.
The second best time is now."**

African proverb

Picture from Cape Town city centre, South Africa.



Key findings

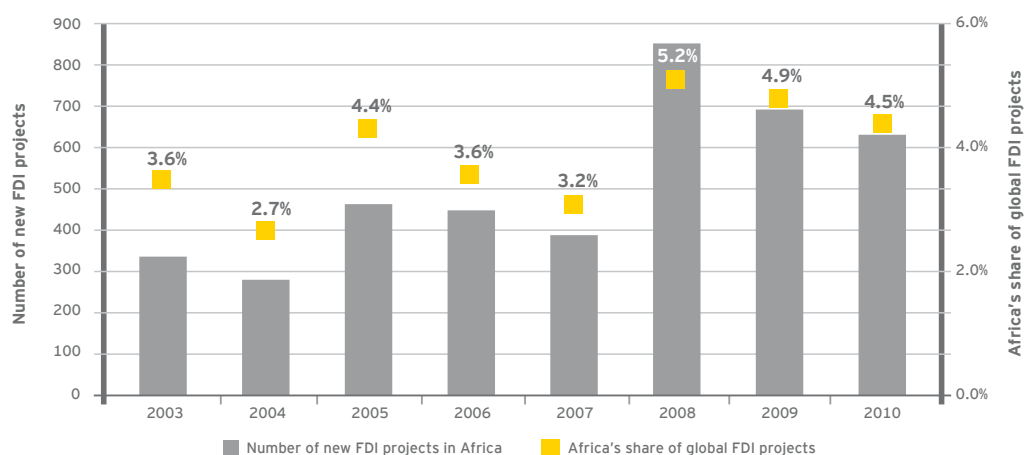
- 1** FDI into Africa grew steadily through to 2008, and, despite the global economic crisis, has remained relatively strong.
- 2** The proportional share of investment from emerging countries into Africa has grown steadily. There is a relative concentration of investment in the extractive sectors, but also a growing focus on manufacturing.
- 3** Developed markets still represent the largest proportion of investment into Africa. Investors from these markets are increasingly investing in a range of sectors beyond that of resources.
- 4** Intra-African investment is growing strongly, underlining a growing sense of self-confidence and belief in the potential of the continent.
- 5** Despite the continued importance of strategic resources, the overall trend is toward greater diversification of investment.

FDI growth has been robust despite the economic crisis

Between 2003 and 2007, the growth in the number of new FDI projects in Africa, both in absolute terms and as a relative proportion of global FDI projects, was quite erratic. However, after an exceptional 2008, in which total new projects and the proportional share of global FDI peaked, the investment figures have remained resilient, despite the negative impact of the global economic downturn.

The fact that Africa has managed to remain relatively attractive through the economic crisis, and has maintained its increased share of FDI compared with other regions of the world, reflects positively on the economic growth prospects for Africa, as well as the improving investor perceptions illustrated by our survey.

Africa's share in global new FDI projects



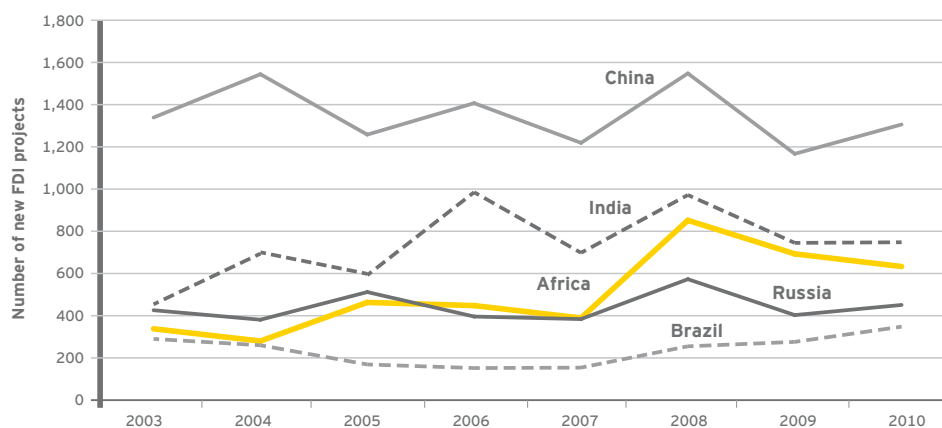
Source: fDi Intelligence, data as of 31 March 2011.

As a whole, Africa can compete for investment with the BRIC nations

It is quite instructive to compare the FDI flowing into Africa with that of other emerging and developing markets. We believe it is particularly useful to make a comparison with the BRIC economies, because these represent the “premier league” of emerging markets and Africa, as a region, could and should be competing in this space.

So in terms of the number of FDI projects, China is a clear leader, India a distant second, and Africa is in third place, having overtaken Russia following the economic crisis. In this comparison, Brazil has attracted the least number of FDI projects over this period.

Africa compared with the BRICs



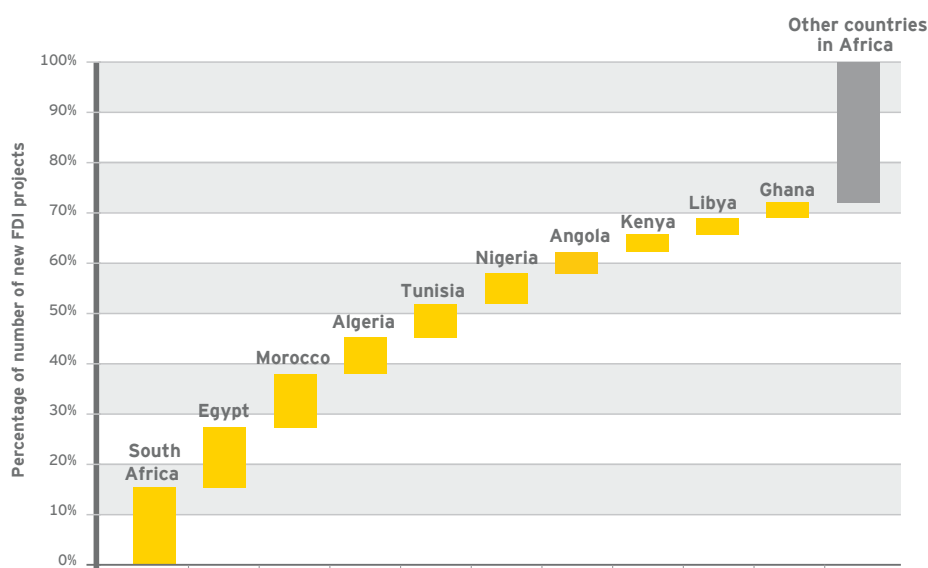
Source: fDi Intelligence, data as of 31 March 2011.

Three quarters of foreign investment was in just 10 African countries

Of course, in such a comparison, we do not want to gloss over the fact that Africa is not a country but rather a continent consisting of more than 50 sovereign states. A breakdown of FDI by destination country reveals that it is concentrated on a relatively small group,

with the top 10 countries attracting more than 70% of new FDI projects announcements between 2003 and 2010.

New FDI projects across Africa (2003-10)



Source: fDi Intelligence, data as of 31 March 2011.

Emerging economies have grown their investment at a higher rate than their developed peers

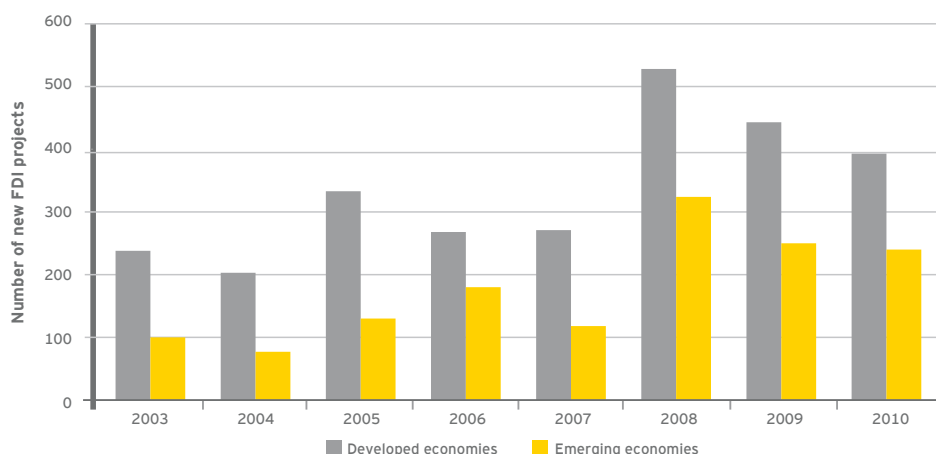
While the overall growth trend of FDI into Africa is important, perhaps of greater long-term significance is the relative split of investment from emerging economies and developed economies respectively.

Investment activity in Africa by emerging economies grew by 13% per year between 2003 and 2010, versus 7% growth for developed

economies. As a result of these differing growth rates, the developed economies' share of investment activity (measured by number of new projects) has shrunk from 70% in 2003 to 62% in 2010.

Assuming a linear growth rate, developed economies will be overtaken by emerging economies in terms of investment into new projects in Africa by 2023.

Growth in south-south share in investment

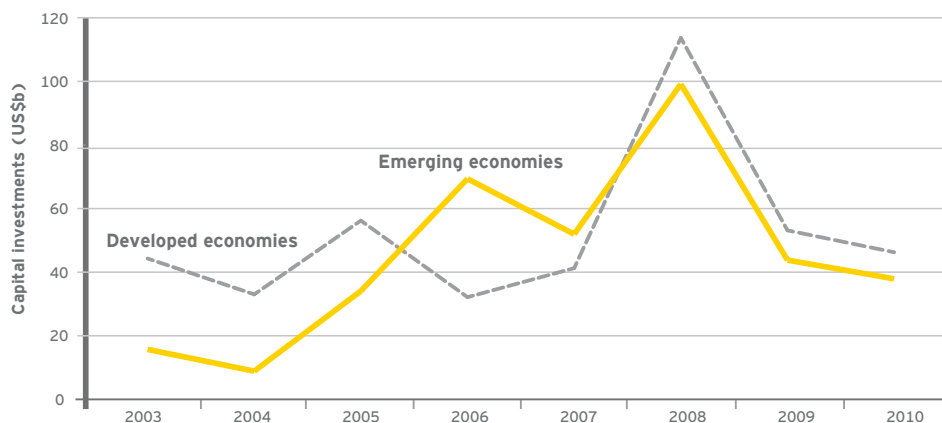


Source: fDi Intelligence, data as of 31 March 2011.

The contrast between the investment growth rates into Africa of emerging and developed economies is even greater when one analyzes capital invested. The relative emphasis by emerging economies on the extraction of natural resources, a capital intensive activity, has resulted in a compound growth rate for capital investment of 13% between 2003 and 2010.

Developed economies, on the other hand, have grown their capital investment by only 1%, but largely due to increased diversification into less capital intensive sectors. As a result, the proportional share of capital invested by emerging economies has grown considerably, to the extent that during 2006 and 2007, their capital investment into Africa was greater than that of the world's developed economies.

South-south traction



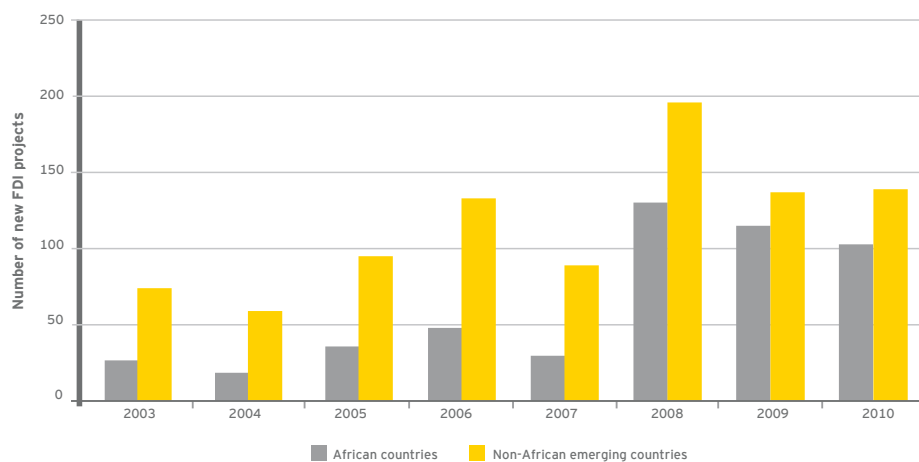
Source: fDi Intelligence, data as of 31 March 2011.

The growth of intra-African investments reflects an increased self-confidence

A critically important aspect of the changing character of activities in the region is the fact that there has been significant growth in intra-African investment into new FDI projects (a 21% compound annual growth rate between 2003 and 2010). This further underlines the optimism and growing self-confidence of Africans that was evident in our survey. By contrast, new investment activity from emerging economies outside of Africa grew by only 9%.

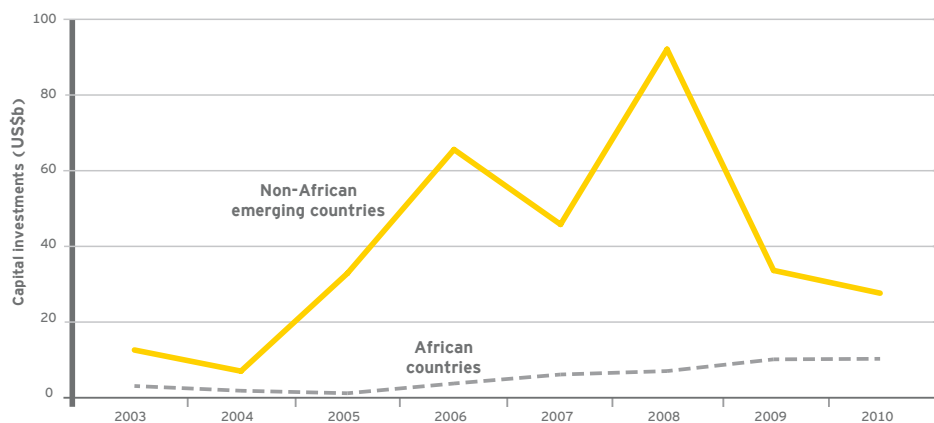
While intra-African investment has grown considerably in terms of number of new projects, it tends to be far less capital intensive than investment by other emerging economies. As a result, even at its peak between 2003 and 2010, intra-African capital investment was only 27% of the total capital invested by emerging economies.

African countries investment compared with non-African emerging countries



Source: fDi Intelligence, data as of 31 March 2011.

African countries investment compared with non-African emerging countries



Source: fDi Intelligence, data as of 31 March 2011.

Investment is diversifying away from natural resources

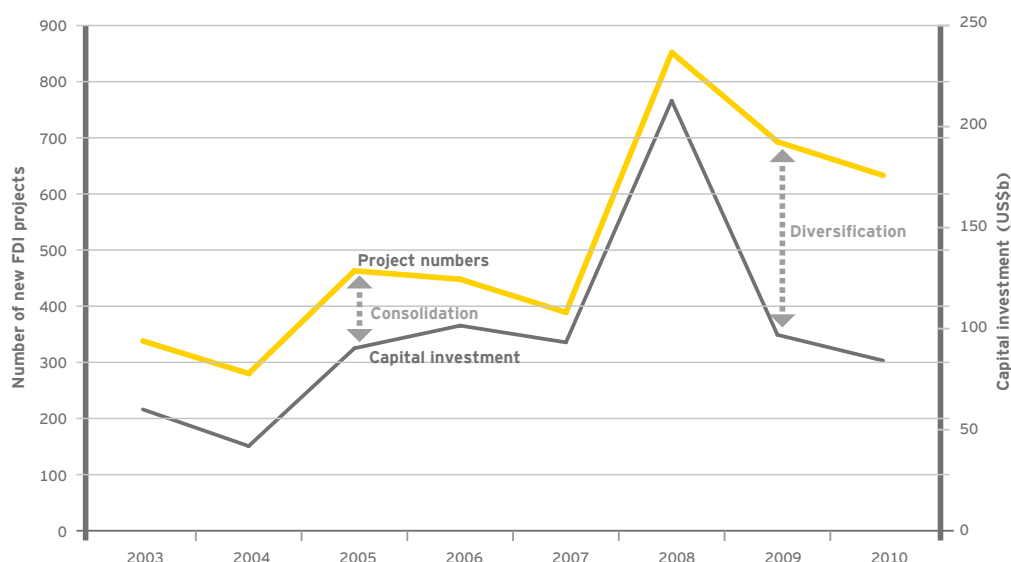
Given Africa's abundant natural resources, there is little surprise that extractive industries are a major area of focus for foreign investors. In fact, in our survey, business leaders perceived this sector as having by far the greatest growth potential over the next few years.

However, we have already made the point that an overdependence on natural resources and, by extension, commodity prices, is not the route to sustainable growth. African economies need to continue to diversify in order to ensure the sustainability and quality of future growth. Some of the other sectors highlighted by business leaders, such as tourism, consumer products, construction, telecommunications and financial services, are therefore becoming increasingly critical drivers of growth and economic development.

The patterns of FDI in terms of relative diversification are therefore important. What is striking is that, while capital investment into new FDI projects in Africa has grown at a rate of only 5% between 2003 and 2010, investment measured in terms of new projects has grown by 9%. In other words, investment activity over the period has become less capital intensive, with relatively less investment going into extractive industries, for example, and relatively more into tertiary sector type activities.

This process has been characterized by two distinctly different phases. Between 2005 and 2007, FDI in Africa declined significantly in most sectors, the exceptions including minerals, coal, oil and natural gas, and software and IT services. Then between 2007 and 2010, a near mirror image of the earlier period occurred. Investment activity has been shrinking in most of the sectors that had expanded between 2005 and 2007 and increasing in most others.

The increasing diversification of FDI



Source: fDi Intelligence, data as of 31 March 2011.

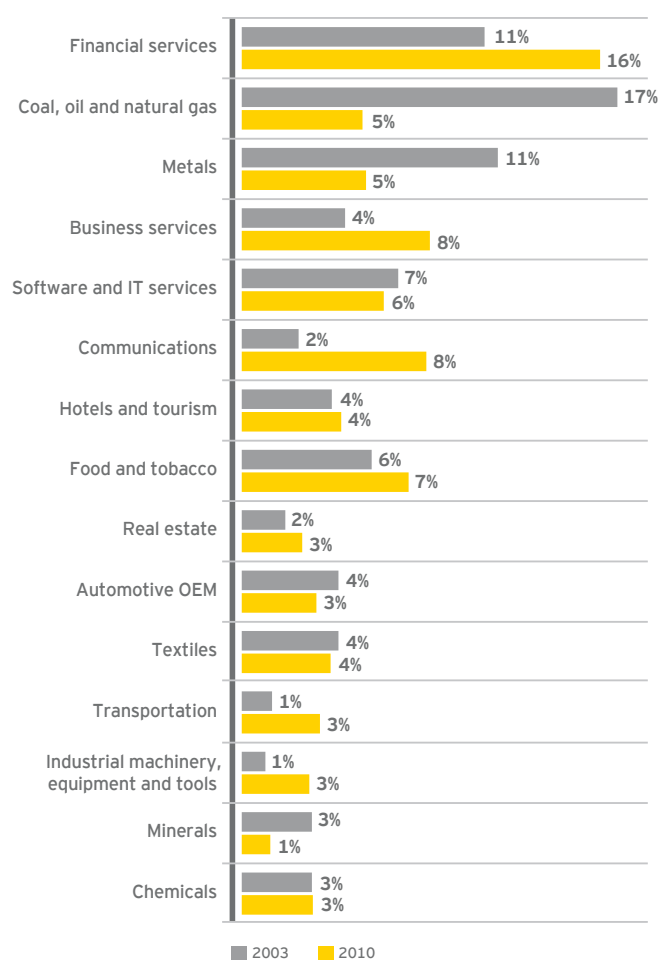
"As far as sectors are concerned, the relative contribution of mining resources is still strong. But a better balance of sectorial contributions to Africa's growth is emerging."

Leslie Rance, British American Tobacco

Underlying this shifting investment pattern are marked changes in investment activity between sectors. As the graph below illustrates, there has been a significant reduction in the share of investment between 2003 and 2010 by the metals, coal, oil and natural gas sectors, as well as an associated increase of the share of investment for several other sectors, including financial services, business services, communications, real estate and industrial machinery.

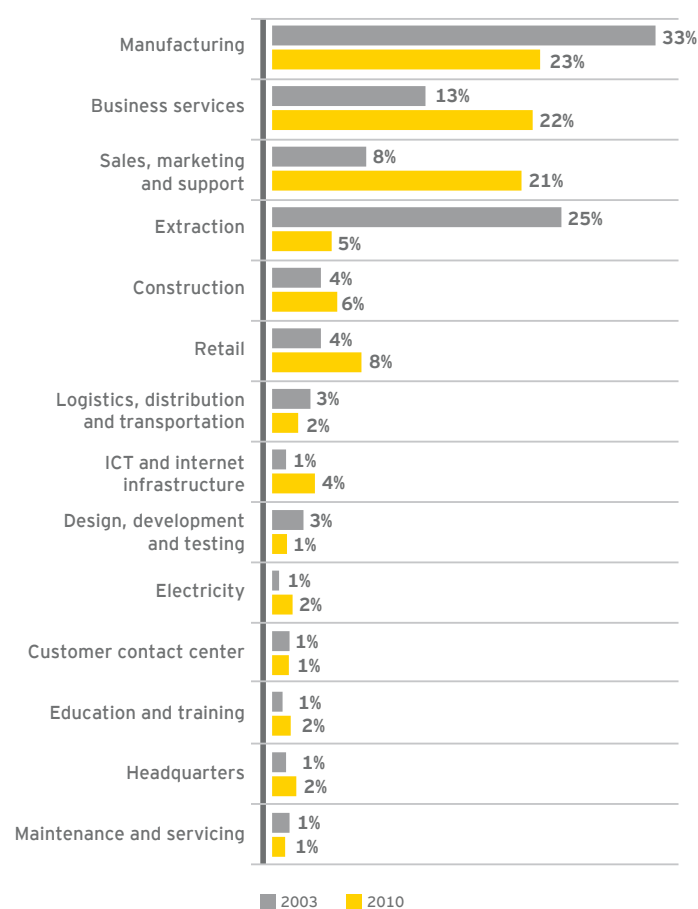
Overall, our analysis shows that extractive activities, as a proportion of the whole, have shrunk by 13% per year for the last eight years, with services making up much of the difference. As was discussed earlier, much of the impetus for diversification is coming from investors from developed economies and from Africa itself.

Share of new FDI projects by top sectors (2003-10)



Source: fDi Intelligence, data as of 31 March 2011.

Share of new FDI projects by top business activities (2003-10)



Source: fDi Intelligence, data as of 31 March 2011.

The question is not whether you should be doing business in Africa, but rather how?

Leslie Rance
General Manager
East Africa Markets,
British American Tobacco



Africa is the watch word!

Now that we are seeing, across the continent, much faster economic growth rates in the core of the last decade (above 4% real GDP, on average) and improved socio-political stability, the opportunity for most businesses, ours included, is more pronounced. But Africa's, and specifically East Africa's, importance to British American Tobacco is not new. We recognize the growth prospects and have been operating in these markets for over a century now.

Experience of working in Africa

My experience of Africa is that it is both exciting and challenging as a place to work and do business in. Our business models in these countries have continued to evolve to keep pace with market realities, which are dynamic, and that presents both the challenge and the excitement.

Perceptions of Africa

Some perceptions of Africa are of a highly volatile environment, with high levels of poverty, huge risk, a lack of strong institutional governance and plagued by high levels of corruption. Although there are some truths in this, that view is changing. There is a discernible improvement in the region's macro-economic and socio-political situation and, as in the example of East Africa, this is largely characterized by elected governments and functional democracies. This is not without its challenges, but we do see much less instability and a growing sense of predictability – and that's good for business.

Doing business in Africa

There is great entrepreneurial energy in Africa, evident on the streets of its capitals. In my view, big business does well to work with that ethos, as traditional business models, rooted out of more stable jurisdictions, are not always an easy fit. That being said, sound, ethical, and in our case, international business principles, applied with clear adherence to national laws, are really non-negotiable as companies

pursue success here. Unfortunately, not all companies see things that way and this often frustrates true and fair competition.

Enforcement of laws

Enforcement to support good regulation is a key challenge for governments. There are many supportive government agencies that are improving their skills and systems to carry this out, but until this is truly effective, with consistent political will and capacity to match, it does color the investments that the private sector can reasonably make.

State of infrastructure

Outside of the main cities in Africa, infrastructure is poor and is being addressed. If this is speeded up, companies will expand at a faster rate. Poor infrastructure adds cost to business, and some places are hugely underserved, simply because the cost of doing business there is too high. Businesses are being innovative about getting to these customers and consumers, but these methods are largely suboptimal.

Regulation

The tobacco industry in many African countries is well regulated. There is opportunity, especially when you are present in the market, to work in partnership with governments and other stakeholders to get balanced, enforceable legislation that meets government objectives, promotes societal harmony and encourages sustainable business practices.

Regional formations

The role of regional bodies and groupings in Africa is important and their effectiveness has grown. The East African Community (EAC) as an example, with Kenya, Uganda, Tanzania, Rwanda and Burundi as current participants, is looking to leverage its collective size, standardize and improve laws governing businesses, remove tariff barriers, enable the free flow of skills and encourage intra- and extra-regional trade. This makes this block of countries a compelling and accessible marketplace.

The regional organization Common Market for Eastern and Southern Africa (COMESA) is another trade bloc that has brought clear benefits, with certain tariff advantages already effective. When engaging with governments, we have found a stronger coherent voice through regional formations. There is good alignment by governments coming through in our industry's areas of regulation; something we did not see at this level just a few years ago.

Sector contributions to economic development

As far as sectors are concerned, the relative contribution of mining resources is still strong. But a better balance of sectorial contributions to Africa's growth is emerging. This is across wholesale, retail (which is important for our business), manufacturing, telecoms and agriculture.

Population growth and possible implications

The majority of African countries are low-income with strategies to become middle-income economies. Population growth in Africa is on the rise and this presents an opportunity for companies to access a larger, more cost-effective workforce, albeit at initially higher social development cost for governments, especially in terms of education and other skills development. So while the cost of labor is generally lower in Africa, productivity improvements supported by private sector participation will create a truly competitive lower cost of doing business. Product prices are moderate, and taxation on most commodities, tobacco excluded, is fairly moderate as well.

So why Africa?

So when asked what the biggest attraction of doing business in Africa is, it has got to be **growth**. Many industries in developed markets are getting saturated. It's much easier to identify growth in Africa. So the point really as I see it is not whether you should be doing business in Africa, but rather how.



Looking forward and considerations for key stakeholders

**"We face neither
East nor West:
we face forward."**

*Kwame Nkrumah,
first President of Ghana*



Picture from Dry Dock, Cape Town, South Africa.

Key findings

- 1** New FDI projects into Africa are forecast to reach US\$150b by 2015, creating 350,000 jobs per annum.²⁶
- 2** GDP growth is expected to average 5% through 2015, based on a return to growth in its main investors.²⁷
- 3** Africa has great strengths, including an abundance of natural resources and a large workforce, plus significant growth potential.
- 4** Challenges include skills scarcity, small market size for individual countries and weak infrastructure.
- 5** Governments, foreign investors and domestic companies can all take action to make the most of Africa's potential.

26. Oxford Economics research conducted on behalf of Ernst & Young.
27. Oxford Economics research conducted on behalf of Ernst & Young.

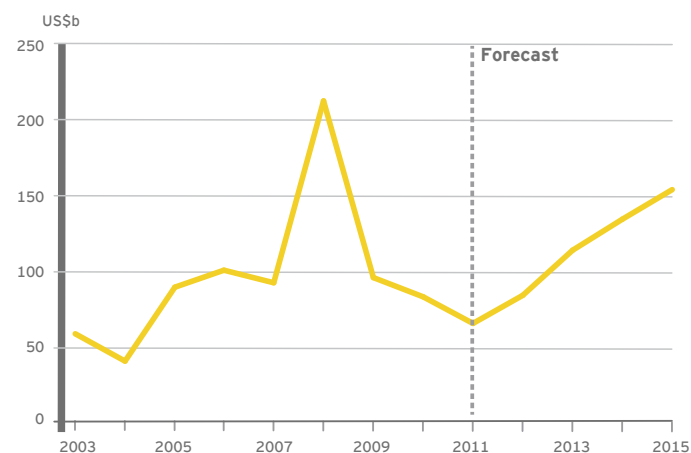
The future looks bright

Research commissioned from Oxford Economics for this report forecasts strong growth of new FDI into Africa from 2012 onward, reaching US\$150b by 2015. Besides the critical importance of the capital, which can continue to be reinvested in infrastructure, and other longer-term developmental initiatives, this will create a number of other direct and indirect benefits. Not least among these will be job creation. In 2015 alone, the estimated number of jobs created by this level of investment will be approximately 350,000 (factoring in both direct job creation and local spillovers).

The continued growth of FDI will be based in part on the economic recovery of Africa's main developed market investors, and the continued strong growth of emerging markets such as China and India. The top 10 countries (United States, France, UK, India, UAE, Spain, Canada, Germany, South Africa, China), which invested in Africa over the past decade, are expected to see GDP growth return to 4.2% on average. The GDP growth of Africa, in turn, will continue to remain robust, averaging a healthy 5% up to 2015²⁸, and predicated partly on an assumption of continued strong demand for, and high prices of, commodities.

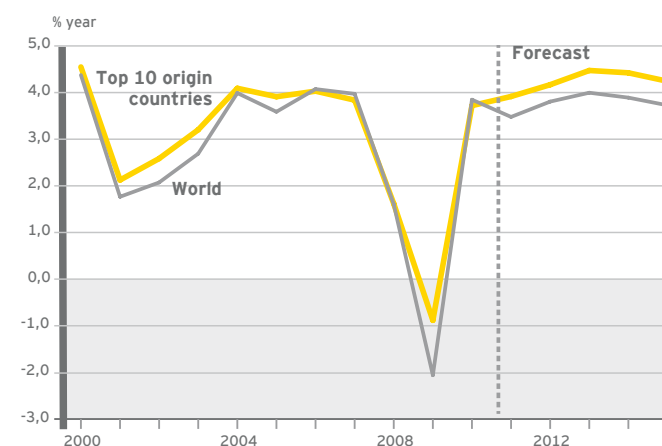
28. Oxford Economics research conducted on behalf of Ernst & Young.

Capital investment in Africa from new FDI projects



Source: Oxford Economics/fDi Intelligence

GDP growth



Source: Oxford Economics/Haver Analytics

"Investment prospects in Africa are favorable right now. Africa is the last uncharted territory on the investor's map and opportunities abound."

Olaf Meier, African Development Corporation

There is a perception gap about doing business in Africa



Dirk Hoke
CEO Africa Region
Siemens

Siemens has been operating in Africa for over 150 years, but for the first time, we have established a separate African organization. With sales currently over one billion euro across Africa, we set the goal to grow our business on the continent within the next two years to three billion euro.

These are huge growth rates and they are evident across all three of our main divisions, energy, industry, and health care. Although all our main divisions are performing well, the strongest has been in energy, which is underpinned by power transmission.

This growth is very easy to understand. Just look at the economic factors. Growth is not far away from the BRIC countries, and in some countries it's higher. Few people know that, in 2000-10, the fastest-growing country in the world was Angola, far stronger than China.

Some companies divide Africa into North and South or have a separate Middle East and North Africa division, but we decided the continent is a strong framework.

There is definitely a perception gap about doing business in Africa. When I first got

this job, friends and business colleagues thought this was not a promotion, it was a punishment! The general media image of Africa is very negative; it's very similar to the media image of China not long ago. People were so worried about the Soccer World Cup in South Africa, but when they saw it was peaceful and well organized, the only thing they could complain about was the vuvuzelas.

For Siemens, there's never been a question about operating here, since we have a very long history in the continent. But the way we operate is different. In many places in Africa, we stepped in and stepped out as we won projects. We didn't have stable and permanent structures in many places, and we did not develop the local people in such a way that they could have a strategic career development path. Now we have 6 regional offices and an additional 10 permanent project offices.

Margins are high and we see strong rates of return on foreign direct investment. The risks are also high; they are manageable, but this can't be done from Switzerland or London. It's just too hard to see the risks clearly from there.

There is a perception of corruption, and you have to be very careful you don't get involved in tender processes that might be corrupt. This is an absolute prerequisite for us.

Education, skills and talent management is a very big problem. It's really challenging to attract the right people and to keep people in place. But the situation is improving.

One of the biggest growth areas is in electrical generation and distribution. At the moment, South Africa has about 42GW of power generation installed, for roughly 50 million people. That's about the same as for the rest of the continent for 950 million people. Some of the newly installed capacity will leapfrog over old power generation systems and go directly to renewable generation systems. A few years ago Morocco announced a US\$9b solar power generation plan. Algeria then followed up with a US\$50b plan.

Africa is definitely becoming a continent of opportunities.

"Margins are high and we see strong rates of return on foreign direct investment. The risks are also high, but they are manageable."

Dirk Hoke, Siemens

Selection of countries that will offer attractive FDI opportunities in the next five years

	Top five investors in number of FDI projects in 2003-10	Top five sectors in number of FDI projects in 2003-10
Angola <p>Angola's attractiveness for FDI will remain moderate but is expected to improve between 2011 and 2015. Angola's oil and mineral reserves will continue to be the main attraction for investors over the next five years. Enriched by the oil wealth, the country's growing middle class will also be attractive to investors looking for new markets. But current levels of income inequality, skills shortages, underdeveloped infrastructure, and bureaucracy are all hindering efforts to attract foreign investment. As a result most FDI in Angola is likely to be focused on the natural resource sectors for the foreseeable future. Although Angola will receive a significant amount of FDI over the next five years, its expected concentration in the oil sector will limit the job creation prospects.</p>	<ul style="list-style-type: none"> ▶ Portugal ▶ US ▶ UK ▶ Spain ▶ South Africa 	<ul style="list-style-type: none"> ▶ Coal, oil and natural gas ▶ Beverages ▶ Business services ▶ Financial services ▶ Transportation
Democratic Republic of Congo (DRC) <p>The DRC's oil and mineral reserves are among the richest in Africa, and the sheer potential will continue to attract foreign investment, particularly as demand in the developed and emerging markets rises and capacity constraints are met by other producers. But poor human capital, a small domestic market, primitive infrastructure and an unfriendly business environment will all work against any attempt to attract capital to non-resource sectors of the economy.</p> <p>Above all, the precarious political situation, with the possibility of renewed conflict in the eastern provinces, may limit the attraction of the country to foreign investors.</p>	<ul style="list-style-type: none"> ▶ Australia ▶ Canada ▶ UK ▶ France ▶ South Africa 	<ul style="list-style-type: none"> ▶ Metals ▶ Financial services ▶ Coal, oil and natural gas ▶ Minerals ▶ Industrial machinery, equipment and tools
Egypt <p>Egypt oil production is expected to fall as reserves mature and run dry, but the fossil fuel sector is still expected to attract investors over the next five years. Bigger attractions for investors are Egypt's large, relatively well-educated population, sizeable domestic market and proximity to Europe.</p> <p>Slightly offsetting these positives are the high levels of bureaucracy and corruption, but recent government reforms in these areas should improve the institutional environment.</p> <p>Assuming that the political situation is resolved and reforms are continued, Egypt will remain an attractive destination for investors in the next five years.</p>	<ul style="list-style-type: none"> ▶ US ▶ UAE ▶ France ▶ UK ▶ India 	<ul style="list-style-type: none"> ▶ Financial services ▶ Coal, oil and natural gas ▶ Software and IT services ▶ Hotels and tourism ▶ Food and tobacco
Ethiopia <p>Research from <i>The Economist</i> shows that Ethiopia was among the 10 fastest-growing economies in the world over the past decade. Its gold mines, and the potential to exploit recently found natural gas reserves (currently 25b cubic meters) will attract significant amounts of investment over the next few years.</p> <p>But poor levels of human capital, a small domestic market, underdeveloped infrastructure and high levels of bureaucracy are all barriers to investment outside of natural resources.</p>	<ul style="list-style-type: none"> ▶ India ▶ US ▶ China ▶ UAE ▶ Malaysia 	<ul style="list-style-type: none"> ▶ Coal, oil and natural gas ▶ Financial services ▶ Food and tobacco ▶ Beverages ▶ Communications

	Top five investors in number of FDI projects in 2003-10	Top five sectors in number of FDI projects in 2003-10
Ghana <p>Ghana has a sizable resource endowment, including substantial mineral, gas and oil reserves. We expect continued investment in the oil and gas industries, contributing to the majority of FDI flows. Increasing oil revenues should indirectly boost other sectors. This is particularly true of infrastructure, although, if managed correctly, it could help fund improvements in industries such as health care and education.</p> <p>Ghana benefits from a stable political environment, with democracy well established and adhered to. However, Ghana needs to continue to invest in infrastructure, human capital and health care to attract more diversified FDI projects.</p>	<ul style="list-style-type: none"> ▶ US ▶ Nigeria ▶ UK ▶ South Africa ▶ India 	<ul style="list-style-type: none"> ▶ Coal, oil and natural gas ▶ Financial services ▶ Metals ▶ Business services ▶ Food and tobacco
Kenya <p>Kenya probably has the most highly developed economy in East Africa. It has a relatively well-educated and rapidly growing labor force, and is most often used as a hub by multinationals looking to develop East African markets. However, its relative lack of natural resources may make it increasingly hard for it to compete with its neighbors, and its still small domestic market, immature infrastructure and high levels of bureaucracy are barriers to investment that need to be addressed.</p>	<ul style="list-style-type: none"> ▶ US ▶ India ▶ UK ▶ South Africa ▶ Germany 	<ul style="list-style-type: none"> ▶ Communications ▶ Financial services ▶ Software and IT services ▶ Food and tobacco ▶ Consumer electronics
Mauritius <p>Mauritius has a well-developed infrastructure network, a highly educated workforce, a comparatively high level of income and low levels of bureaucracy, all of which are attractive to investors. Slightly offsetting these positives are labor market rigidities; in particular, the centralized wage-setting mechanism and high levels of inequality.</p> <p>Despite Mauritius' positive attributes, it is expected to receive only modest amounts of FDI over the next five years. Better opportunities elsewhere, in particular in countries with large natural resource endowments or larger populations, will attract investors. Despite the modest amount of FDI, the economy's focus on the service sector means a relatively large number of jobs will be created as a result.</p>	<ul style="list-style-type: none"> ▶ India ▶ France ▶ UK ▶ US ▶ South Africa 	<ul style="list-style-type: none"> ▶ Business services ▶ Financial services ▶ Software and IT services ▶ Hotels and tourism ▶ Communications
Morocco <p>Morocco's oil reserves provide some pull for investors, but its well-educated, relatively cheap labor force is its prominent resource. Coupled with this, the country's proximity to Europe and recently signed trade agreements with the EU and the US, make it an attractive location for multinational companies looking to service the lucrative market within the EU. These attractions are underpinned by good governance and sound macroeconomic policies.</p> <p>As a result of these positives, Morocco is expected to attract significant amounts of FDI over the next five years, with the expected focus of FDI inflows being in labor-intensive industries, such as tourism and construction. The negatives which may undermine foreign interest are the high levels of bureaucracy and potential for social unrest as a result of the high level of unemployment.</p>	<ul style="list-style-type: none"> ▶ France ▶ Spain ▶ US ▶ UAE ▶ UK 	<ul style="list-style-type: none"> ▶ Business services ▶ Hotels and tourism ▶ Real estate ▶ Software and IT services ▶ Textiles

	Top five investors in number of FDI projects in 2003-10	Top five sectors in number of FDI projects in 2003-10
Mozambique <p>Mozambique's key attraction for investors is the recently established natural gas reserves, which already stand at over 127b cubic meters. Coupled with this, significant improvements are being made to the education system and the country's infrastructure. According to research by <i>The Economist</i>, Mozambique was one of the 10 fastest-growing economies in the world over the past decade, and this growth is likely to be sustained for the foreseeable future.</p> <p>However, the country's relatively poor population and high levels of bureaucracy (although this too is improving) mean Mozambique will probably remain only moderately attractive to investors over the medium term.</p>	<ul style="list-style-type: none"> ▶ South Africa ▶ UK ▶ Portugal ▶ India ▶ Ireland 	<ul style="list-style-type: none"> ▶ Coal, oil and natural gas ▶ Food and tobacco ▶ Metals ▶ Financial services ▶ Communications
Nigeria <p>Nigeria's oil reserves (which stood at over 36b barrels in 2007) will continue to attract funds over the medium term, and we expect a large proportion of FDI to be concentrated here. However, the large domestic market and diversified economy mean other sectors such as communications, real estate and tourism will also attract attention.</p> <p>Holding Nigeria back are its relative shortage of key skills, poor infrastructure and high level of bureaucracy. The national democratic elections this year are a key milestone for Nigeria. Assuming they go relatively smoothly, ongoing perceptions of high political risk should begin to diminish.</p>	<ul style="list-style-type: none"> ▶ US ▶ UK ▶ South Africa ▶ India ▶ France 	<ul style="list-style-type: none"> ▶ Coal, oil and natural gas ▶ Communications ▶ Financial services ▶ Business services ▶ Food and tobacco
Rwanda <p>Relative to its African counterparts, Rwanda's resource endowment is poor; the country has no significant natural resource, and its labor force is small and poorly educated.</p> <p>But offsetting these negatives is Rwanda's institutional environment. The Government has actively tackled corruption in recent years, and the business environment is extremely friendly. Significant investment has been made to improve infrastructure.</p>	<ul style="list-style-type: none"> ▶ Kenya ▶ Nigeria ▶ Uganda ▶ China ▶ UAE 	<ul style="list-style-type: none"> ▶ Financial services ▶ Communications ▶ Hotels and tourism ▶ Coal, oil and natural gas ▶ Metals
Senegal <p>Senegal has a sizable resource endowment, and its mineral resources make it an attractive location in which to invest. We expect continued investment in mineral extraction, contributing to the majority of FDI flows. Senegal also benefits from a stable political environment, with democracy well established and adhered to. A range of economic reforms have fostered a stable macroeconomic environment.</p> <p>However, improvements need to be made regarding human development, the business environment and infrastructure, for FDI to grow substantially.</p>	<ul style="list-style-type: none"> ▶ France ▶ UAE ▶ US ▶ UK ▶ Iran 	<ul style="list-style-type: none"> ▶ Software and IT services ▶ Automotive OEM ▶ Metals ▶ Financial services ▶ Hotels and tourism
South Africa <p>South Africa's substantial natural resource endowment will continue to attract investors, and its comparatively well-educated labor force will draw funds into the non-resource sectors of its diverse economy. Coupled with this, the domestic market is among the largest in Africa, the population is the richest on average (although extreme income inequality means that many people remain in poverty) and the institutional environment is relatively conducive to business.</p> <p>Despite these overwhelming positives, inflows to South Africa are not expected to be large relative to GDP (around 2% to 2.5%). The economy's wealth means it can afford to fund much of its own investment, and the country is expected to be a significant source of funds for other African nations over the forecast period.</p>	<ul style="list-style-type: none"> ▶ US ▶ UK ▶ Germany ▶ India ▶ Australia 	<ul style="list-style-type: none"> ▶ Software and IT services ▶ Business services ▶ Financial services ▶ Metals ▶ Automotive OEM

	Top five investors in number of FDI projects in 2003-10	Top five sectors in number of FDI projects in 2003-10
Tanzania <p>Driven by the rising price of gold that has increased 75% over the last three years, Tanzania's gold reserves will continue to attract investor interest over the medium term. The country's relatively well-educated labor force, coupled with political stability and the Government's sound macroeconomic management of the economy, will add to Tanzania's attractiveness.</p> <p>But the relatively small domestic market, poor infrastructure network and high levels of bureaucracy are a barrier to further investment in the non-mineral sector of the economy.</p>	<ul style="list-style-type: none"> ▶ UK ▶ Kenya ▶ India ▶ South Africa ▶ Canada 	<ul style="list-style-type: none"> ▶ Financial services ▶ Metals ▶ Communications ▶ Building and construction materials ▶ Hotels and tourism
Tunisia <p>Although Tunisia's oil reserves are modest (around 308m barrels), global capacity constraints mean they will continue to be attractive to investors in the near future.</p> <p>A potentially more attractive resource at the country's disposal is its highly skilled labor, especially when it is coupled with Tunisia's proximity to the lucrative EU market. And although the domestic market is small, the country's well-established infrastructure network, good economic governance and business environment make it an attractive location for multinational companies.</p> <p>Potentially offsetting these positives is the political environment, which remains highly uncertain. If the new Government can restore order, continue reforms and tackle unemployment, the country will continue to be a significant recipient of investment over the forecast period.</p>	<ul style="list-style-type: none"> ▶ France ▶ Italy ▶ Germany ▶ US ▶ UAE 	<ul style="list-style-type: none"> ▶ Software and IT services ▶ Textiles ▶ Business services ▶ Coal, oil and natural gas ▶ Hotels and tourism
Uganda <p>Uganda's vast mineral resources and a recent discovery of oil will attract significant amounts of investment over the medium term. The country's relatively well-educated labor force, low levels of bureaucracy and diversified economy will attract funds into the labor-intensive service sector too (e.g., communications and financial services).</p> <p>Offsetting these positive factors are the infrastructure network and the country's small domestic market. In addition, following the recent disputed presidential election, political risk factors need to be taken into account.</p>	<ul style="list-style-type: none"> ▶ Kenya ▶ UK ▶ South Africa ▶ India ▶ France 	<ul style="list-style-type: none"> ▶ Financial services ▶ Communications ▶ Coal, oil and natural gas ▶ Food and tobacco ▶ Beverages
Zambia <p>Zambia's copper mines will continue to attract investors over the forecast period, with global demand expected to keep prices high for the foreseeable future.</p> <p>Outside of the minerals sector, prospects for FDI are less good. Zambia's reliance on copper (which makes it vulnerable to price movements), coupled with its small domestic market, will limit the flow of capital into the rest of the economy.</p> <p>But the country's business-friendly environment, sound macroeconomic management and investment in the infrastructure network should attract multinational companies into other parts of the economy.</p>	<ul style="list-style-type: none"> ▶ South Africa ▶ China ▶ Canada ▶ India ▶ UK 	<ul style="list-style-type: none"> ▶ Metals ▶ Financial services ▶ Alternative and renewable energy ▶ Chemicals ▶ Communications

Africa's strengths and challenges

Underlying these growth projections are some assumptions about Africa's strengths and challenges. Understanding these, and being strategic within the framework of both opportunities and constraints, could, on one hand, help position individual countries more competitively, while on the other, help focus investment for optimal returns.

Essentially, incentives for investments in Africa can be grouped into four categories:

1. Resource seeking: pursuing cheaper or better inputs for production processes
2. Market seeking: tapping into the growing influence of the African consumer and other new market-making opportunities
3. Efficiency seeking: achieving operational excellence through outsourcing, shared services centers, etc.
4. Strategic motives: seeking first-mover advantage in a new market or securing parts of the supply chain

In terms of each of these factors, Africa has strengths and challenges, which are summarized in the table page 43.

Viewpoint

The first skill you need to do business in Africa is to see the opportunities

Christo Wiese
Chairman
Shoprite/Pepkor



From a personal perspective, I'm extremely positive about investment in Africa. Africa has a wonderful climate, wonderful people and amazing possibilities.

An incredible change has taken place in Africa: democracy has spread and young post-colonial electorates are starting to hold their leaders to account. There are problems, but somehow people only focus on the negative.

In South Africa, prior to former president Nelson Mandela's release from jail, people said there was going to be a revolution, but there wasn't. Then they said, "Well yes, but after Mandela goes, what then?" What happened was that the economy just got stronger. Then people said, "Well, what will happen after President Thabo Mbeki goes?" What happened was that another president came, and he will be followed by another. Through it all, the economy has gradually improved.

I think there is a perception gap in relation to Africa. People don't appreciate the sheer scale of the region. It has nearly double

the number of cities with populations of over a million people than the USA. Its landmass could incorporate the USA, China, India, and still have room for Argentina. Importantly, Africa currently holds 60% of the world's total uncultivated arable land, and has two of the world's largest rivers.

I don't think we are getting our fair slice of the investment cake. I think this is driven by this perception gap. There is still too little understanding in Africa of what we need to do to make it easier for the money out there to come in.

In some places, there is still a bit of a closed mentality, but things are changing. In the past few weeks, Nigeria, which made it impossible in the past to import clothes to protect industries that never really existed, has now changed its policy.

One of Africa's biggest advantages is that it's an undeveloped continent. It's like that old story about the shoe salesman who goes to Africa and concludes there can't be a market because nobody wears shoes.

But another salesman concludes that it must be a wonderful market because there are so many people who need shoes. It all depends on how you look at it.

The first skill you need to do business in Africa is to see the opportunities. It's not an easy place to do business. Infrastructure problems are everywhere. The countries are enormously diverse; it's a continent like any other.

One of the ironies is that there is so much land in Africa, but you still struggle to actually get hold of it. There is a lack of proper title deeds and it can take years to get control of land.

You have to do a lot of things for yourself but somehow we manage. Africa has its own idiosyncrasies and you need to plan and understand your environment. You need to get in tune with the rhythms of Africa.

	Strengths	Challenges
Resource seeking	<p>Natural resources advantage</p> <p>In a resource-scarce world, Africa's rich endowment in natural resources will be a key factor in attracting FDI to the continent. We forecast commodity prices (oil and non-oil) to remain at elevated levels over the next few years as strong demand from emerging markets continues to put pressure on production capacities.</p> <p>Human resources advantage</p> <p>Abundant availability of labor at low costs will favor FDI inflows in Africa. The UN forecasts Africa's working age population to grow by 2.5% per year over the next five years, making Africa the fastest-growing region in the world.</p>	<p>Talent challenges</p> <p>With the exception of a few countries (such as Tunisia and South Africa), education levels are relatively low and this undermines the skill levels of the labor force. According to the World Bank, enrolment levels in secondary education are around 20%-35%, compared with 40% in East Asia and 55% in Latin America. While investment in education is likely to increase skill levels over the next decades, change will be slow and low skill levels are likely to deter investors for some time.</p>
Market seeking	<p>Growth potential advantage</p> <p>Developing countries in general, and Africa in particular, offer a wide range of opportunities to companies wanting to tap nascent markets. One example of such markets is mobile payments, which has expanded to a multi-billion dollar market and is expected to continue to grow at very high rates over the next five years. Tourism is another sector likely to attract investors to Africa. Tourism revenues already account for between 20% and 30% of export revenues in a number of African countries, with a large potential to develop this sector.²⁹</p> <p>Emerging to emerging investments</p> <p>Investment flows to Africa will also be helped by increasing south-south cooperation, with the developing world expected to grow much faster than the developed world in the coming years. Growing economic and trade links with countries such as China, India, Brazil and Malaysia will continue to see large amounts of FDI flowing into Africa as domestic demand for minerals and food in these major economies continues to grow rapidly.</p>	<p>Market size</p> <p>The small size of African markets will remain an impediment to FDI. Although it accounts for around 15% of the global population, Africa only accounts for 1.8% of world GDP (2010 market exchange rates). Africa's share of the world economy is expected to increase slightly by 2015, but only to 2.4%.³⁰</p> <p>GDP per capita</p> <p>Low income levels also make Africa less attractive than other regions. They constrain the ability of consumers to purchase a wide range of goods and services, as a significant share of households' budget is used by essential spending, such as food and rents. We do not expect much catch-up over the next five years. By 2015, we forecast average GDP per capita in Africa to be around 40% of the levels in Asia and 30% of the levels in Latin America.</p>
Efficiency seeking	<p>Sourcing advantage</p> <p>Companies seeking to serve the EU market will be attracted by North Africa's physical proximity and strong trade links. Around 9% of the Eurozone imports of goods originate from Africa.³¹ Increasing use of outsourcing will make Africa an interesting location to invest in, given historical and linguistic links with the EU.</p>	<p>Infrastructure challenges</p> <p>Companies looking at achieving more efficient production will be particularly sensitive to the physical and legal infrastructure of possible destination countries for FDI. Africa fares less well than most locations in these respects. Although investment is likely to improve infrastructure, relatively large fiscal deficit will limit the capacity of the public sector to finance such projects.</p> <p>Ease of doing business</p> <p>Level of corruption and complex regulatory environment is unlikely to change significantly in the next five years, which tends to deter foreign investors.</p>
Strategic motives	<p>Growth advantage</p> <p>Companies seeking high medium-term growth will be attracted by Africa's strong growth potential.</p> <p>We estimate that African GDP will rise by around 5% per year on average over the next five years, significantly higher than the world average.</p>	<p>Political stability challenges</p> <p>Recent political upheavals in the Middle East and North Africa region will remind investors of the potential for political instability in Africa.</p> <p>Innovation challenges</p> <p>Africa's low levels of investment in R&D will also deter investors looking at strategic investments.</p>

29. World Bank.

30. Oxford Economics research conducted on behalf of Ernst & Young.

31. Eurostat, February 2011. The "Africa" aggregate includes the following countries: Algeria, Angola, Benin, Botswana, British Indian Ocean Territory, Burkina Faso, Burundi, Cameroon, Cape Verde, Central African Republic, Ceuta, Chad, Comoros, Congo, Democratic Republic of the Congo, Cote d'Ivoire, Djibouti, Egypt, Equatorial Guinea, Eritrea, Ethiopia, Gabon, Gambia, Ghana, Guinea, Guinea-Bissau, Kenya, Liberia, Libya, Lesotho, Madagascar, Malawi, Mali, Mauritania, Mauritius, Mayotte, Melilla, Morocco, Mozambique, Namibia, Niger, Nigeria, Rwanda, Saint Helena, Sao Tome and Principe, Senegal, Seychelles, Sierra Leone, Somalia, South Africa, Sudan, Swaziland, Tanzania, Togo, Tunisia, Uganda, Zambia and Zimbabwe.

Recommendations

Competition for FDI will continue to be fierce. Foreign investors seeking the highest rate of return will vie with other investors for first position. Domestic companies will compete with each other to supply foreign investors. And African governments will compete with each other and other markets around the world to win a bigger slice of the investment pie. Here, we make some recommendations for each of those stakeholder groups in relation to the African opportunity.

Recommendations for governments

Competition for FDI will exist at all levels of government, whether in terms of regional trade zones, and national, provincial or municipal level. We have already seen that, at national level alone, there are wide differences in terms of level of FDI attracted by each African country. Governments that want to increase their share should consider the following actions:

- ▶ **Market yourself effectively.** Countries that are relatively successful in attracting FDI are clear about the identity of their prospective investors and their own selling points, and are proactive in marketing themselves. Perceived barriers to investment can also be addressed through this mechanism. It will be a surprise to many investors that issues such as political instability, corruption and infrastructure are less of an investment cost in some parts of Africa than in many other conventionally attractive markets. Areas of planned growth must also be marketed in this way.
- ▶ **Plan systemically and for the long term.** Governments must have a long-term plan to foster inward investment that makes the most of natural resources where they exist but incentivizes diversified investment. Plans will address both perception and reality by including marketing campaigns, aligned with structural changes to bureaucracy and infrastructure, in order to improve the business environment. Publicly available data such as the World Economic Forum's Competitiveness Reports and the World Bank's ease of doing business index will provide credible measures against which progress can be tracked.
- ▶ **Create critical mass and smooth the passage to market for investors.** Many African economies may be too small individually to attract investment from large multinationals. Smaller countries can benefit from the conglomeration of separate markets, through regional trade zones or collective trade agreements based on cultural or linguistic similarities or urban corridors. Such market groupings must be clear about their total offering to investors: which country has the most mature financial services industry? What would the total supply chain look like through all of those countries? Where are the raw materials for production? Where is the balance of skilled resource? And so on.

"The first step really had to come from Government. They had to take a great leap of faith in opening up the telecoms market. [...] But [...] it has paid off."

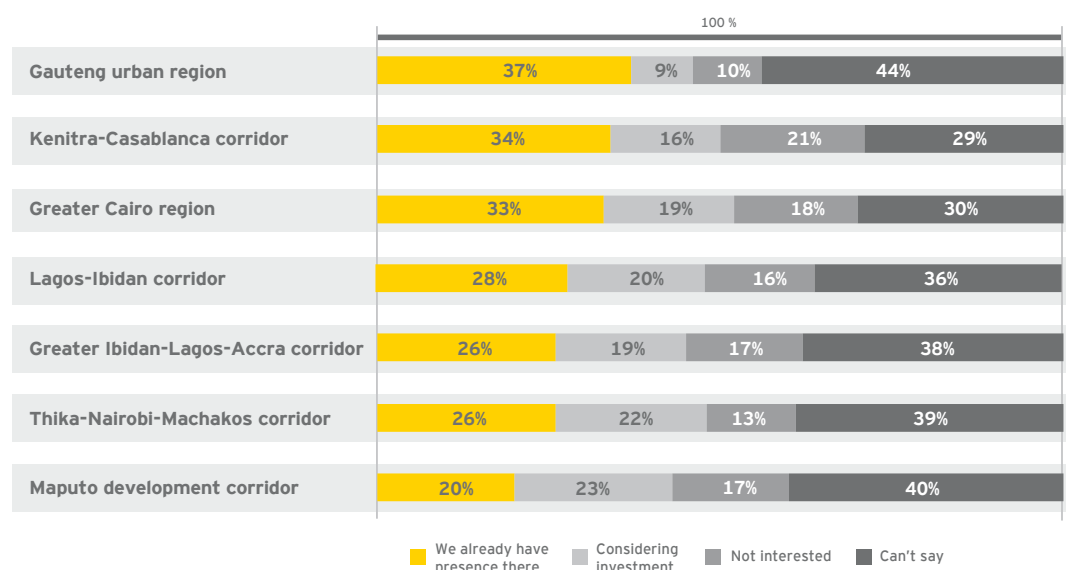
Andrew Bing, MTN

Recommendations for foreign investors

In developing markets, first-mover advantage can yield significant returns for the investor, with the pioneer company able to build a long-lasting consumer loyalty and secure scarce local resources before competitors. Forecasts for African growth are good, with an above global average 5% GDP growth anticipated, and historically, investment returns from Africa have been among the highest in the world. We believe that as Africa's economies start to diversify more substantially and integrate more closely, its economic growth will accelerate rapidly. Foreign investors who want to be part of this story should start with the following actions:

- ▶ **Focus on those sectors with high growth potential.** Our analysis shows that investment into Africa has been diversifying over the past decade. But the picture differs from country to country, with faster rates of growth for some sectors in different parts of the continent. Investors must quickly get down to a detailed level of market analysis when identifying growth potential as a factor to direct their investment.
- ▶ **Expand from strategic economic hubs and think about non-conventional market groupings.** The African supply chain has traditionally been a brake on investment. However, the growth rate of intra-African trade demonstrates the extent to which infrastructure is improving, and local companies have become creative in surmounting its shortcomings. Foreign investors can be encouraged and inspired by these developments but must still be pragmatic about the challenges that remain. Investment can be facilitated by using an economic hub as a launch pad for broader market entry. Large economies such as South Africa, Nigeria and Egypt are ideally suited for this because of their financial and supply chain infrastructure. Non-conventional groupings of markets can also facilitate expansion. Urban corridors, for example, can provide a means of entering several markets in quick succession or simultaneously. Many of our survey respondents were unaware of Africa's various urban corridors.
- ▶ **Invest to get the high-quality human resources.** There is typically a supply constraint in terms of skilled human resources in many African markets. Investment in services sectors and the manufacture of finished products will become more important across Africa as its various economies diversify. Successful investment in these sectors will be contingent on an adequate supply of skilled resource. Investors must use local partners to identify such people and be willing to invest in staff loyalty through compensation packages that are competitive and tailored to local cultures.
- ▶ **Spread the risk of political instability by building a portfolio of investments.** Recent events in the MENA region have demonstrated how investment in a set of interconnected economies can be significantly challenged when unforeseen risks materialize into issues. Political stability is not the only risk in African markets. Investors must think comprehensively about the challenges they may face, and spread their risk by building a portfolio of investments across markets that do not share the same characteristics.

The potential of Africa's various urban corridors or regions



Source: Ernst & Young's 2011 Africa attractiveness survey.
Total respondents: 562.

Recommendations for domestic companies

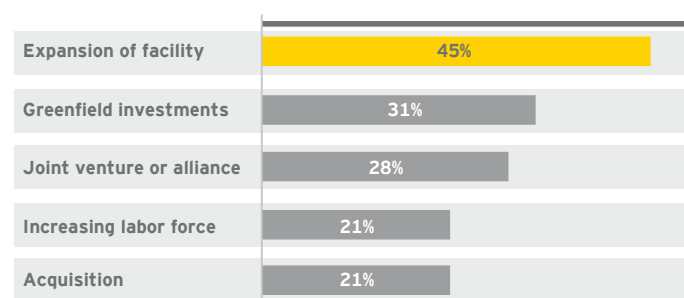
One of the advantages of FDI can be the transfer of technologies and skills to domestic companies; job creation through spillovers from foreign investors; and the structuring of extended local supply chains, either to fuel the production capacity of foreign investors or to attract discretionary spending from local people

- **Position yourself to be an indispensable facilitator of investment.** As we note elsewhere in this study, companies who do not currently have operations on the continent tend to focus on the conventional barriers to investment and are wary of Africa as a place to do business. Local companies can provide essential guidance in navigating local procedures and cultural practices; can help foreign investors get to scarce resources fast; and they can facilitate intra-African operations.
- **Locate close to centers of production or infrastructure backbones.** Urbanization continues apace across Africa; the UN predicts that, by 2025, nearly half of all Africans will live in a city. Arterial corridors of transport infrastructure are joining up mid-size and small conurbations, thereby making them more relevant to investors. Commerce, as is always the case, sprouts up around centers of production, transportation and extraction. It is in these high-activity zones that the spillover from foreign investment will be at its most pronounced. Domestic companies will be able to supply foreign-owned operations or provide goods and services to people newly employed as a result of FDI.

with income from FDI. Companies based in investment destinations can achieve first-mover advantage by anticipating the arrival of foreign investment. For these companies, we recommend the following actions:

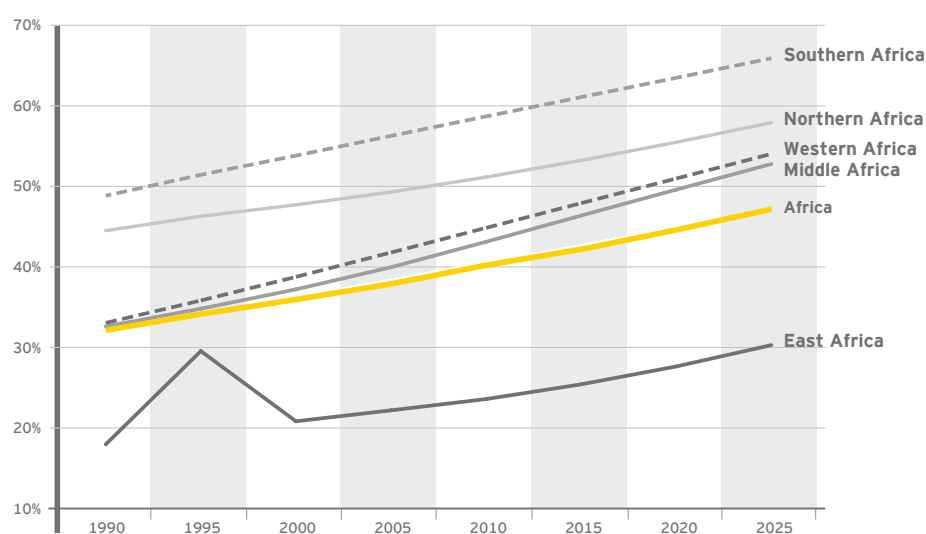
- **Invest in growth areas ahead of FDI.** In this study, we provide an overview of the extent to which FDI into Africa has diversified in the last decade. This trend is set to continue and provides a useful cue to domestic companies looking to anticipate the increased levels of FDI we forecast. New entrants to markets often seek to reduce their risk and expedite their investment cycle through joint ventures with locally based companies and acquisitions. In our survey, for example, 28% said they planned to invest in African markets through a joint venture and 21% by acquisition.

How are you planning to invest?



Source: Ernst & Young's 2011 Africa attractiveness survey.
Respondents selected more than one answer. Total respondents: 236.

Urban dwelling % of population



Source: *The State of African Cities 2010*, UN Habitat – Statistical Annex.





Methodology

Ernst & Young's 2011 Africa attractiveness survey reflects:

- ▶ **The attractiveness of Africa for foreign investors.** Our evaluation of the reality of FDI in Africa is based on fDi Markets. This particular database tracks new greenfield and expansion FDI projects. Joint ventures are only included where they lead to a new physical (greenfield) operation. Mergers and acquisitions (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 direct jobs and capital investment.
- ▶ **The perceptions and outlook of Africa and its competitors by foreign investors.** We define the attractiveness of a location as a combination of image, investors' confidence and the perception of a country or area's ability to provide the most competitive benefits for FDI. The field research was conducted by CSA Institute from the beginning of January to the beginning of February 2011, via telephone interviews, based on a representative panel of 562 international decision-makers.

The attractiveness of Africa

Data is widely available on FDI. An investment in a company is normally included if the foreign investor has more than 10% of its equity and a voice in its management. FDI includes equity capital, reinvested earnings and intracompany loans. But many analysts are more interested in evaluating investment in physical assets, such as plant and equipment, in a foreign country. These figures, rarely recorded by institutional sources, provide invaluable insights as to

how inward investment projects are undertaken, in which activities, by whom and, of course, where. To map these real investments carried out in Africa, Ernst and Young used data from fDi Markets. This online database tracks cross-border greenfield investments covering all sectors and countries worldwide. It provides real-time monitoring of investment projects, capital investment and jobs creation with tools to track and profile companies investing overseas.

The perceptions and outlook of Africa

An international panel of 562 decision-makers of all origins have been interviewed:

- ▶ **59% European businesses**
- ▶ **18% North American businesses**
- ▶ **18% Asian businesses**
- ▶ **5% other businesses**

Globally, out of this panel, 61% have established operations in Africa.

Furthermore, this global panel from all business models and sectors was built to demonstrate further a representative opinion on the diversity of international strategies:

- ▶ **SMEs (small and medium enterprises)**
- ▶ **Multinationals**
- ▶ **Industrial companies as well as service providers**

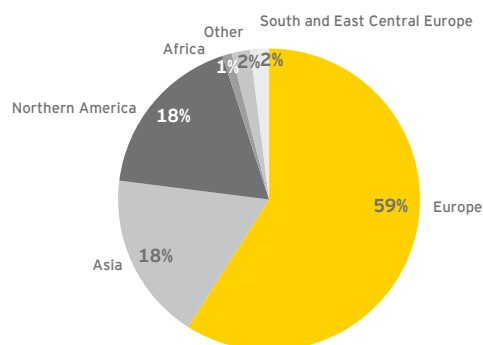
Divided into six main sectors, the businesses surveyed are representative of the key African and global economic sectors:

- ▶ **Industry, automotive and energy**
- ▶ **Services**
- ▶ **Consumer products**
- ▶ **Raw material**
- ▶ **Real estate, construction**
- ▶ **Hi-tech and telecommunication**

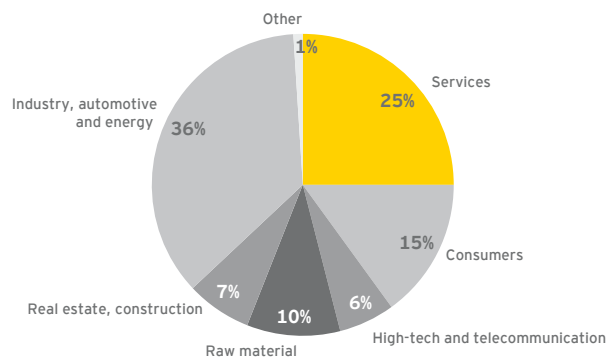


Picture from Pretoria, South Africa.

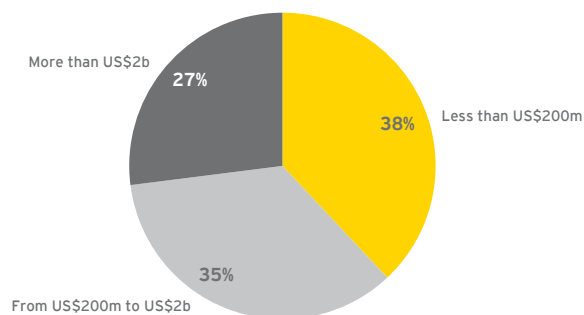
Location



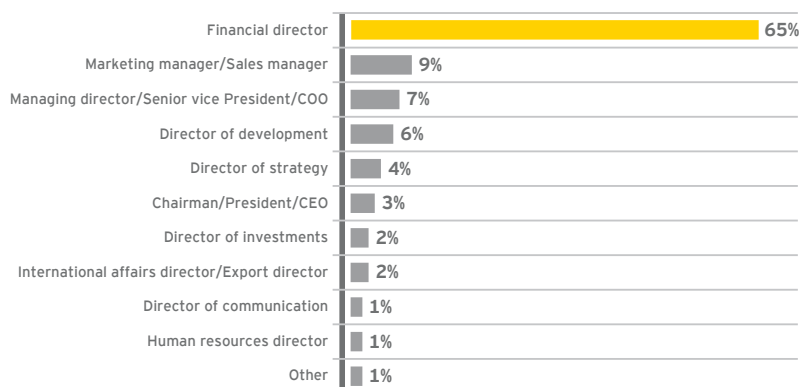
Sectors



Size



Job title



Ernst & Young in Africa

Our footprint



Ernst & Young Africa has a presence in 30 countries and provides support in the remaining African continent. Our network throughout the region help demonstrates that we are responsive to the needs of our clients, stimulating trade and enhancing business relationships. We offer an "on the ground" service to investors, and can provide advice on local taxes, customs and systems, as well as introductions to influential local contacts. EY Africa draws upon our global and local knowledge to help retain the confidence of investors, manage risk, strengthen controls, grasp opportunities and achieve your potential.

Our Africa integration benefits our clients through:

- Consistent quality standards everywhere
- A "single point of contact" service
- The right EY resource irrespective of country location

Africa Business Center™

Africa is receiving unparalleled attention from large global companies, with the substantial opportunities in oil and gas, mining and agriculture closely followed by consumer-driven demand in the areas of consumer products, telecoms, financial services, information technology and others.

A key element of our Africa Business Center™ is our ability to coordinate our resources across Africa in a manner that provides the client with a single point of contact, and connect our clients to opportunities, from a transaction viewpoint.

Africa Interactive™ is a particular map based software indicating company footprints across Africa, intersecting with key variables relevant to the business for informed investment decision making.

Publications

EYe on Africa

In this quarterly periodical, there is a focus on key topics for firms established in Africa, and those looking to invest: for example, investment opportunities in Kenya, reviews of the Islamic finance industry and the mining and metals sector.





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How to write yourself into the African growth story

In this report, you will find ideas about how to begin developing a growth strategy for Africa. The analysis demonstrates the significant growth potential that exists among Africa's one billion consumers, but also the need, first, to move beyond general analysis of the "African" market to a far more granular level of market-specific detail and, second, to deepen conventional country-based macroanalysis by using other market lenses such as regional trading blocs, urban corridors and cultural or socioeconomic groupings.



Competing for growth

The *Competing for growth* model is an effective framework to help management understand its comparative position in responding to the new economic reality. The challenge is great, but competitive success is more likely for those companies that achieve the optimal balance between their customer reach, operational agility, cost competitiveness and stakeholder confidence.







About Ernst & Young

Ernst & Young is a global leader in assurance, tax, transaction and advisory services. Worldwide, our 141,000 people are united by our shared values and an unwavering commitment to quality. We make a difference by helping our people, our clients and our wider communities achieve their potential.

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