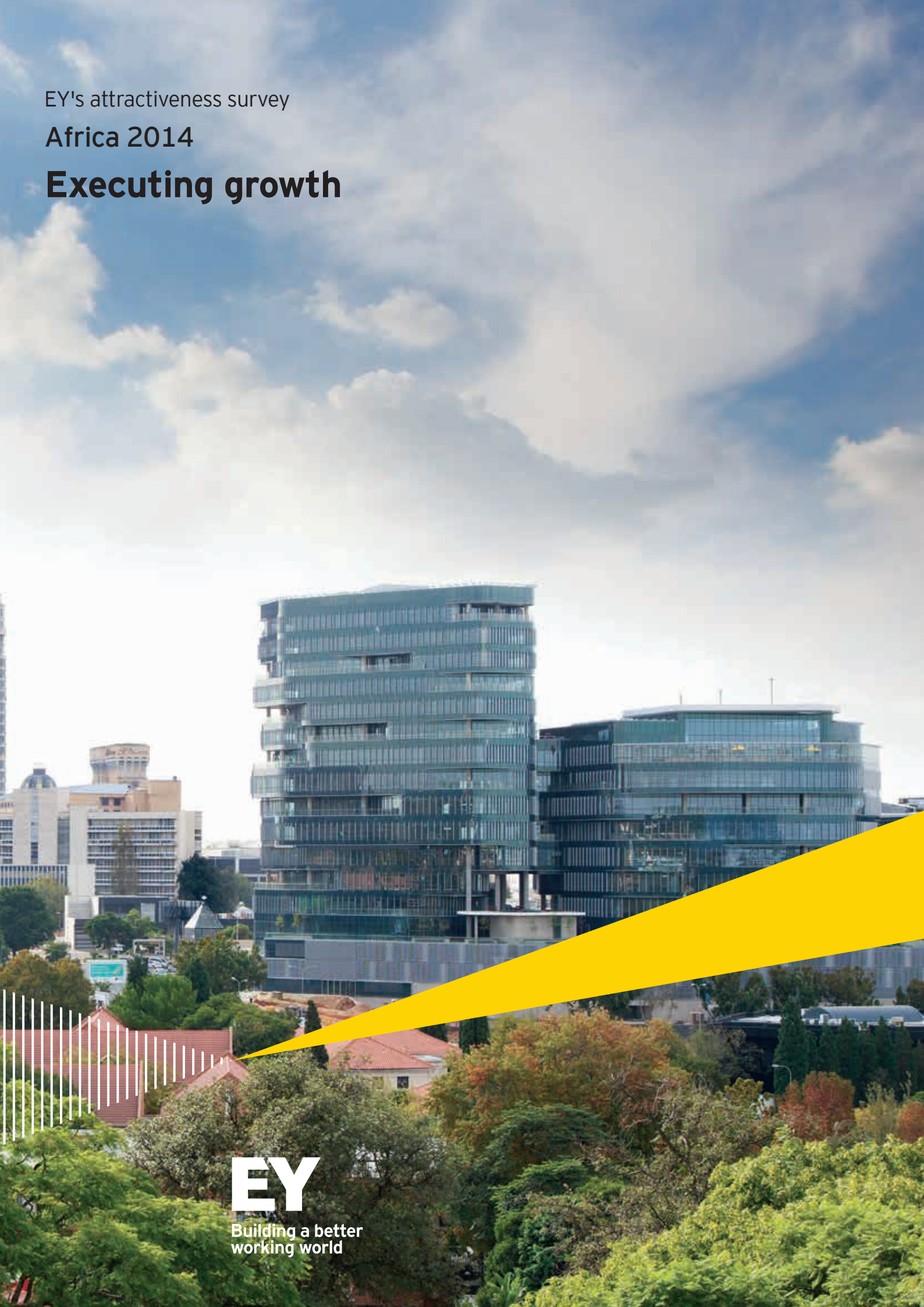


EY's attractiveness survey

Africa 2014

Executing growth



Building a better
working world

Attractiveness

EY's attractiveness surveys

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

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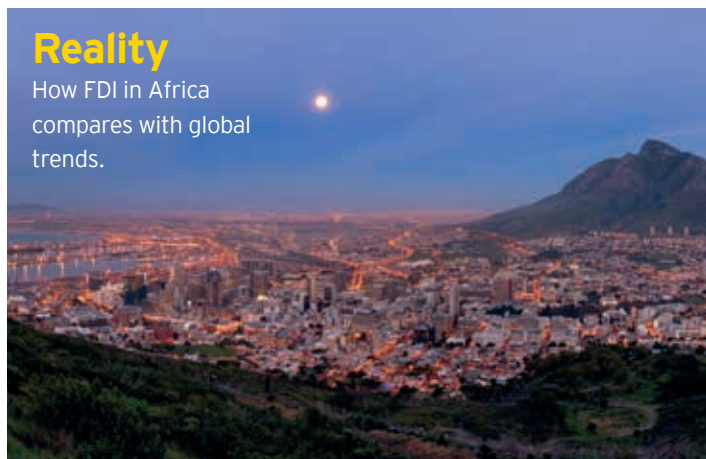
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EY's attractiveness survey: Africa 2014

Reality

How FDI in Africa compares with global trends.



Perception

How investors view Africa's countries, cities and sectors.



Strategy execution

Successfully executing growth strategies in Africa.



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In remembrance

Nelson Rolihlahla Mandela

18 July 1918 – 5 December 2013

To the dedicated freedom fighter. Son. Husband. Father. Grandfather. Great-grandfather. Friend. Activist. African. Attorney. Amateur boxer. Nobel Peace Prize winner. Orator. Peacemaker. First black president of a democratic South Africa. Recipient of over 250 global awards. Hero. Moral and political genius. 46664. Consensus builder. Liberator. Negotiator. Symbol of human rights. Statesman. We pay tribute to Nelson Rolihlahla Mandela, uTata Madiba, a man who will never be forgotten.

Invictus

*Out of the night that covers me,
Black as the pit from pole to pole,
I thank whatever gods may be
For my unconquerable soul.
In the fell clutch of circumstance
I have not winced nor cried aloud.
Under the bludgeonings of chance
My head is bloody, but unbowed.
Beyond this place of wrath and tears
Looms but the Horror of the shade,
And yet the menace of the years
Finds and shall find me unafraid.
It matters not how strait the gate,
How charged with punishments the scroll,
I am the master of my fate:
I am the captain of my soul.*

William Ernest Henley

"I am fundamentally an optimist. Whether that comes from nature or nurture, I cannot say. Part of being optimistic is keeping one's head pointed toward the sun, one's feet moving forward."

Nelson Mandela

Foreword

Investing in the African opportunity



Jay Nibbe

Chair of Global
Accounts Committee,
EY



Ajen Sita

Chief Executive
Officer, EY Africa

We welcome you to the fourth edition of the annual *Africa attractiveness survey*. When it was first decided to embark on this project in 2010, as part of EY's series of attractiveness surveys spanning over a decade, it was somewhat experimental. However, the response to our first and subsequent editions has been so overwhelmingly positive that this has now become an ongoing annual project. This response demonstrates both the increasing levels of investor interest in the continent, and the great need for reliable data and thought leadership that can support decision-making.

In 2010, we had just hosted the first FIFA World Cup on African soil. Despite pretournament concerns about the ability of an African country to prepare for and host a World Cup,

it was widely hailed as one of the best organized and most successful tournaments ever. Over the past four years, this perception gap has been a consistent theme in our reports. Despite the tremendous progress the continent has made in the post-Cold War and postapartheid era, and despite consistent economic growth over the past decade, perceptions about the continent often remain stuck in the past. The good news this year is that this appears to be changing. Among our survey results, what really stands out is the perception of Africa's attractiveness as an investment destination relative to other regions: from being ranked 8th out of 10 regions in our first survey, to 5th in each of the last two years, Africa ranked 2nd overall this year. This remarkable progress in a short space of time shows how the image of Africa has begun to change.

However, at the same time, the number of greenfield and significant expansion (brownfield) FDI projects in Africa in 2013 declined for the second year in a row. Perhaps the shift is not quite as dramatic as the improving perceptions suggest? It is important to go beyond this headline,



**“... we remain
convinced that the
African growth story
is a compelling one”**

and to distinguish between trends in North Africa and sub-Saharan Africa (SSA). While FDI flows into North Africa have declined significantly, those into sub-Saharan Africa continue to grow – by 4.7% last year, and at a compound annual growth rate (CAGR) of 19.5% since 2007. Regional hubs, such as South Africa, Nigeria and Kenya, together with emerging high-growth economies, such as Ghana, Mozambique, Zambia, Tanzania and Uganda, are at the forefront of rising FDI levels.

Given all the positives that we have observed and analyzed over the past four years, we remain convinced that the African growth story is a compelling one, and it should be attracting even greater numbers of FDI projects. Africa's share of global FDI projects has grown steadily in the past decade, but remains at less than 5% of global flows. Over this period, India alone has received a higher proportion than the entire continent of Africa. The perception gap continues to slow the acceleration of FDI flows into Africa, and it is illustrated once again this year by the marked contrast in perceptions between those who are already doing business in Africa and those who are

not yet. Those already active on the continent are more positive than ever about its prospects, and rank it as by far the most attractive investment destination in the world today. Those who are yet to invest are far less enthusiastic, ranking Africa as the least-attractive investment destination in the world. The gap could hardly be wider.

To further dispel some of the persistent myths, and to bolster the confidence of those considering investing in Africa, we shine a light this year on 14 companies that we consider to be among the continent's growth leaders. This group includes some of the largest and most admired companies in the world, as well as several home-grown African multinationals. Some of these companies have roots in Africa that go back over a century, most have been operating here for decades, while a few are relatively new entrants. A common theme among them all is that they are investing in new opportunities, creating jobs and executing growth strategies in Africa. Since 2007, these companies have invested in over 200 FDI projects that have created about 33,000 new jobs with a combined value of close to US\$20b.

Companies like these are embracing Africa's uncertainty, complexity and volatility, understanding that these are common challenges across most emerging markets. They are actively balancing the three tensions that all companies face in doing business in emerging markets: namely, long-term versus short-term focus; profit-taking versus sustainable growth; and managing the whole versus optimizing the parts. Most importantly, these companies are establishing strong competitive positions in key markets and are poised to benefit from the continued growth we anticipate over the next decade.

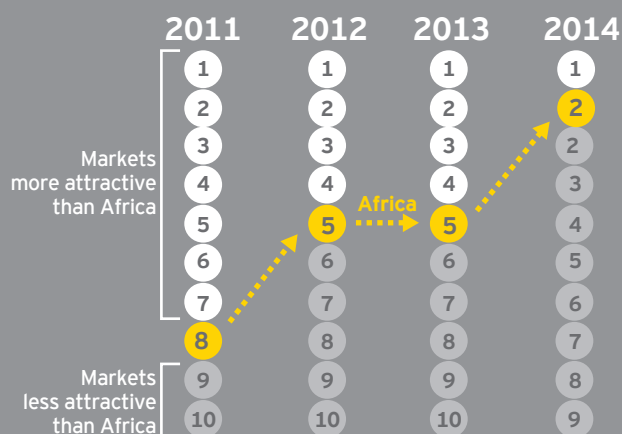
In our first edition of the *Africa attractiveness survey*, we declared, “It is time for Africa!” We also said that there was a window of opportunity to act before others woke up to the African opportunity. That window is now narrowing, and the cost of entering African markets is already beginning to rise. Companies with an already-established presence continue to expand and entrench their advantages. In our opinion, the risk of missing this window is likely to be far greater than any of the risks you will encounter in actually doing business in Africa.

Executive summary

A dramatic improvement in investor perceptions over the past four years

Africa's perceived attractiveness relative to other regions has improved dramatically over the past few years. Africa has moved third-from-last position in 2011 to become the second-most attractive investment destination in the world. This year, only North America ranks ahead of Africa in terms of investment attractiveness. Sixty percent of our survey respondents said that there had been an improvement in Africa's investment attractiveness over the past year, up four percentage points from the 2013 survey. Only 17% believe that conditions have deteriorated. Similarly, nearly three out of four respondents believe that Africa's attractiveness will improve further over the next three years.

Improvement in Africa's relative attractiveness



Respondents citing an improvement in Africa's attractiveness as a place to do business

Attractiveness over the past year

60%

+4 points

Change vs. 2013 survey

Attractiveness over the next three years

73%

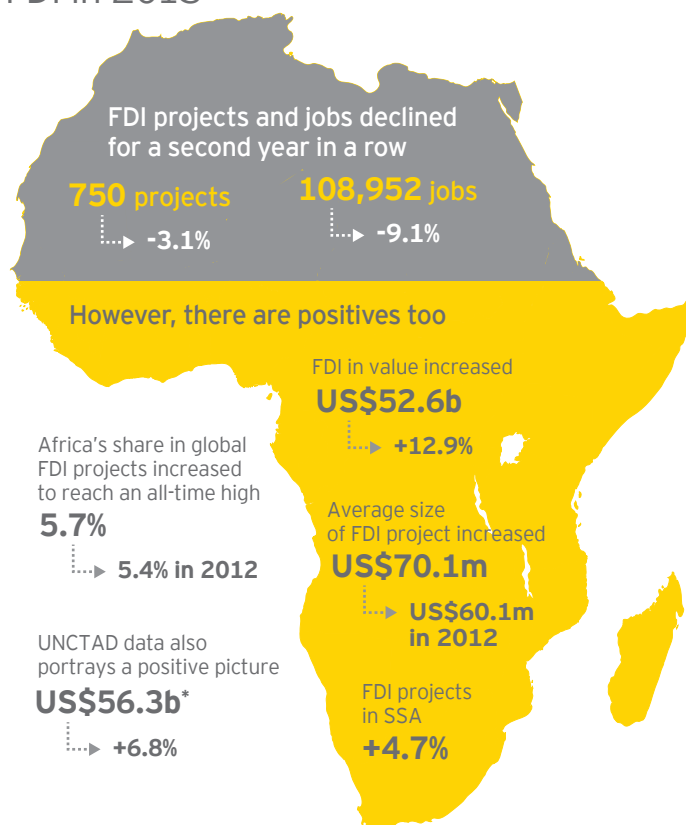
+1 point

Change vs. 2013 survey

Source: EY's 2014 Africa attractiveness survey (total respondents: 503).

FDI numbers reveal a mixed picture

FDI in 2013



Source: fDi Intelligence
* UNCTAD.

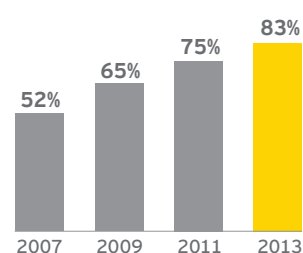
In 2013, the number of new FDI projects in Africa declined for the second consecutive year, by 3.1%. Job creation resulting from FDI projects also slowed in 2013. This was largely caused by the decline in North Africa, due to regional political uncertainty. However, more positively, the number of new FDI projects in SSA increased 4.7% in 2013. Capital investment into Africa also grew by a healthy 12.9%, with a higher average project size of US\$70.1m in 2013, from US\$60.1m in 2012.

Furthermore, Africa's share of global FDI flows has been improving year on year. In 2013, Africa's share of global FDI projects reached 5.7% – its highest level in a decade. And an analysis of United Nations Conference on Trade and Development (UNCTAD) FDI data also reveals a story of steady progress: companies already established in the region are bolstering their presence and reinvesting their profits for growth.

Three key trends gain further momentum

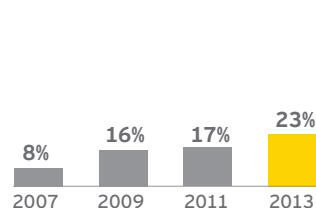
In previous editions of the *Africa attractiveness survey*, we have highlighted three broad shifts. These continued to gain traction in 2013. First, the SSA growth story has caught investor attention, with an increasing number of FDI projects now being directed to the region. This trend accelerated in 2013, with SSA's share in overall African FDI projects and job creation reaching all-time highs.

1 SSA share of FDI rises



Share of SSA in FDI projects in Africa reached an all-time high in 2013.

2 Intra-African investment momentum builds



Share of intra-African projects in the continent reached an all-time high in 2013.

3 Consumer-facing industries rise in prominence

	2003-07	2013
Technology, media and telecommunications	14%	20%
Retail and consumer products	12%	17%
Financial services	12%	15%
Business services	6%	12%
Metals and mining	13%	2%
Coal, oil and natural gas	11%	3%

Share of extractive sectors in FDI projects in Africa reached an all-time low in 2013.

Source: fDi Intelligence.

Within SSA, Southern Africa is the leading region in terms of absolute numbers of FDI projects, while both East and West Africa have experienced strong growth rates. South Africa remains the largest destination for FDI projects, with a widening lead. However, a number of other countries, including Ghana, Nigeria, Kenya, Mozambique, Tanzania and Uganda, are becoming more prominent on investors' radar. Kenya and Ghana featured in the top four rankings in 2013 for the first time, having previously ranked in the bottom half of the top 10 FDI destinations.

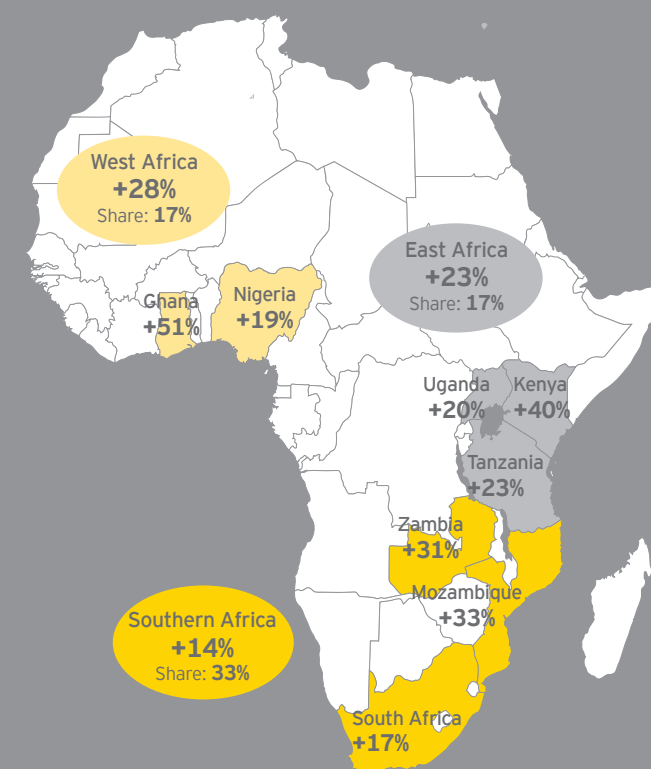
A second major shift is the growing share of intra-regional investment in Africa (CAGR of 31.5% in FDI projects between 2007 and 2013). This is encouraged by improving regional value chains and strengthening regional integration. The share of FDI projects in Africa with other African countries as their source reached 22.8% in 2013 – an all-time high. Intra-African investment is second only to Western Europe as a source for FDI on the continent. Intra-African investments are also the second-largest source of job creation on the continent. South Africa is the most active intra-African investor, followed by Kenya and Nigeria.

Overall, the US and the UK remain the top two sources of investment into Africa, while the number of FDI projects from Asian countries, particularly India, is on a rise.

The third shift is a change in sector focus, from extractive to consumer-facing industries. Mining and metals, and coal, oil and natural gas, which were previously the key sectors attracting major FDI flows, have recently become less prominent, as service- and consumer-related industries have increased in relative importance. In fact, the share of the extractive sector in FDI projects was at its lowest ever level in 2013, while the share of consumer-facing industries, particularly technology, media and telecommunications (TMT), retail and consumer products (RCP) and financial services, has been increasing continuously. This matches with investor perceptions. Although resource-driven sectors are expected to remain the highest-potential industries over the next two years, infrastructure and consumer-facing sectors are expected to increase in prominence.

New FDI hotspots are emerging in Africa

CAGR and share in FDI projects (2007-13)



Source: fDi Intelligence.

The key hub economies attract the strongest FDI flows – matching investor perceptions

Investors see the three regional hub markets – namely South Africa in the south, Nigeria in the west and Kenya in the east – as the most attractive investment destinations in SSA. These three countries account for over 40% of total FDI projects in SSA. Angola, which is the fourth-largest recipient of FDI projects, is similarly perceived to be the fourth-most attractive investment destination. However, investors who are not yet established in Africa are less aware of opportunities in countries other than South Africa. For instance, while 27.5% of investors already doing business in Africa express interest in Nigeria, only 13.3% of respondents with no business presence view the country as attractive.

In North Africa, too, we find that FDI flows are a reasonably close match with investor perceptions. Morocco and Egypt are seen as the two most attractive countries in North Africa, by 55% of investors. In reality also, these two countries received approximately 60% of the FDI projects between 2007 and 2013.

Key African hubs: reality vs. perception

Share

	Reality*	Perception**
SSA		
South Africa	24%	37%
Nigeria	9%	9%
Angola	8%	6%
Kenya	7%	6%
North Africa		
Morocco	30%	31%
Egypt	31%	24%

* Top countries by share of FDI projects (2007-13).

** Top countries perceived as most attractive by investors.

Source: EY's 2014 Africa attractiveness survey (total respondents: 503); fDi Intelligence.

FDI flows to large urban clusters in the key hubs

Africa's cities are now emerging as the hotspots of economic and investment activity on the continent. Transport corridors* and trade routes are being developed to connect these cities, transforming them into sizable urban clusters, large enough for consumer-facing companies to target. Nearly 70% of the respondents to our survey stressed the significance of cities and urban centers in their investment strategy in Africa.

In terms of perception, city attractiveness closely maps country appeal. In SSA, half of the respondents quote a South African city as first option. Johannesburg is considered the most attractive city in which to do business, ahead of Cape Town. Nairobi and Lagos are ranked as the third and fourth most attractive cities, respectively. In North Africa, Casablanca, Cairo and Tunis are perceived as the top three cities in which to do business. Our investors also highlighted that, in order to attract greater investments, cities need to focus on the following critical factors: infrastructure (77%), consumer base (73%), local labor cost and productivity (73%) and a skilled workforce (73%).

Top 15 African states and provinces for FDI projects (2007-13)



Africa's urban appeal

Top African cities according to survey respondents

North Africa	
Casablanca	26%
Cairo	20%
Tunis	8%
Algiers	8%
Can't say	27%
SSA	
Johannesburg	34%
Cape Town	15%
Nairobi	6%
Lagos	5%
Can't say	23%

Source: EY's 2014 Africa attractiveness survey (total respondents: 503).

* Transport corridors can be understood as networks of transport routes and services – road, rail, inland waterways – linking trade markets with ports.

Sources: fDi Intelligence, EY analysis.

The stark perception gap remains

While investor perceptions about Africa have improved dramatically, improvement in FDI numbers has been more modest. The most likely reason for this is the stark and enduring perception gap, illustrated in our survey by the differences between respondents established in Africa and those with no business presence in the continent. Those with an established business presence are more positive than ever about Africa's prospects, and they rank it as the most attractive investment destination in the world. These investors have concrete

action plans to generate growth in Africa, and many of them are investing in growth across the continent.

On the other hand, investors not yet established in Africa are far less confident about the continent's prospects. Only 39% believe that Africa's attractiveness has improved, while only 51% believe it will improve in the future. Their less optimistic view is, however, slowly changing – improving from last year's 31.2% and 47.3%, respectively.

Respondents who ...

... believe Africa's attractiveness has improved over the past year

73%

Established

39%

Not established

... believe Africa's attractiveness will improve over the next three years

87%

Established

51%

Not established

... have a specific strategy for investment in Africa

67%

Established

10%

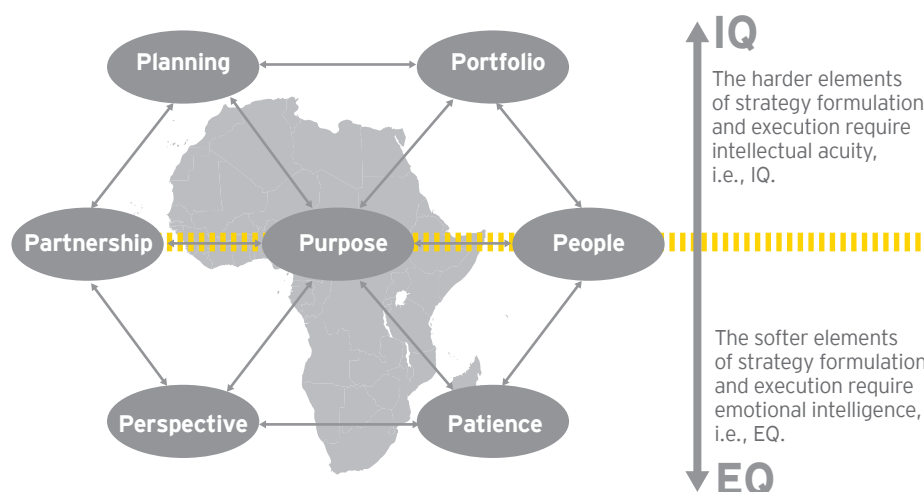
Not established

Source: EY's 2014 Africa attractiveness survey (total respondents: 503).

Executing growth: lessons from growth leaders in Africa

Whatever the perceptions may be, an increasing number of companies – both global and African-headquartered multinationals – are successfully growing in Africa. In this year's report, we profile some of these growth leaders in Africa. More specifically, we have analyzed how these companies have addressed the key challenges faced when doing business on the continent. We have distilled the lessons they have learned into a set of capabilities that are critical to the effective execution of growth strategies in Africa. By rating themselves on these seven capabilities, businesses can assess their level of strategic thinking and execution, wherever on the growth curve they may be.

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



Source: EY, Africa Business Center™.

Glossary

- ▶ CAGR: Compound annual growth rate
- ▶ COMESA: Common Market for Eastern and Southern Africa
- ▶ DIP: Diversified industrial products
- ▶ DRC: Democratic Republic of Congo
- ▶ EAC: East African Community
- ▶ ECOWAS: Economic Community of West African States
- ▶ FDI: Foreign direct investment
- ▶ ICT: Information and communication technology
- ▶ RHC: Real estate, hospitality and construction
- ▶ RCP: Retail and consumer products
- ▶ SADC: Southern African Development Community
- ▶ SSA: Sub-Saharan Africa
- ▶ TMT: Technology, media and telecommunications.

Reality



Image: Panorama of Cape Town, South Africa at twilight.

Good progress, despite setbacks

How FDI in Africa compares with global trends.



Key points

1

Despite dramatic progress in investor perceptions about Africa, the overall FDI numbers reveal a more muted story. FDI projects on the continent declined for the second year in a row, down 3.1% in 2013.

2

However, a further breakdown reveals many encouraging developments:

- ▶ The persistent decline in FDI projects into North Africa distorts the picture somewhat. FDI project numbers in SSA actually increased nearly 5% in 2013. Indeed, projects directed toward the SSA region have increased at a CAGR of 19.5% between 2007 and 2013.
- ▶ Furthermore, Africa's share of global FDI projects has been increasing, accounting for 5.7% in 2013, up from 3.6% in 2003.
- ▶ The average size of FDI projects in US dollar terms also increased in 2013.

3

The FDI numbers in Africa over the past decade reveal three major trends, with each gaining further momentum in 2013:

- ▶ FDI projects into SSA continued to grow. While South Africa maintained its position as the top FDI destination, new hotspots for investment are emerging. Kenya, Ghana, Mozambique, Uganda, Tanzania and Zambia are becoming more prominent. FDI projects in all these countries grew at a CAGR of more than 20% since 2007.
- ▶ African-headquartered companies maintained high levels of confidence in the continent. Intra-African investment reached an all-time high share of 22.8% of total FDI projects in 2013. Intra-African projects grew at a CAGR of 31.5% between 2007 and 2013.
- ▶ Since 2009, consumer-facing industries, including financial services, TMT and RCP, have been the top sectors for FDI projects in Africa.

4

Rapid urbanization, a growing consumer class and investments in infrastructure are laying foundations for the development of urban clusters and corridors. These will be key drivers of economic activity in the future. Many will cross national boundaries, link up major populations that are living in close proximity, and create sizable markets and trade routes.

FDI in Africa in 2013: a mixed picture

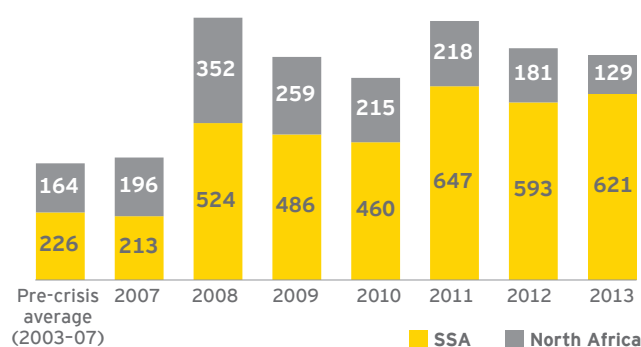
FDI projects declined in Africa, overall

Economic growth in Africa is among the strongest in the world. But the number of FDI projects in the continent has declined over the last two years. In 2013, FDI project announcements in Africa were down 3.1%. This decline was due overwhelmingly to political instability in North Africa. Despite this recent dip, the 750 FDI projects announced last year are way in excess of the pre-crisis average of just 390 projects per year.

Several positive signs suggest that the longer-term FDI trend in Africa remains one of steady growth.

FDI projects in Africa

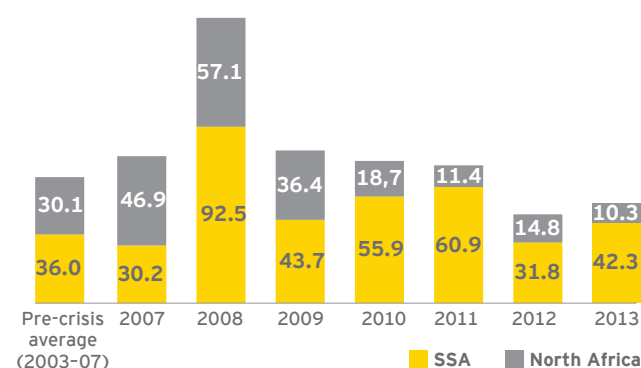
(Number of projects)



Source: fDi Intelligence.

Capital invested in FDI projects

(US\$b)



Source: fDi Intelligence.

FDI projects in SSA grew nearly 5% in 2013

There is a noticeable divide between FDI trends in North Africa versus SSA. While FDI projects in North Africa declined 28.7%, projects in SSA increased 4.7%, reversing the decline of 2012. This further widened the gap between the two subregions, with SSA's share of FDI projects exceeding 80% for the first time. Between 2007 and 2013, FDI projects in SSA have registered a CAGR of 19.5%.

FDI projects in Africa declined by **3%** in 2013.

FDI amount in Africa increased by **13%** in 2013.

Fewer but larger projects in 2013

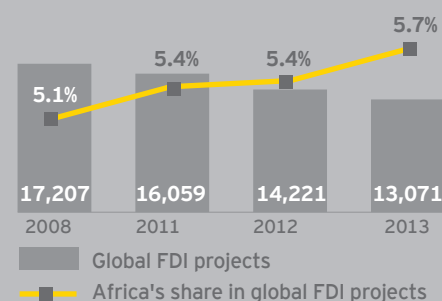
While project numbers were down in 2013, the estimated value of total investments in Africa rose 12.9%, as a result of several large deals. The average size of FDI projects increased to US\$70.1m, from US\$60.1m in 2012. These capital-intensive projects were largely directed toward two sectors: extractive and real estate, hospitality and construction (RHC).

One example is Turkish textile company Taypa. It is planning to build a textile clothing industry cluster in Relizane province, Algeria, in partnership with the country's state holding company Société de Gestion des Participations Industries Manufacturières. This project involves an investment outlay of US\$900m and is expected to create 10,000 jobs.¹ Similarly, Korea Electric Power (KEPCO) has signed a deal to invest US\$588m to build a coal-fired power plant in Senegal.²

1. "Call for manufacturers: Authorities seek to increase the sector's weight and establish new industrial clusters," *Oxford Business Group website*, www.oxfordbusinessgroup.com, accessed 13 March 2014.
2. "South Korea's KEPCO to build coal-fired power plant in Senegal," *Reuters website*, 16 May 2013, www.in.reuters.com/article, accessed 13 March 2014.

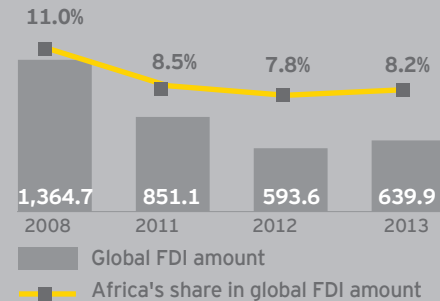
Global FDI projects

(number of projects)



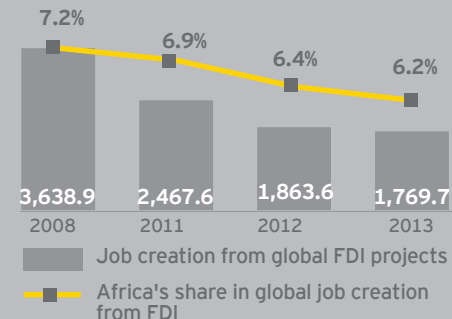
Global FDI amount

(US\$b)



Global job creation from FDI projects

(in thousands)



Source: fDi Intelligence.

In 2013, Africa received

5.7%
of global FDI projects.

Global FDI investment from FDI projects increased by 7.8% and inflows to Africa were up by

12.9%.

Africa's share of global FDI projects increases

Africa's relative share of global FDI continues to rise. In 2013, it received 5.7% of global FDI projects. This is up from just 3.6% in 2003 and represents its highest share in the past decade. In terms of capital invested, Africa's proportion of the global total increased, albeit more moderately, from 7.8% in 2012 to 8.2% in 2013. However, in terms of jobs created as a result of this investment, its share has fallen to 6.2%.

Overall, global FDI project numbers continued to fall, down 8.1% in 2013. Only two regions, Latin America (and the Caribbean) and SSA, posted an increase in FDI projects. Across the rest of the globe, North America posted the smallest decline.

FDI projects by region

(2013 vs. 2012)

Latin America (and the Caribbean)	17.1%	
SSA	4.7%	
	-0.9%	North America
	-3.1%	Africa
	-5.9%	Rest of Europe
	-8.3%	Middle East
	-14.7%	Western Europe
	-15.1%	Asia Pacific
	-28.7%	North Africa

Source: fDi Intelligence.

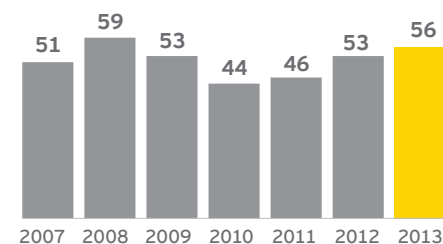


UNCTAD data portrays a positive picture

To better understand Africa's relative position, we have also examined FDI data from the UNCTAD. While fDi Intelligence tracks new greenfield and significant expansion (brownfield) FDI projects, it does not include M&A or other equity investments. UNCTAD looks more broadly at net flows of FDI capital, including equity capital, reinvested earnings and intra-company loans. According to UNCTAD, FDI flows to Africa reached US\$56.3b in 2013, an increase of 6.8% on the previous year. The UNCTAD numbers indicate that there is growing confidence about the continent's prospects among companies already established in Africa. These companies have been reinvesting their profits in Africa for growth.

Strong inflows to Southern Africa – particularly with South Africa and Mozambique attracting US\$10b and US\$7b respectively – were responsible for the increase in FDI flows to the African continent. In growth terms, South Africa also outperformed other Brazil, Russia, India, China and South Africa (BRICS) countries, with a 126% rise in FDI inflows. This increase was driven largely by greenfield investment, particularly in the consumer goods sector.

FDI flows to Africa (US\$b)



In North Africa, only Morocco posted solid growth in FDI inflows (+24%), with ongoing political and social uncertainty derailing FDI in the rest of the region. However, big cross-border deals targeting Egypt suggest the possibility of a resurgence of investor interest in North Africa.

Sources: "South Africa was continent's top FDI recipient in 2013," Reuters website, 28 January 2014, www.reuters.com, accessed 4 March 2014; fDi Intelligence.

FDI flows to Africa grew by

6.8% in 2013 to reach US\$56.3b, the highest since 2008.
-UNCTAD

Snapshot of FDI projects in 2013

SSA remains the leading destination

After a decline in 2012, FDI projects in the SSA region increased by nearly 5% in 2013. As a result, the share of SSA in total FDI projects in Africa reached an all-time high of 82.8%. This was led by encouraging performance in West Africa and East Africa,

where FDI projects increased by 20.5% and 7.4% respectively. On the other hand, FDI projects in North Africa were down by 28.7% in 2013. During the year, for the first time, both West Africa and East Africa overtook North Africa in terms of FDI projects.

FDI by destination region and subregion

	Pre-crisis average 2003-07		2012	2013	% change 2013 vs. 2012	
North Africa	164		181	129		-28.7%
SSA	226		593	621		+4.7%
Southern Africa	118		271	262		-3.3%
West Africa	57		151	182		+20.5%
East Africa	43		148	159		+7.4%
Central Africa	7		23	18		-21.7%

Source: fDi Intelligence.

Zambia and Uganda enter top 10 list

There was significant movement in the list of the top 10 countries by FDI projects in 2013. Only South Africa and Nigeria retained their respective first and third positions. However, FDI projects in both these countries witnessed a slight decline. Countries such as Kenya, Ghana and Mozambique moved up the ranks, with a solid increase in FDI projects. Zambia and Uganda were the new

entrants in the top 10 list in 2013; both registered an increase of more than 20% in FDI projects. In contrast, North African countries such as Morocco and Egypt slipped on the rankings ladder, with Tunisia (ranked 8th in 2012) out from the top 10 list in 2013.

FDI by destination country

	Pre-crisis average 2003-07		2012	2013	% change 2013 vs. 2012	
South Africa	63		155	142		-8.4%
Kenya	12		54	68		+25.9%
Nigeria	25		60	58		-3.3%
Ghana	12		39	58		+48.7%
Egypt	47		60	44		-26.7%
Morocco	48		63	41		-34.9%
Mozambique	4		25	33		+32.0%
Zambia	8		19	25		+31.6%
Tanzania	8		32	24		-25.0%
Uganda	8		17	21		+23.5%

Source: fDi Intelligence.

RCP became the second-most attractive sector

The top three sectors – TMT, RCP and financial services – accounted for more than 50% of the total projects in 2013. During the year, RCP overtook financial services to become the second-most attractive sector in Africa. FDI projects in the RHC

sector increased by 62.5%, making the sector the fifth most attractive, up three positions from 2012. On the other hand, for the first time ever in 2013, mining and metals exited the top 10 sectors when measured by FDI project numbers.

FDI by sector

	Pre-crisis average 2003-07	2012	2013	% change 2013 vs. 2012
TMT	54	161	150	-6.8%
RCP	46	100	131	+31.0%
Financial services	47	133	112	-15.8%
Business services	25	98	88	-10.2%
RHC	37	32	52	+62.5%
Transport and logistics	19	37	50	+35.1%
Diversified industrial products (DIP)	17	45	39	-13.3%
Coal, oil and natural gas	42	23	26	13.0%
Automotive	22	24	21	-12.5%
Chemicals	15	29	19	-34.5%

Source: fDi Intelligence.

Intra-regional FDI projects at an all-time high

In terms of source regions, only FDI projects from Africa and Asia Pacific increased in 2013. The share of intra-African FDI projects reached an all-time high of 22.8% in 2013, from 18.2% in 2012.

In terms of capital investment, Western Europe took up the lead position for the first time since 2010, outstripping Asia Pacific and the Middle East.

FDI by source region

	Pre-crisis average 2003-07	2012	2013	% change 2013 vs. 2012
Western Europe	164	278	277	-0.4%
Africa	32	141	171	+21.3%
Asia Pacific	64	131	143	+9.2%
North America	77	111	87	-21.6%
Middle East	37	87	56	-35.6%
Rest of Europe	12	18	11	-38.9%
Latin America (and the Caribbean)	4	8	5	-37.5%

Source: fDi Intelligence.

Snapshot of FDI projects in 2013

The UK emerges as the largest investor; projects from Spain and Japan rise sharply

The UK became the clear leader in 2013, after being tied with the USA in first place in the previous year. South Africa, the third-largest investor, directed 63 projects into the rest of Africa, up 425% from its pre-crisis levels, when on average only 12 projects a year were signed. There was a sharp uptake in FDI

projects by Spanish and Japanese companies, with the latter re-entering the top 10 list. In terms of capital, India maintains its position as the leading investor on the continent. This was followed by South Africa, from where FDI capital to the rest of Africa increased almost 2.5 times on 2012 levels.

FDI by source country

	Pre-crisis average 2003-07	2012	2013	% change 2013 vs. 2012
UK	37	98	104	+6.1%
US	57	98	78	-20.4%
South Africa	12	75	63	-16.0%
India	17	41	49	+19.5%
United Arab Emirates (UAE)	17	56	41	-26.8%
Germany	13	31	34	+9.7%
Spain	13	21	32	+52.4%
France	48	39	31	-20.5%
Japan	10	17	30	+76.5%
Kenya	2	21	23	+9.5%

Source: fDi Intelligence.



Three key trends gain further momentum

Our analysis of African FDI projects over the last decade reveals three broad and significant trends, all of which accelerated in 2013. These are:

- ▶ The growth of investment into SSA
- ▶ The expansion of intra-African investment
- ▶ The shift of investment from extractive to consumer-facing sectors

SSA's share of FDI rises

There is a clear dichotomy between FDI flows into North Africa and SSA. While FDI in the latter has increased steadily over the last few years, political uncertainty in North Africa has led to fewer FDI projects and lower capital investments.

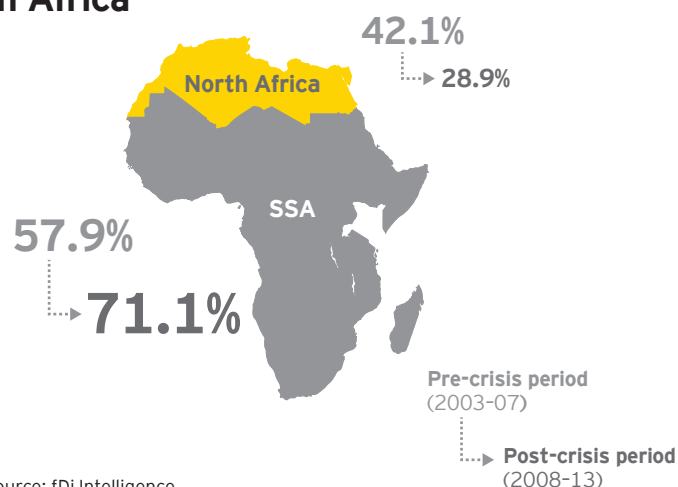
Share of SSA in FDI projects and job creation reaches an all-time high in 2013.

Comparing FDI flows pre-crisis (2003-07) with post-crisis (2008-13), we find that 2007 proved to be a tipping point for SSA. Since 2007, SSA has accounted for an increasing share of projects, both by number and value. This trend accelerated in 2013, with SSA's share of overall

African FDI projects and job creation achieving all-time highs of 82.8% and 79%, respectively. This growth is underpinned by solid FDI flows to four countries in particular: South Africa, Kenya, Ghana and Nigeria.

The rates of return for inward investment in SSA are also among the highest in the world. According to UNCTAD, in 2011, four SSA countries featured among the top 20 economies in terms of FDI rates of return.³ In our previous editions of the *Africa attractiveness survey*, we have discussed the factors behind the SSA growth story. They include: **strong macroeconomic growth and outlook, improving business environment, rising consumer class, abundant natural resources, democratic dividend and infrastructure development.**

FDI projects by destination region in Africa



Source: fDi Intelligence.

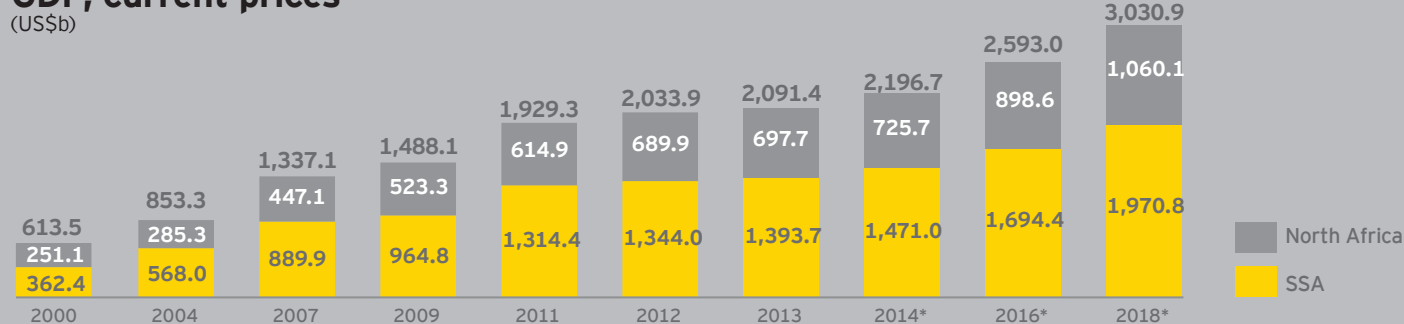
CAGR by FDI projects

	Post-crisis period 2008-13	Pre-crisis period 2003-07
Africa	+10.6%	+5.0%
North Africa	-6.7%	+11.7%
SSA	+19.5%	+0.2%

Source: fDi Intelligence.

3. *World Investment Report*, United Nations Conference on Trade and Development (UNCTAD), July 2013.

GDP, current prices



	Multiple since 2003		CAGR 2003-13		CAGR 2007-13
SSA	3.1		11.8%		7.8%
North Africa	2.8		10.7%		7.7%
Africa as a whole	3.0		11.4%		7.7%

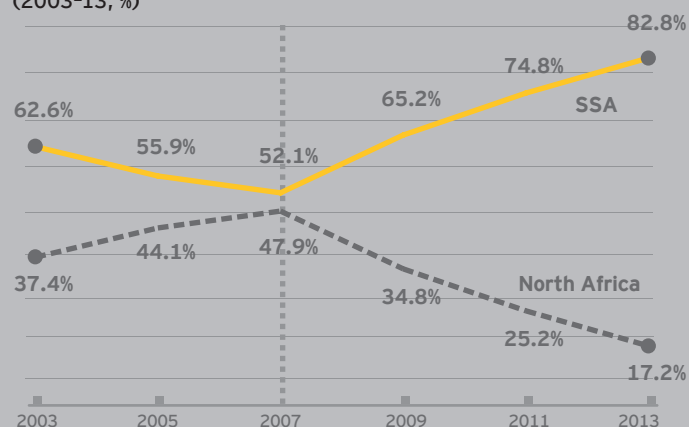
SSA's economic output has been on a steady upward growth trajectory

*Estimates

Source: IMF World Economic Outlook Database, April 2014.

FDI projects

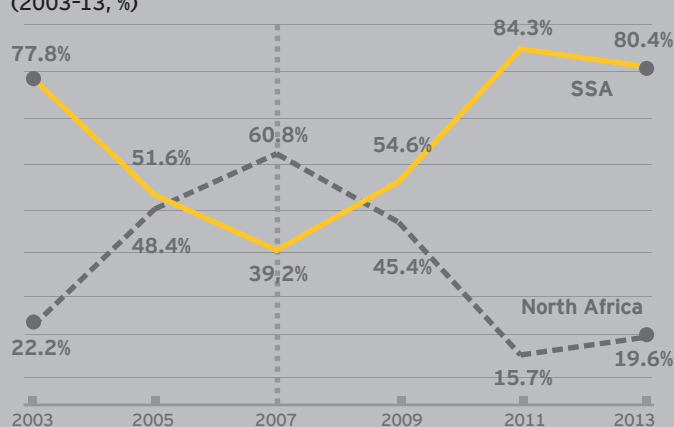
(2003-13, %)



Source: fDi Intelligence.

FDI amount

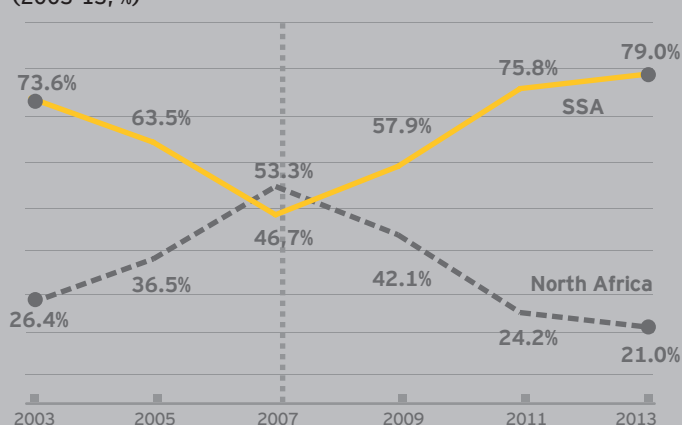
(2003-13, %)



Source: fDi Intelligence.

Job creation from FDI projects

(2003-13, %)



Source: fDi Intelligence.

FDI flows primarily to three major sub-Saharan African regional hubs

This year, we have analyzed the four subregions that constitute the sizeable SSA region: Southern Africa, West Africa, East Africa and Central Africa.

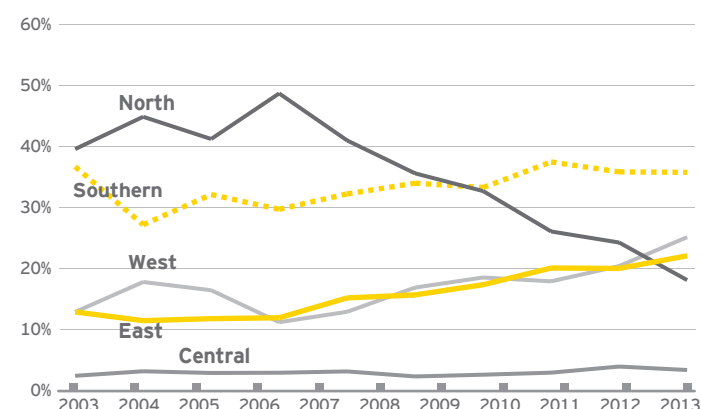
Southern Africa surpasses North Africa, and there is strong growth in East and West Africa.

West and East Africa emerge as the fastest-growing regions in Africa.

Examining investment trends, there has been a definite fall-off in North Africa's share of total FDI projects. Southern Africa overtook North Africa in 2010 as the largest FDI hub, and the gap has increased since. In 2013, both West and East Africa surpassed North Africa in FDI projects for the first time, becoming the second and third most attractive subregions in Africa.

FDI projects by Africa regions

(Share)



Source: fDi Intelligence.

CAGR by FDI projects

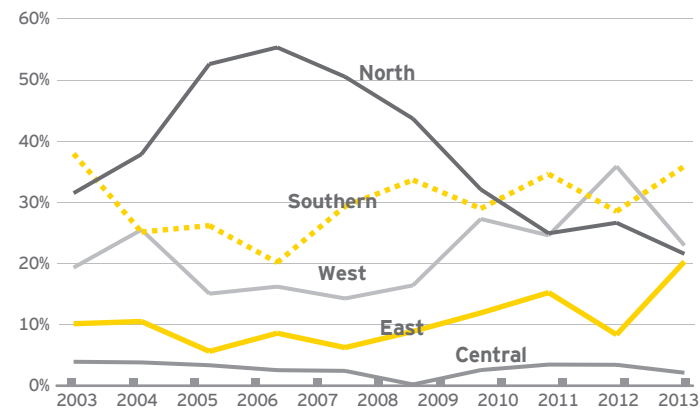
(2007-13)

	Share of FDI projects 2007-13	CAGR 2007-13
Southern Africa	33.5%	14.2%
North Africa	30.4%	-6.7%
East Africa	17.0%	23.4%
West Africa	17.0%	27.7%
Central Africa	2.1%	14.5%

Source: fDi Intelligence.

Job creation from FDI projects

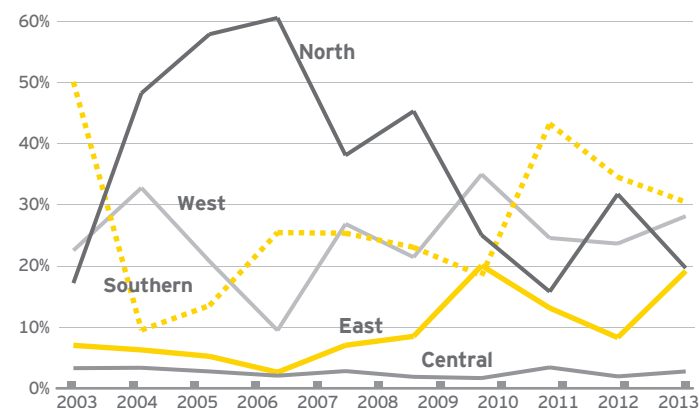
(Share)



Source: fDi Intelligence.

FDI amount

(Share)



Source: fDi Intelligence.

Selected African Regional Economic Communities

The **Common Market for Eastern and Southern Africa** (COMESA), whose 20 members include all East African countries except Tanzania and seven countries of Southern Africa.



The **Economic Community of West African States** (ECOWAS), whose 15 members encompass all of West Africa.



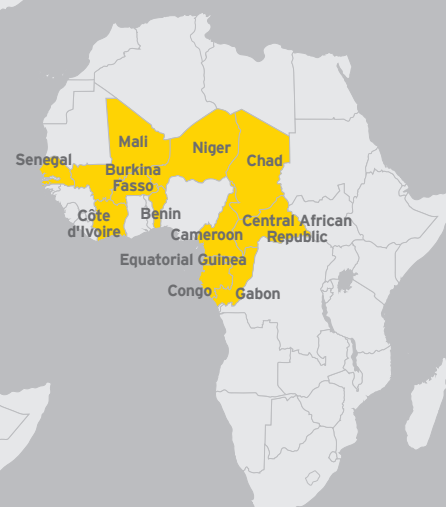
The **East African Community** (EAC), made up of five East African countries.



The **Southern African Development Community** (SADC), whose 14 members cover all of Southern Africa.



The **Franc zone countries**.



Top 15 countries by FDI projects

(2007-13)

	Share of projects (%)	Share of amount (%)	Share of job creation (%)	CAGR (FDI projects)
South Africa	16.9%	8.7%	11.6%	+16.8%
Egypt	9.4%	12.8%	11.0%	-3.4%
Morocco	9.0%	7.1%	11.2%	-5.9%
Nigeria	6.0%	10.0%	6.1%	+19.4%
Tunisia	5.4%	7.0%	6.5%	-8.7%
Kenya	5.4%	1.7%	2.7%	+40.1%
Angola	4.8%	5.5%	3.3%	-7.4%
Ghana	4.4%	4.3%	3.7%	+50.5%
Algeria	4.3%	6.8%	6.0%	-10.4%
Tanzania	3.0%	1.6%	1.8%	+22.8%
Uganda	2.8%	2.9%	1.8%	+20.1%
Mozambique	2.7%	5.6%	3.5%	+32.9%
Zambia	2.4%	1.7%	3.2%	+30.8%
Libya	2.3%	1.7%	2.0%	-11.6%
Rwanda	1.7%	0.6%	0.5%	+6.3%

Source: fDi Intelligence.

Southern Africa: South Africa acts as an anchor, attracting most interest

The strength of Southern Africa as an investment destination is derived largely from the power of the South African economy. South Africa has maintained its lead in FDI projects, positioning itself as a launchpad for foreign investment into the fast-growing African markets to its north. While some investors are concerned that the country may lose its “gateway to Africa” status, FDI numbers indicate that it remains very attractive. In FDI project numbers, South Africa has widened its lead over other countries since 2008. In fact, in 2012 and 2013, the country received at least double the number of FDI projects of the second-largest recipient. FDI projects in South Africa have increased at a CAGR of more than 16% since 2007. In 2013, South Africa's FDI projects alone exceeded those of the whole of North Africa.

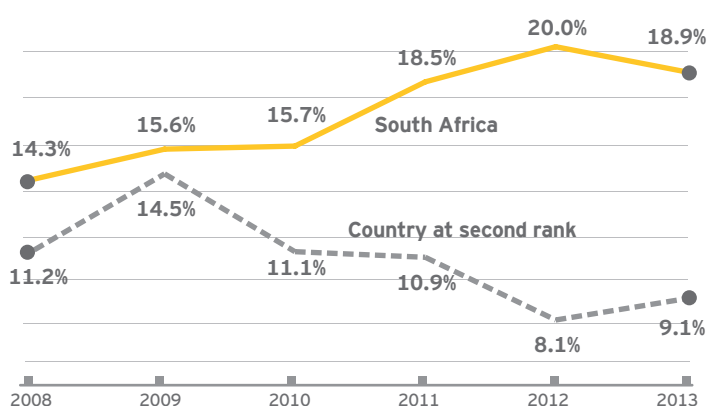
Southern Africa includes other growth nodes too. Since 2007, FDI projects in Mozambique and Zambia have grown at a CAGR in excess of 30%. Although FDI projects into Angola declined in 2013, the country remains an important FDI destination. It was one of the world's fastest-growing economies between 2003 and 2013, with GDP growth averaging 11%.⁴ Plans for a US\$5b sovereign wealth fund, a stock exchange in Luanda and a potential debut sovereign Eurobond add to the country's lure for foreign investors.⁵ Additionally, Angola is ramping up its infrastructure, especially ports and airports, to meet its aim of US\$4b in non-oil foreign investments by 2017.⁶

4. Oxford Economics database, accessed 4 March 2014.

5. “AFRICA INVESTMENT-Big rewards beckon in Angola, but little transparency,” *Reuters website*, 2 August 2013, www.in.reuters.com, accessed 28 January 2014.

6. “Angola Boosts Infrastructure Spend to Attract Investment,” *Bloomberg website*, 3 October 2014, www.bloomberg.com/news, accessed 4 March 2014.

Share of total FDI projects in Africa



Source: fDi Intelligence.

South Africa expands FDI projects' lead in Africa since 2008.



West Africa: the power of Nigeria and Ghana

West Africa is dominated by Nigeria's sheer size, with a GDP that accounts for more than 80% of the region's total output. While Nigeria benefits from its large population and its oil reserves, Ghana has recently attracted investor attention on account of its abundant natural resources, its strong investment environment and its stable and well-established democracy.⁷

FDI projects in West Africa grew at a CAGR of 27.7% between 2007 and 2013, the strongest growth on the continent. The region presents a story of rapid economic growth and an expanding consumer class, and it is transforming more and more into a demand-driven economy. Together, the 15 member countries of the ECOWAS have a population in excess of 300 million, with Nigeria alone accounting for more than half.⁸ So, the opportunity is huge. Demand for housing, power, infrastructure, education and pharmaceuticals will continue to rise steeply in line with increasing urbanization. This will drive opportunities, particularly for consumer-facing industries, and supply chain and logistics companies.

East Africa: regional integration drives interest

Since 2007, FDI projects in East Africa have grown at a CAGR of 23.4%, the second-highest rate in Africa. This region is unique in terms of its investor base. While Western Europe is the leading investor in the other regional hubs, African countries have taken the lead in investing in the eastern hub. The largest investor in the region is, in fact, Kenya.

East Africa's appeal lies in its large market opportunities, recent discoveries of natural resources and ongoing market integration through the EAC, made up by Kenya, Uganda, Tanzania, Rwanda and Burundi. Home to approximately 210 million people, the region's attractiveness for consumer-facing industries is growing.⁹ Opportunities also exist in the TMT sector, with more than 50 million East Africans having mobile phone subscriptions. The uptake of mobiles has jumped 550% in five years, making East Africa the world's fastest-growing market.¹⁰

Additionally, through the auspices of the EAC, inter-country links in the region have been deepening. For example, the EAC is harmonizing legislation relating to the EAC Customs Union and common market protocols. In November 2013, the five EAC member countries also laid the groundwork for a common currency by 2023.¹¹ Numerous construction and infrastructure upgrades are also in progress, such as Kenya's US\$4b Mombasa-Nairobi railway line, the renewal of the Addis Ababa-Djibouti line, and the upgrade of the main northern corridor that links Mombasa to Uganda.

7. *Successfully investing in West Africa: Reflections from the Africa Strategic Growth Forum 2013*, EY, June 2013.

8. "IMF World Economic Outlook Database- October 2013," *IMF website*, www.imf.org, accessed 29 January 2014.

9. *The East Africa Boom: don't be left behind*, Ernst & Young, April 2013.

10. *Invisible infrastructure: The rise of Africa's mobile middle class*, *Vodafone website*, www.enterprise.vodafone.com, accessed 14 February 2014.

11. "East African trade bloc approves monetary union deal," *Reuters website*, 30 November 2013, www.reuters.com, accessed 28 January 2014.



New FDI hotspots are emerging

Previously less-favored countries are gaining more attention from investors. Two prominent examples are Ghana and Kenya, which have jumped from the bottom half of the top 10 rankings in previous years. In 2013, these two countries featured in the top four, registering CAGR of more than 40% each in FDI projects, since 2007. Similarly, the number of FDI projects in Mozambique, Tanzania and Uganda has grown at more than 20% annually in this period. Even from a low base, these are exceptional rates that point toward growing business opportunities in these countries.

Ghana

Between 2007 and 2013, FDI projects into Ghana increased at a CAGR of more than 50% – the fastest in Africa. In 2013, Ghana was the fourth-most attractive FDI destination in Africa, in terms of FDI projects. The country ranks sixth on fDi Intelligence's African Countries of the Future 2013/14 list. Following the discovery of major offshore oil reserves in 2007, FDI prospects for Ghana appear strong. By regional standards, Ghana has strong public institutions (up 5 places to 70th on the Global Competitiveness Index 2013-14) and high government efficiency. Similarly, its ports are well maintained, and its goods and financial markets are relatively well developed.

Sources: In 2013, fDi Intelligence released its African Countries of the Future 2013/14 list, which ranks African countries on a combination of six main pillars – economic potential, labor environment, cost-effectiveness, infrastructure and business friendliness and FDI strategy – as well as sub category rankings; *The Global Competitiveness Report 2013-14*, World Economic Forum, October 2013.

Kenya

Between 2007 and 2013, FDI projects into Kenya increased at a CAGR of more than 40%. In 2013, Kenya attracted the second-highest number of FDI projects (+25.9%), behind South Africa. Increasingly, investors have been targeting Kenya as a springboard to growing East African consumer markets. Furthermore, the recent discovery of oil has added to the

country's attraction. Kenya is also becoming a TMT hub, with its large, skilled and youthful population. The country is building a US\$14.5b information technology hub, called Konza Technology City, outside Nairobi to target the growing number of software developers.

Sources: "In profile: growth prospects for Kenya, Mauritius and Uganda," *fDi Intelligence website*, www.fdiintelligence.com, accessed 27 January 2014; "Kenya begins construction of 'silicon' city Konza," *BBC website*, 23 January 2013, www.bbc.co.uk, accessed 27 January 2014.

Mozambique

Mozambique received 33 FDI projects in 2013, up 32% from 2012. The promise of huge coal deposits and offshore gas fields in Mozambique attracts investors. Infrastructure projects are another highlight. Currently, Mozambique has more than US\$32b-worth of active infrastructure projects. Developing road and rail transport networks to link the country's huge coal reserves to the main corridors is a key focus area, as is expanding port facilities. Brazil-based mining company Vale is investing US\$4.4b to upgrade the Nacala port and build a 912km railway line to establish a link to its mines in the Moatize basin in Tete.

Source: "Rio Tinto, Vale Should Share Mozambican Rail Link, Minister Says," *Bloomberg website*, 6 February 2013, www.bloomberg.com, accessed 30 January 2014.

Zambia

Zambia was a new entrant to the list of top 10 countries by FDI projects in Africa in 2013. The country is the world's third-largest copper producer. It is setting up a sovereign wealth fund to spur investment outside the mining industry. The Zambian Government is boosting investment in infrastructure, such as roads, to develop the tourism and agriculture industries.

Sources: "Mining Sector Profile," *Zambia Development Agency website*, www.zda.org.zm, accessed 28 January 2014. "Zambia Plans Sovereign Wealth Fund to Stimulate Investment," *Bloomberg website*, 8 January 2014, www.bloomberg.com/news, accessed 28 January 2014.



FDI hotspots: top three investors and sectors by FDI projects (2007-13)

Country	Investors	Sectors
Ghana	UK, South Africa, US	Financial services, TMT, RCP
Kenya	US, UK, India	TMT, financial services, RCP
Mozambique	UK, South Africa, Portugal	RCP, coal, oil and natural gas, RHC
Zambia	South Africa, China, India	Financial services, metals and mining, RCP
Tanzania	UK, Kenya, India	Financial services, TMT, RCP
Uganda	Kenya, UK, India	Financial services, RCP, TMT
Nigeria	US, South Africa, UK	TMT, RCP, financial services
Rwanda	Kenya, Uganda, US	Financial services, TMT, RHC

Source: fDi Intelligence.

Tanzania

Recently discovered gas reserves in Tanzania are propelling investor interest. Apart from gas, the country competes with Mali for the position of Africa's third-largest gold producer. But underdeveloped infrastructure makes the country a high-cost location for doing business. To resolve this situation, the Government is inviting private companies to invest in infrastructure opportunities, such as road construction.

Sources: "Tanzanian Investment to Grow 10% in 2013 With Help of Chinese," *Bloomberg website*, 1 March 2013, www.bloomberg.com/news, accessed 24 January 2014.

Uganda

Uganda was another new entrant into the list of the top 10 countries by FDI projects in 2013. Solid GDP growth, a rapidly expanding population and low per capita consumption are some of its appealing factors. One multinational that has recently increased its presence in the country is SAB Miller, which opened its second brewery in Uganda in 2013. Oil fields and the agricultural sector in Uganda are also attracting significant investor attention.

"SABMiller opens its second brewery in Uganda," *SABMiller website*, www.sabmiller.com, 22 August 2013.

Nigeria

From an FDI viewpoint, Nigeria has featured among the top five countries since 2011. Our survey respondents also rank Nigeria as the second-most attractive country in SSA. Many investors view Nigeria as the most attractive consumer market in Africa, given its large population of about 170 million and its improving business environment. Investors are optimistic about Nigeria, with its sizable, young and increasingly urbanized population. Plans to establish a smart city (called the Abuja Development

City) are fueling investor confidence. Interest has also been boosted by the privatization of several state-owned power companies in Nigeria, in one of the world's largest electricity privatization initiatives.

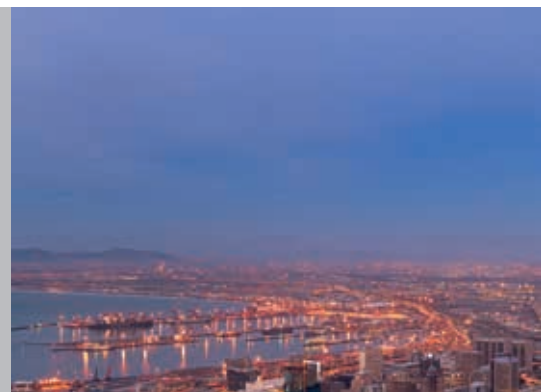
Africa by numbers 2013-14, EY, November 2013. "Nigeria: Consumer goods draw investors," *Financial Times website*, 10 October 2013, www.ft.com/intl, accessed 31 January 2014. "Business invests in future as Nigeria stumbles on," *Financial Times website*, 10 October 2013, www.ft.com, accessed 2 February 2014. "Nigeria's 'smart' city set to attract significant investment," *fDi Intelligence website*, 25 February 2013, www.fdiintelligence.com, accessed 21 January 2014. "Nigeria hands state power assets to private buyers," *Reuters website*, www.reuters.com, accessed 20 February 2014.

Rwanda

Rwanda has seen robust economic growth in the last decade. This trend is expected to continue, with GDP forecast to grow 7.5% in 2014 and 7.0% in 2015. The country has made concerted efforts to improve its business environment. It is ranked 32nd on the World Bank's Doing Business rankings 2014. It ranks third in SSA for the friendliness of its business environment. A fiber-optic cable, covering the entire country, was laid in 2010. This enabled the development of the country's financial services sector. Rwanda has also embarked on a drive to upgrade its infrastructure to develop industries such as tourism, transport, logistics, Information and communication technology (ICT) and education.

Doing Business 2013: Smarter Regulations for Small and Medium-Size Enterprises, World Bank, October 2013. "Rwanda, Côte d'Ivoire, Burundi Lead Sub-Saharan Africa in Improving Business Regulation," *World Bank website*, www.worldbank.org/en/news, 28 October 2013. "Rwanda targets middle-income status by 2020," *fDi Intelligence website*, 21 October 2013, www.fdiintelligence.com, accessed 31 January 2014. "Rwanda targets middle-income status by 2020," *fDi Intelligence website*, 21 October 2013, www.fdiintelligence.com, accessed 31 January 2014.

Intra-African investment momentum builds



More African investors see potential in their own backyard.

Intra-African investment is gaining momentum. African investors nearly tripled their share of FDI projects over the last decade, from 8.0% in 2003 to 22.8% in 2013. The rate of intra-African investment expanded even faster in value, growing from a share of 4.4% in 2003 to 22.3% in 2013. Intra-African investment has also driven job creation on the continent. It is now the

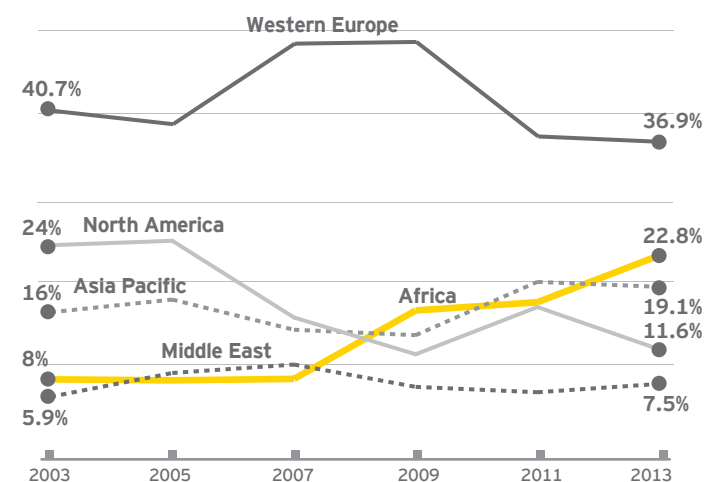
Intra-regional FDI projects grow rapidly.

CAGR in FDI projects by source region (2007-13)

Africa	+31.5%	
Asia Pacific	+16.6%	
Middle East	+5.8%	
Western Europe	+5.7%	
North America	+5.5%	
Latin America (and the Caribbean)	+0.0%	
Rest of Europe	-1.4%	

Source: fDi Intelligence.

FDI projects by source region (Share)



Source: fDi Intelligence.

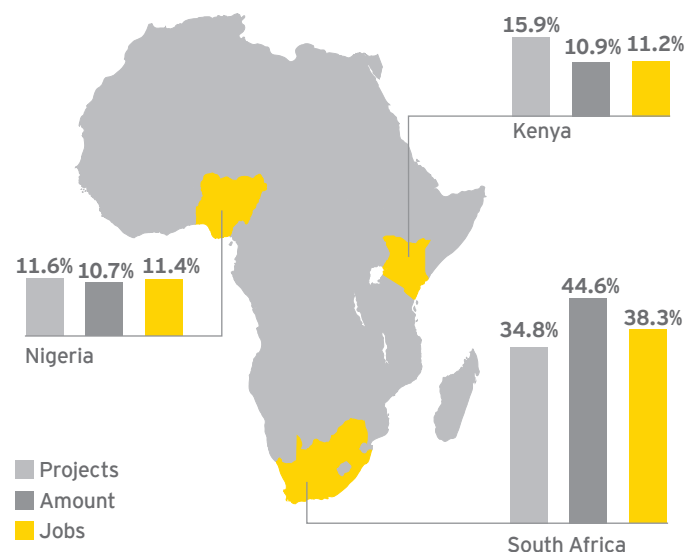
second-largest source of jobs behind Western Europe, jumping from fourth position in 2012.

This growth is fueled by the need for improved regional value chains and strengthening regional integration. The landmark decision by the COMESA, SADC and the EAC to establish a single free trade area (FTA) is a positive development. Another growth driver is the African investors' understanding of the market and of the potential opportunities and challenges. Cross-border FDI in Africa is set to accelerate further, as local firms seek new markets.¹² This is a win-win situation. External investors supply long-term capital, skills and technology, and intra-African investment creates a virtuous circle that encourages greater foreign investment.

Among African companies, South African-headquartered companies have been the most active in expanding their operations in Africa. Overall, between 2007 and 2013, South Africa was the fourth-largest investor in the rest of the continent by FDI projects. South African projects in other African countries have grown at a CAGR of 44.2% since 2007. In fact, if we take out FDI projects from

12. "Africa investment – From FDI to AIA: Africans investing in Africa," Reuters website, 8 August 2013, www.reuters.com, accessed 10 January 2014.

Largest intra-regional investors in Africa (Share of FDI projects from Africa as source region)



Source: fDi Intelligence.



other countries into South Africa itself, South Africa emerges as the second-largest investor in the rest of Africa between 2012 and 2013. One prominent investor is South African retailer Shoprite. It already has an extensive presence in other parts of Africa, and it now plans to open 47 new outlets across the continent, focusing on Nigeria and Angola.¹³ Similarly, Standard Bank opened a representative office in Côte d'Ivoire in 2013, expanding its African footprint to 19 countries.¹⁴ Other South African-headquartered companies that are investing in growth across the continent include Coca-Cola Sabco (a Coca-Cola bottler based in South Africa), MTN, Nampak, Nando's, Naspers, Sanlam and Tiger Brands. Kenyan and

Nigerian companies have also been increasing intra-African investment, notably in the post-crisis period (2008-13), signaling the increasing balance sheet strength of companies headquartered in these countries. For instance, Nigeria's Dangote Group is planning a series of investments across Africa, including new cement production capabilities in Zambia, Cameroon and South Africa.¹⁵ In 2013, the company also began construction of a new US\$500m cement plant in Mtwara, Tanzania.¹⁶

Substantial reshuffle in source country rankings in recent years.

13. "Update 2 – Shoprite ramps up Africa expansion as home market slows," *Reuters website*, 20 August 2013, www.reuters.com, accessed 16 January 2014.

14. "Standard Bank Group expands its Africa footprint," *Standard Bank press release*, www.standardbank.com, 4 November 2013.

15. "Africa's Richest Man Dangote Plans \$16 Billion Push," *Bloomberg website*, 13 December 2013, www.bloomberg.com, accessed 11 January 2014.

16. "Dangote cement plant excites Tanzanian market," *Dangote Cement website*, www.dangcem.com, 12 February 2013.

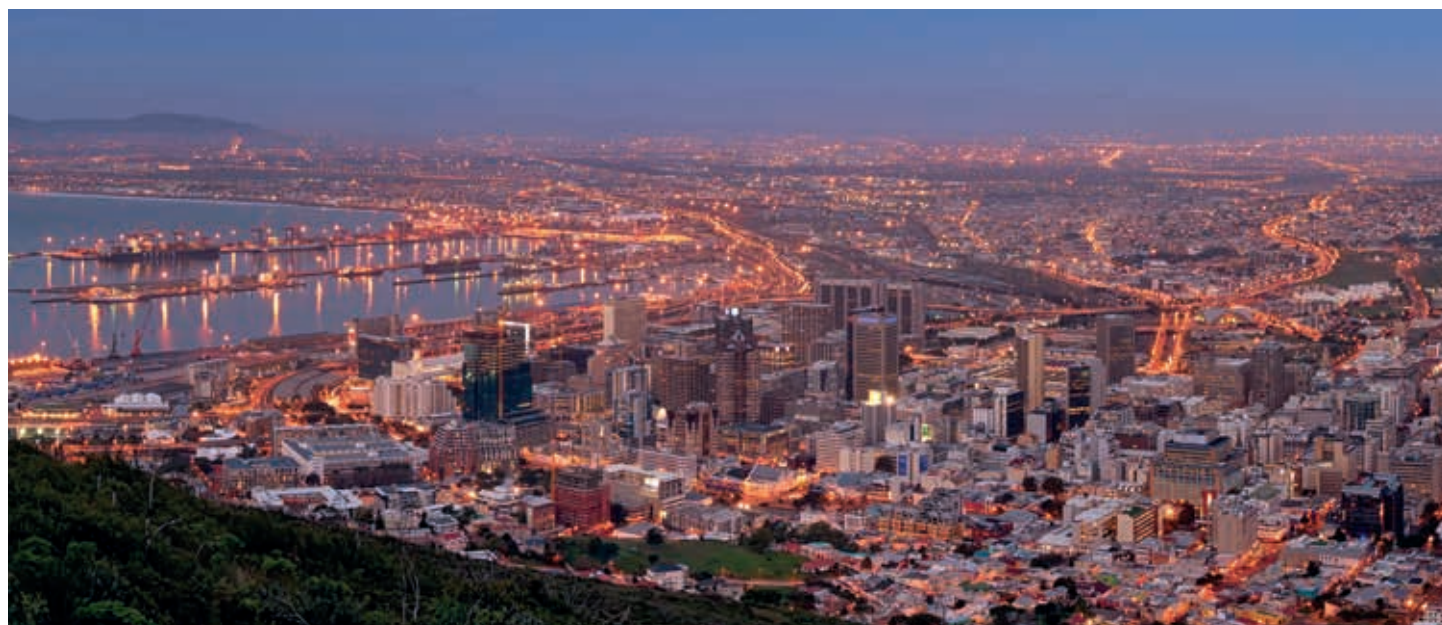
Top 15 source countries by FDI projects

	FDI projects			FDI amount (Share) (2007-13)	Jobs created (Share) (2007-13)
	Share (2007-13)	Share (2007-11)	Share (2012 and 2013)		
US	11.6%	11.7%	11.5%	8.0%	8.3%
UK	11.0%	10.0%	13.3%*	10.7%	9.6%
France	8.5%	10.2%	4.6%**	6.5%	6.7%
South Africa	5.9%	4.5%	9.1%*	4.3%	3.3%
India	5.6%	5.5%	5.9%	7.3%	7.1%
UAE	4.8%	4.1%	6.4%*	12.1%	6.6%
Spain	4.4%	4.8%	3.5%	3.0%	4.3%
Germany	4.1%	4.0%	4.3%	2.3%	2.9%
Portugal	2.9%	3.7%	0.9%	1.1%	1.3%
China	2.8%	2.6%	3.1%	4.2%	6.0%
Kenya	2.7%	2.6%	2.9%	1.0%	1.0%
Japan	2.6%	2.4%	3.1%	1.8%	4.0%
Switzerland	2.4%	2.6%	1.8%	2.1%	3.1%
Nigeria	1.9%	2.0%	1.7%	1.0%	1.0%
Italy	1.9%	2.2%	1.2%	2.3%	1.6%

Source: fDi Intelligence.

* More than two percentage points increase in share in FDI projects from 2007-11 average to 2012-13.

** More than two percentage points decrease in share in FDI projects from 2007-11 average to 2012-13.



The US and the UK are the largest investors in Africa

► **Between 2004 and 2013, the US was the largest investor in Africa, with 768 FDI projects (12.2% of the total).** The UK was in second place. In 2012, British and American companies tied in first position, with the UK taking the lead in 2013.

► **Both the US and the UK have initiatives aimed at raising their African exposure.** The US has the African Growth and Opportunity Act and Power Africa.¹⁷ The British entered into High-Level Prosperity Partnerships (HLPP) in November 2013 with five African countries – Angola, Côte d'Ivoire, Ghana, Mozambique and Tanzania.¹⁸ The UK has also been supporting infrastructure projects in Africa.¹⁹

Fluctuating interest of Western European countries on the continent

► **Given its cultural and historic ties, France has always been a key investor in Africa.**²⁰ It was the third-most active investor by projects between 2004 and 2013, with 584 projects. However, since 2010, France's share has declined, as a result of political upheaval across North Africa – Morocco, Tunisia, Algeria and Egypt are its primary investment destinations. In December 2013, the French President announced a target to double trade with Africa by 2018, in a bid to win back France's share of African trade.²¹

► **Investment from Spain and Germany has been rising steadily.** In fact, measured by jobs, Spain jumped sharply to 3rd largest investor in 2013, from 11th in 2012. German FDI projects in Africa also grew at a CAGR of 10.4% between 2004 and 2013.

17. "Obama's Opportunity to Improve U.S. Investment in Africa," *Bloomberg website*, 8 July 2013, www.bloomberg.com, accessed 20 January 2014. "POWER AFRICA," *USAID website*, www.usaid.gov/powerafrica, accessed 26 February 2014.

18. "UK/Africa High Level Prosperity Partnership," *UK Government website*, www.gov.uk/government/news, accessed 20 January 2014.

19. "Mark Lowcock: How Britain is helping develop Africa's infrastructure," *UK government website*, www.gov.uk/government, accessed 20 January 2014.

20. "Moscow: France must invest in Africa," *CNBC website*, 4 December 2013, www.cnb.com, accessed 24 January 2014.

21. "France's Hollande offers Africa new aid and trade ties," *Reuters website*, 4 December 2013, www.reuters.com, accessed 5 March 2014.

Asian investors build on the African opportunity

► **India is the largest investor in Africa, with 342 FDI projects since 2004.** Indian banks, including Bank of Baroda and ICICI Bank, are expanding their footprint in Africa to capitalize on historical ties, increase bilateral trade and benefit from the under-penetrated banking market.²² Similarly, Indian conglomerate Tata Group plans to invest US\$1.7b to set up new assembly lines for commercial and passenger vehicles, and possibly to expand its presence in the hospitality and mining sectors.²³

► **China has long made use of Africa's raw materials and its markets for manufactured goods.** The country has become the continent's largest trading partner, with trade expanding from US\$10b in 2000 to US\$200b in 2013.²⁴ However, overall Chinese greenfield FDI in Africa remains relatively low. Since 2004, the country has directed just 166 projects to Africa, with only 11 initiated in 2013. This is in contrast to China's significant investments in African infrastructure, which exceeded US\$13b in 2012, according to the Infrastructure Consortium for Africa's annual report.

► **Japan has been ramping up its investments in Africa.** This is demonstrated by the 76.5% jump in projects in 2013. Africa's strong economic growth has traditionally attracted Japanese exporters. Plans are also underway to tap the continent's oil and natural gas reserves for Japan's industrial economy.²⁵ Japanese companies make up the largest investor group in Africa's automotive industry.

22. "Indian banks ramp up presence in Africa," *Business Today website*, 22 November 2013, business.today.intoday.in, accessed 24 January 2014.

23. "Tata Group draws up expansion plans in Africa," *The Hindu website*, 18 March 2013, www.thehindu.com, accessed 24 January 2014.

24. AFRICA INVESTMENT-China brings goods and roads, now Africa wants jobs," *Reuters website*, 21 July 2013, www.reuters.com, accessed 24 January 2013.

25. "Abe Offers \$32 Billion to Africa as Japan Seeks Resources Access," *Bloomberg website*, 1 June 2013, www.bloomberg.com, accessed 19 February 2014; "Japan's Leader Pledges Aid on Africa Tour," *The New York Times website*, www.nytimes.com, 13 January 2014, accessed 19 February 2014.

Consumer-facing industries rise in prominence

With the diversification of economic activity in Africa gathering pace, growing employment levels are creating a new consumer class.

This, in turn, is undoubtedly attracting wider investor attention. The rising African consumer has paved the way for increasing FDI in consumer-focused services and manufacturing sectors.

The shift of investment from extractive to service-oriented sectors becomes even more apparent when examining the last decade's data. In 2004, mining and metals accounted for 14.1% of projects, while coal, oil and natural gas made up 11.6%. In 2013, these sectors' share of total projects accounted for just 2.4% and 3.5% respectively.

Financial services, TMT and RCP attract nearly half of total FDI projects in Africa

Three predominantly consumer-facing sectors – financial services, TMT and RCP – have been the primary beneficiaries of FDI projects. The financial services sector was the largest recipient of FDI projects in Africa between 2007 and 2013. Foreign banks and other financial services companies are either launching or expanding operations in Africa to tap the growing but under-serviced financial services market. In 2013, for example, UK banking company Standard

Chartered announced that it will invest US\$100m in Africa, with the aim of doubling the size of its business by 2018.²⁶ Growing investor interest is not just limited to foreign companies. Regional banks and other financial services firms in Africa are ramping up their presence across the continent.

A rising, relatively underpenetrated consumer market and improving communications infrastructure have encouraged companies such as IBM, Intel and Microsoft to invest in

local knowledge transfer, and to establish country offices across the continent.²⁷ Bharti Airtel's 2010 investment in Africa has also had a major impact on this sector. By outsourcing large portions of its IT and network operations to strategic partners such as Ericsson, IBM and Nokia, Bharti Airtel has effectively accelerated investment by these partners into a number of African markets.

26. "Standard Chartered expands in South Africa," *Reuters website*, 9 April 2013, www.reuters.com, accessed 8 January 2014.

27. "The next frontier," *The Economist website*, 16 February 2013, www.economist.com, accessed 17 January 2014.

Top 10 sectors by FDI projects

(2007-13, share)

	Projects	Value	Jobs created
Financial services	17.5%	2.1%	2.7%
TMT	16.3%	8.7%	7.5%
RCP	13.9%	4.8%	16.8%
Business services	9.2%	1.0%	1.9%
RHC	8.6%	22.9%	19.2%
Mining and metals	6.6%	14.2%	21.2%
Coal, oil and natural gas	5.5%	31.8%	5.3%
Transport and logistics	4.9%	2.3%	2.0%
DIP	4.8%	1.3%	3.5%
Automotive	4.1%	2.7%	11.9%

Source: fDi Intelligence.

Expected increases in consumer spending, especially on discretionary goods, indicates continued, strong RCP investments in Africa. In 2013, consumer products giant Procter & Gamble announced plans to spend US\$450m to upgrade existing plants and build new ones in Africa. Of this amount, US\$175m will be used to construct a plant in South Africa to make products such as detergents, and US\$200m will be spent on a baby-care products plant in Nigeria, which is already under construction.²⁸

Among retailers, Carrefour partnered with CFAO, a distributor, to expand its presence on the continent. Additionally, Walmart is planning to open 90 new outlets across Sub-Saharan Africa by 2016 through its South African arm Massmart Holdings.²⁹

In 2013, RCP was the second largest sector, accounting for 17.5% of FDI projects in Africa. It was also the lead sector in terms of job creation during the year.

28. "UPDATE 1-P&G invests \$450 mln in new, better African plants," *Reuters website*, 19 March 2013, www.reuters.com, accessed 16 April 2014.

29. "Carrefour CEO Follows Stock Surge With African Expansion: Retail," *Bloomberg website*, 12 August 2013, www.bloomberg.com, accessed 9 January 2014; "Wal-Mart to Open More Stores in Africa," *The Wall Street Journal website*, 22 August 2013, online.wsj.com, accessed 16 January 2014.

Top recipient countries by sector

(Share)

	2007-11		2012-13	
	Country	Share	Country	Share
Financial services	Angola	15.7%	Egypt	10.2%
	Egypt	10.5%	South Africa	9.4%
	South Africa	6.5%	Ghana	7.8%
TMT	South Africa	23.7%	South Africa	24.1%
	Morocco	9.8%	Nigeria	11.9%
	Tunisia	9.1%	Kenya	9.6%
RCP	Egypt	16.9%	Nigeria	14.7%
	South Africa	11.7%	South Africa	13.0%
	Morocco	11.3%	Egypt	9.5%
Business services	South Africa	19.2%	South Africa	25.8%
	Morocco	17.1%	Kenya	9.7%
	Egypt	10.7%	Morocco	8.1%
RHC	Morocco	20.2%	Egypt	9.5%
	Egypt	12.1%	Algeria	8.3%
	Tunisia	8.7%	South Africa	7.1%
Mining and metals	South Africa	15.2%	South Africa	15.5%
	Zambia	8.0%	Ghana	12.1%
	Botswana	7.6%	Namibia	8.6%
Coal, oil and natural gas	Egypt	15.2%	Egypt	16.3%
	South Africa	11.3%	Mozambique	14.3%
	Nigeria	10.0%	South Africa	12.2%
Transport and logistics	South Africa	17.4%	South Africa	17.2%
	Angola	11.2%	Kenya	14.9%
	Morocco	9.9%	Morocco	9.2%
DIP	South Africa	27.5%	South Africa	31.0%
	Morocco	11.3%	Kenya	10.7%
	Tunisia	8.8%	Zambia	7.1%
Automotive	South Africa	28.9%	South Africa	31.1%
	Morocco	15.7%	Morocco	17.8%
	Tunisia	9.6%	Kenya	13.3%

Source: fDi Intelligence.



Africa: the next manufacturing hotspot?

Africa has the resources and the comparative advantage to position itself as the world's next manufacturing hub. Labor costs are low. Currency appreciation and rapid wage increases in other countries could spark industrial migration to African nations with conducive investment climates. For example, many aerospace companies are moving production capabilities to North African countries (Tunisia and Morocco) to take advantage of low costs and geographic proximity. In September 2013, Bombardier Aerospace began construction on a new manufacturing plant in the Midparc Casablanca Free Zone in Morocco, which is expected to be operational by mid-2014. The company is planning to invest US\$200m on equipment and buildings by 2020.

Africa also has abundant natural resources, which can be used as raw materials for light manufacturing. Retailers such as H&M and Primark already source clothing from Ethiopia. The continent enjoys preferential access to both the US and EU markets through the African Growth and Opportunity Act and the Cotonou Agreement, respectively. Additionally, a construction boom is expanding access to power. The proliferation of mobile telephony has proven to be a boon for small suppliers. Labor productivity on the continent has also been increasing, led by vastly improving education levels. The promise of the African consumer market is another critical element.

The increasing attractiveness of Africa's manufacturing sector is evident from recent activities by a number of companies. Chinese shoemaker Huajian – which already operates a factory in Addis Ababa that employs 600 people – is planning to invest US\$2b to create a light manufacturing special economic zone in Ethiopia. This initiative could create employment for almost 100,000 Ethiopian workers. Similarly, in Egypt, Chinese electronic company Hisense is currently producing 100,000 LCD TVs a year together with its local partner Sun TV. US technology giant GE is investing US\$250m in Nigeria to set up an electrical gear manufacturing plant.

Sources: "Opinion: Could Africa be world's next manufacturing hub?," *CNN website*, 20 June 2012, www.cnn.com, accessed 19 February 2014; "Manufacturing in Africa: An awakening giant," *The Economist website*, 8 February 2014, www.economist.com, accessed 19 February 2014; "Chinese firm steps up investment in Ethiopia with 'shoe city'," *The Guardian website*, 30 April 2013, www.theguardian.com, accessed 19 February 2014; *Africa on the rise: The quest for sustainable development*, Ernst & Young, March 2013; "Climbing value chains: Options for African policy makers," *African Development Bank Group website*, www.afdb.org-policy-makers-12385/, accessed 19 February 2014; "Bombardier Aerospace Breaks Ground on New Moroccan Manufacturing Facility," *Bombardier website*, www.bombardier.com/en/media-centre, 30 September 2013.

More FDI flows to large urban clusters in the key hubs

Evidence suggests that FDI is often attracted to urban clusters, which are fast developing in tandem with infrastructure and transport corridors.



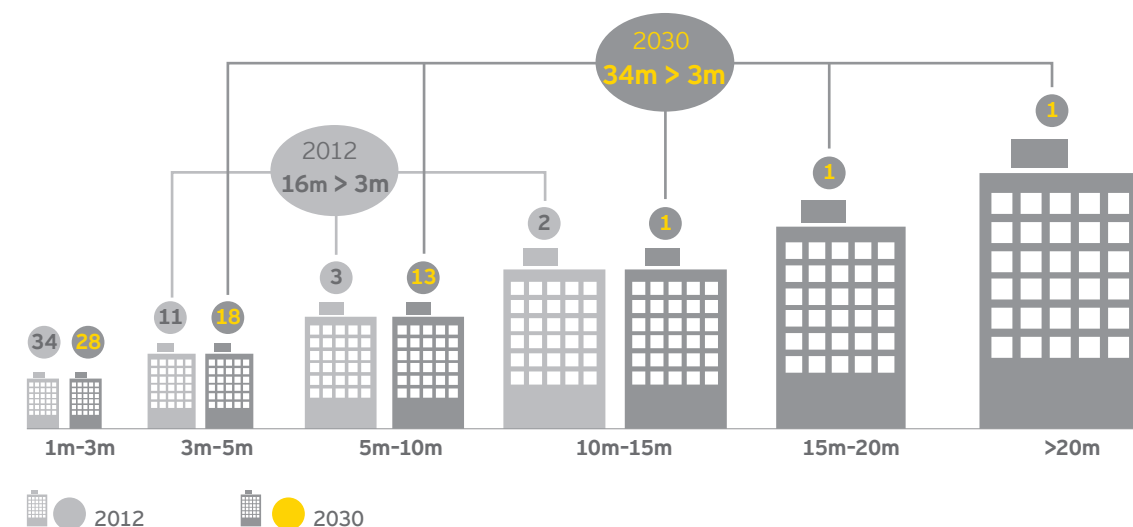
The number of African cities with a population over three million is expected to more than double from 16 in 2012 to 34 in 2030.

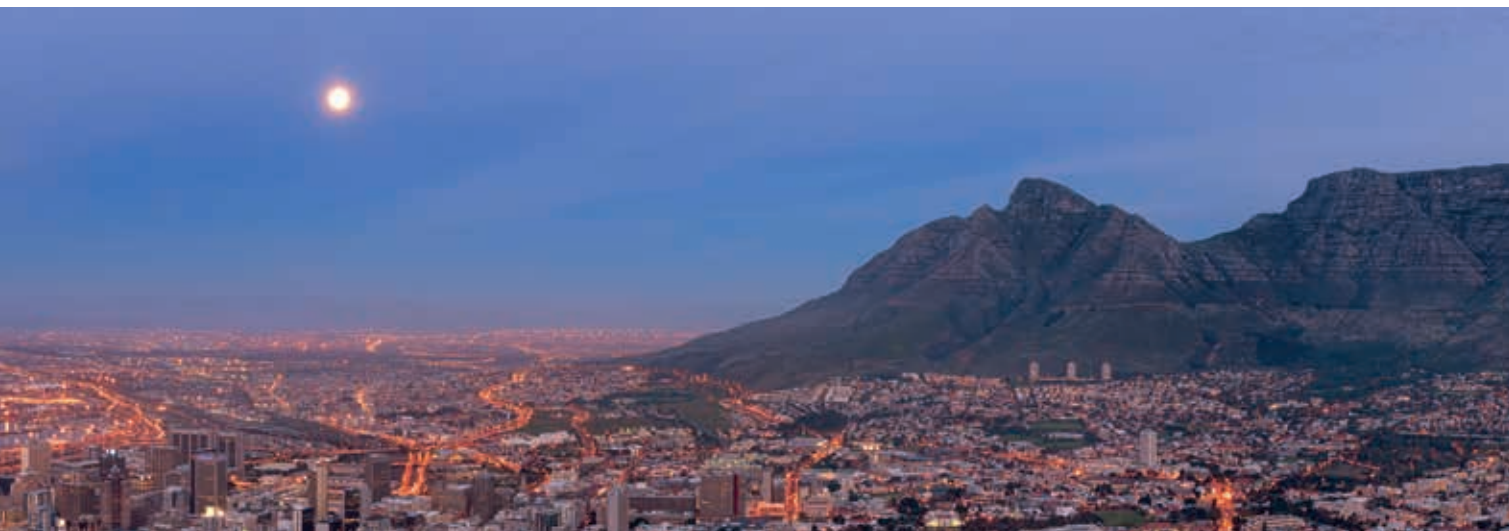
Though starting from a low base, Africa is urbanizing at an unprecedented rate. Data from Oxford Economics reveals that the urban population in Africa is projected to grow at least twice as fast as that of any other continent up until 2030. The rapid pace of urbanization, combined with strong economic growth, is expected to create "consumer cities." By 2030, these consumer cities will be home

to an additional 300 million people. This trend will play out in the larger hubs of Johannesburg, Lagos, Nairobi and Cairo. Secondary hubs such as Kinshasa (Democratic Republic of Congo), Abidjan (Côte d'Ivoire), Dar es Salaam (Tanzania) and Kampala (Uganda) will be the fastest-growing cities.

The geographic proximity of some of these cities with a large consumer base is, in turn, resulting in the emergence of urban clusters. They are developing in tandem with transport infrastructure and trade routes. Indeed, groups of cities that are reasonably close to each other are morphing into urban clusters, even though they may be situated in different countries. Increasing efforts at regional integration have fueled the development of transport corridors across Africa. These transport corridors provide a means of connecting the dots and capitalizing on the urban clusters' potential. These links will likely strengthen as the business environment converges across borders. Urban clusters facilitate a means of entering several markets in quick succession, if not simultaneously. For example, while investors may not find it viable to target the entire West African region, the Greater Ibadan-Lagos-Accra (GILA) urban corridor, with a population of more than 25 million consumers, makes for a more manageable and focused target market.

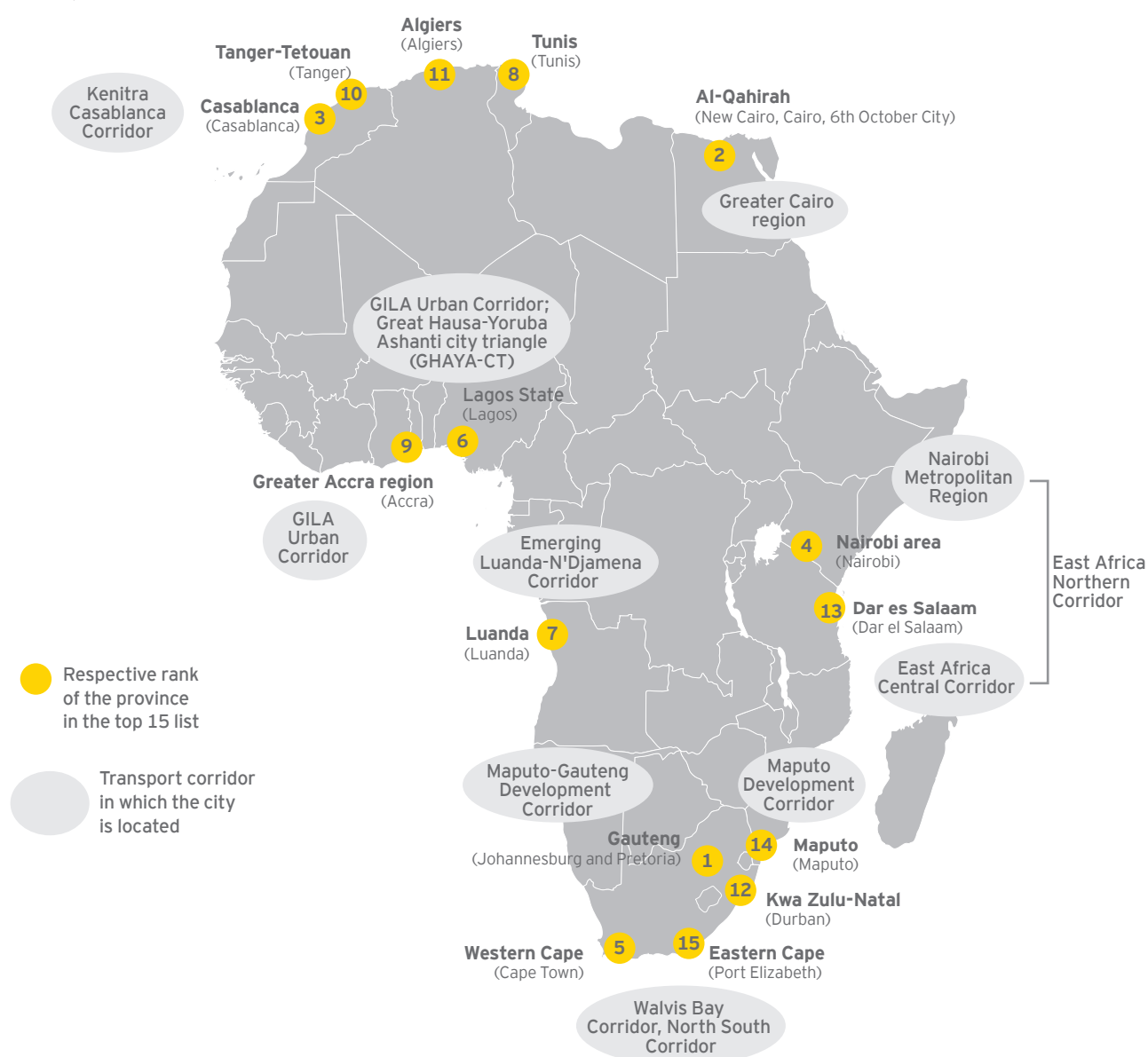
Number of cities with a population over one million





Top 15 African destination states and provinces by number of projects

(2007-13)



Source: fDi Intelligence, EY analysis.

By 2030, Africa will be home to 16 cities with a population of more than five million.

- Oxford Economics

Although there is incomplete data pertaining to FDI project numbers and value in Africa's cities and provinces, we have, nonetheless, mapped the key FDI areas. Plotting the top 15 states and provinces (in terms of FDI projects) on the map of Africa, in the south, Gauteng and KwaZulu Natal make for a key

cluster. In the west, there is a cluster comprising Greater Accra and Lagos. The Nairobi area and Dar es Salaam form a key cluster in the east. In North Africa, Tangier-Casablanca forms one cluster, while the Al-Qahirah area surrounding Cairo is another major cluster, both for service-oriented and heavy industry projects.

Southern African clusters

► **Gauteng province is a regional giant.** Since 2010, the Gauteng province has been the most popular FDI destination for projects in Africa. It is the economic engine of South Africa, accounting for 33.7% of GDP.³⁰ The services sector is the mainstay of its economy. Unsurprisingly, it is the most attractive destination for services-related projects in Africa, with numerous projects in TMT, business services and financial services. Gauteng is home to two major cities – Johannesburg and Pretoria. While Johannesburg's socioeconomic development, business-friendly climate and well-developed infrastructure attracts investors, Pretoria is an important industrial center.

► **Other Southern African provinces are also growing. The Western Cape** province is served by sea ports including Cape Town and Saldanha. Cape Town was the fifth-most attractive African city in 2013 by FDI projects. TMT has become the top investment sector, gaining further impetus from the roll-out of broadband infrastructure across the city.³¹ Other top sectors for investment in Cape Town include business services and RCP. Situated on the eastern seaboard, **KwaZulu-Natal** is strategically positioned to access markets across both the Indian Ocean and the Pacific Ocean. It is home to two of Africa's busiest sea ports, Durban and Richards Bay. The **Eastern Cape** has emerged as a key hub for FDI in the

automotive industry. Of the 48 total FDI projects the province received between 2007 and 2013, 21 are in the automotive sector. **Maputo**, the capital city of Mozambique, is another rapid-growth area. It is experiencing a property and construction boom, and an influx of expatriates. Maputo is part of the Maputo Development Corridor, which passes through the highly industrialized and productive regions of Southern Africa. It connects the landlocked regions of the Mpumalanga, Gauteng and Limpopo provinces in South Africa.³²

► **Lagos and Greater Accra area emerge as key western clusters.** Lagos and Accra form part of the GILA urban corridor – a 600km-long area that snakes through four West African countries: Nigeria, Benin, Togo and Ghana.³³ Lagos is set to be the most populous city in Africa by 2030, with a population of more than 25 million, and a per capita income of US\$2,810.³⁴ FDI in the TMT, RCP and financial services sectors collectively accounted for 65.3% of total FDI projects in the state between 2007 and 2013. Greater Accra's share of Africa's FDI projects has increased nearly sixfold, from just 0.8% in 2007 to 4.7% in 2013. Accra's high-growth potential is evident from its leading position among 19 African cities covered in the MasterCard African Cities Growth Index. In the last few years, the city's per capita GDP has grown rapidly, with population and household consumption also expected to expand. The city also benefits from a sound regulatory environment.³⁵

► **Nairobi and Dar es Salaam form an eastern African urban cluster.** The East Africa Northern and Central corridors are primarily responsible for trade flows in the eastern part of the continent. While Nairobi lies on the Northern Corridor, Dar es Salaam is part of both corridors.³⁶ The Nairobi Area's share of FDI projects in Africa has increased fivefold from just 1.5% in 2007 to 7.5% in 2013. Nairobi is fast gaining recognition as a TMT and financial hub. In August 2012, IBM established an innovation lab in the city – its first in Africa. Similarly, the arrival of several international banks, including Bank of China and HSBC, signals that Nairobi's position as an emerging international financial

30. "Investing in Gauteng," *South Africa.info website*, www.southafrica.info, accessed 31 January 2014; "The Economy of Gauteng," *Gauteng online website*, www.gautengonline.gov.za, accessed 1 February 2014.

31. "City invests in broadband infrastructure," *City of Cape Town website*, www.capetown.gov.za, 26 October 2012.

32. "Maputo Development Corridor," *Maputo Corridor Logistics Initiative*, www.mcli.co.za, accessed 19 February 2014.

33. *Africa by numbers 2013-14*, Ernst & Young, November 2013.

34. *Bright Continent: The future of Africa's opportunity cities*, Oxford Economics, November 2013.

35. "MasterCard Study Reveals African Cities Economic Growth Potential," *MasterCard press release*, newsroom.mastercard.com/press-releases, 29 January 2013.

36. *Trade Facilitation in the East African Community: Recent Developments and Potential Benefits*, U.S. International Trade Commission, July 2012.

Top 15 African clusters by FDI projects

(2007-13)

	FDI projects Share		FDI projects CAGR		FDI amount Share		Jobs created Share
Gauteng	11.3%		23.2%		3.8%		5.6%
Al-Qahirah	6.2%		-3.1%		9.9%		6.7%
Casablanca	5.4%		-3.2%		1.7%		3.5%
Nairobi area	4.6%		45.5%		1.1%		1.4%
Western Cape	4.4%		15.7%		1.5%		1.8%
Lagos State	3.7%		32.5%		2.0%		1.7%
Luanda	3.0%		-23.5%		3.1%		1.7%
Tunis	2.7%		-7.1%		8.0%		3.2%
Greater Accra Region	2.7%		51.3%		2.8%		1.8%
Tangier-Tetouan	2.2%		-7.8%		2.4%		5.5%
Algiers	1.9%		-8.6%		3.8%		2.2%
KwaZulu-Natal	1.5%		34.8%		1.2%		1.5%
Dar es Salaam	1.5%		23.2%		0.7%		0.7%
Maputo	1.4%		29.3%		0.6%		0.7%
Eastern Cape	1.4%		28.5%		1.4%		1.6%

Source: fDi Intelligence.

center is indeed strengthening.³⁷ By 2030, there are plans to develop the Nairobi Metropolitan Region, which envelops the city and 14 surrounding local authorities, and connects the North-South and East-West Trans-African Highway. Dar es Salaam, in Tanzania, is another key area for investment. It will become the fifth-most populous city in Africa by 2030 and will see the greatest expansion of middle-class households with incomes between US\$5,000 and US\$20,000 per year by 2030.³⁸

Northern clusters

The Cairo area in Egypt and Casablanca in Morocco feature among the top three provinces in Africa between 2007 and 2013. But they have seen a decline in FDI activity in recent years. Cairo provides considerable opportunities for consumer-facing companies. It will have an estimated 3.5 million households with incomes above

US\$20,000 by 2030.³⁹ However, there is a larger market to be found in the Greater Cairo region (GCR), which comprises the urbanized areas of Cairo, Giza, Qalyobiya, Helwan, 6th of October City and eight urban communities.⁴⁰ FDI trends in Casablanca are similar to those in Cairo, with the same sectors (business services, TMT, RCP and financial services) attracting most investments. To position Casablanca as a financial center, the Government announced plans in 2010 to construct the Casablanca Finance City.⁴¹ Tangier is another city of interest. It is home to the Tangier Free Zone, which held the sixth position in fDi Intelligence's Global Free Zones of the Future 2012/13.⁴² An extended metropolitan region is growing around Tangier, which has become North Africa's largest container port.

39. *Bright Continent: The future of Africa's opportunity cities*, Oxford Economics, November 2013.

40. "Strategic Urban Development Plan for Greater Cairo Region," *UN Habitat website*, www.unhabitat.org, accessed 4 February 2014.

41. "King Mohammed VI Of Morocco Builds New Financial City For The World," *Forbes website*, 16 October 2013, www.forbes.com, accessed 4 February 2014.

42. *African Countries of the Future 2013/14*, "fDi Intelligence website", 9 August 2013, fdiintelligence.com, accessed 4 February 2014.

37. "AFRICA INVESTMENT-London, New York, Hong Kong and ... Nairobi," *Reuters website*, 16 August 2013, www.reuters.com, accessed 25 January 2014.

38. *Bright Continent: The future of Africa's opportunity cities*, Oxford Economics, November 2013.

A view of

Africa Infrastructure Investment Managers

Not simply an investor

Africa Infrastructure Investment Managers (AIIM) is a JV between Macquarie and Old Mutual. Macquarie is an Australian-headquartered financial services group that is the world's largest manager of infrastructure. It manages in excess of 100 infrastructure investments around the world on behalf of pension funds, insurance companies, governments and other institutions. Old Mutual is a global Fortune 500 company, and is the largest life insurance and investment group in Africa. AIIM was established in 2000, and today, it manages and advises six unlisted infrastructure fund vehicles in Africa, with over US\$1b in equity under management.

AIIM was established in 2000 as a JV between Macquarie and Old Mutual to assume the management of the then existing South Africa Infrastructure Fund (SAIF). For Macquarie, this JV followed various investment banking activities in the region, beginning in the 1980s. The AIIM JV was one of the first long-term partnerships for Macquarie in the region. For Old Mutual, the JV followed their establishment of the Ideas Fund in the late 1990s, one of Southern Africa's first funds dedicated to infrastructure.

SAIF was established with approximately US\$170m, and initial investments included a diverse portfolio of assets across Kenya, Tanzania, Mozambique, Cameroon and Namibia. Initial performance was below expectation, largely due to the lack of long term project financing solutions and tight governance discipline.

Following the realization of a selection of the early-stage assets, the fund's investment activity focused on the South African toll road program being implemented at the time. The three South African toll road projects – Bakwena Platinum Corridor Concession, the Transafrican Concession (the Maputo Corridor toll road) and the N3 concession were implemented in the early 2000 and, today, AIIM/SAIF is the largest shareholder in these projects.

Largely as a result of these investments and the period over which they have been held, SAIF is arguably Africa's best-performing infrastructure fund. The structure of SAIF was amended in 2009 to enable the fund to pursue follow-on investment opportunities, of which four have been successfully implemented to date.



Andrew Johnstone

CEO, Africa Infrastructure Investment Managers

Andrew Johnstone joined the Macquarie Group in 2001, and was appointed as CEO of Africa Infrastructure Investment Managers (AIIM) in 2005. Andrew has been responsible for the establishment and deployment of five infrastructure equity funds, covering a wide range of transactions across Africa, including Tanzania, Namibia, Cameroon, Nigeria and South Africa.

In addition to SAIF, AIIM established the African Infrastructure Investment Fund (AIIF) in 2004. At US\$190m, this was the largest African private equity capital raising to date. Driven by available deal flow, AIIF had a bias toward South Africa as a geography and toll roads as a sector. It did, however, also pursue diversity through investments in:

- ▶ The Lekki Concession Company, a toll road concession in Lagos, Nigeria
- ▶ The Umoya wind farm, one of the first wind farms on the west coast of South Africa
- ▶ The Kelvin Power Station and Neotel Telecoms, both in South Africa

In 2006, AIIM entered into a JV with Kagiso Trust Investments to establish the Kagiso Infrastructure Empowerment Fund (KIEF). At approximately US\$90m, this fund focused on sectors including power, roads, telecommunications and renewable energy, often co-investing in projects with AIIF.



AIIM's African footprint

AIIM commenced the fund-raising of the successor fund to AIIF, called the African Infrastructure Fund 2 (AIIF2). Despite the intercedance of the global financial crisis, AIIF2 reached a first close in March 2010 and final close in September 2011, with capital commitments of US\$500m.

The establishment of AIIF2 marked an important shift of emphasis for AIIM toward a Africa-centric business, evidenced by the opening of offices in Nigeria and Kenya, and a majority capital allocation to regions outside of South Africa.

A second shift in emphasis was toward playing an active role in the development of projects pre-financial close. This was driven by the reality that in many markets and sectors in Africa, investment opportunities are at an early stage of development, and require significant hands-on guidance, expertise and capital to progress them to a bankable stage.

At this stage of AIIM regional expansion, the skillset on the ground in Nairobi and Lagos has a stronger bias toward earlier-stage development of projects than later-stage asset management, but this is expected to change with time.

It is anticipated that AIIF2 will be fully committed within 2014. AIIM is accordingly orientating itself for its next stage of growth.

Generally, increasing numbers of investors are finding the prospect of investing in Africa interesting, on the back of increasing dealflow and improving governance and political terrains.

By 2020, AIIM expects to have spent or committed in excess of US\$2b to African infrastructure projects over the next decade.

"Generally, increasing numbers of investors are finding the prospect of investing in Africa interesting, on the back of increasing deal flow and improving governance and political terrains."

A view of

British American Tobacco

Globalizing local operations



Leslie Rance

Head of Corporate & Regulatory Affairs BAT, Southern Africa Area

Leslie Rance is the Head of Corporate & Regulatory Affairs BAT Southern Africa Area. He was previously General Manager for BAT's East African markets and also the head of BAT's IT function for the group's Africa and Middle East region.

British American Tobacco is a UK-headquartered company. It is one of the largest companies by market capitalization on the London Stock Exchange. BAT has 44 factories in 39 countries, employs 55,000 people worldwide and its brands are sold in 180 markets around the world.

BAT can trace its presence in Africa back over a century. Its forerunner, the American Tobacco Company, moved into South Africa in 1891, with the United Tobacco Company entering East Africa in 1908 and Nigeria in 1912.

The company has deep roots across many parts of the continent, has developed a good understanding of the nuances in different African markets, and has established strong competitive positions. As a result, BAT is a market leader in a diverse range of sub-Saharan markets, including South Africa, Zimbabwe and Zambia in Southern Africa; Kenya and Uganda in East Africa; and Nigeria and Ghana in West Africa. BAT has one of the largest African footprints in the

wider fast-moving consumer goods sector and its plc has a secondary listing on the Johannesburg Stock Exchange, with some of its subsidiaries listed in several other African countries in which BAT operates (including Kenya, Uganda, Zimbabwe and Zambia).

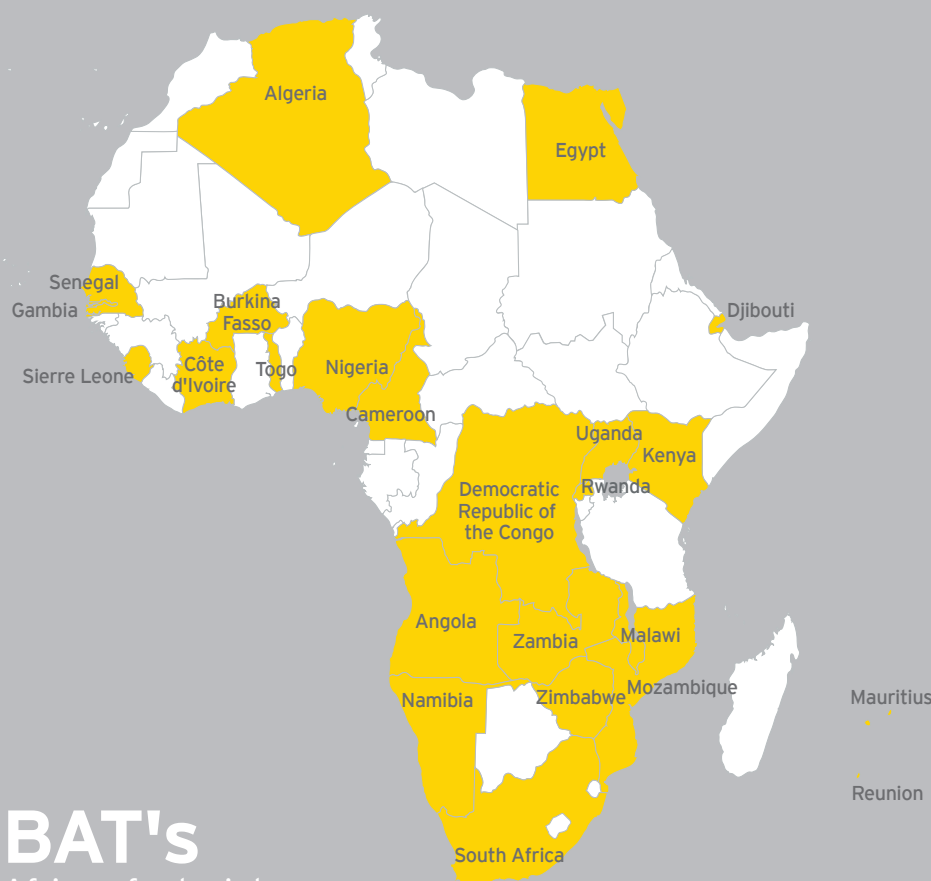
The legacy of this development – which is shared by other organizations with a long history of doing business in Africa and indeed globally – is that the company ended up with a large number of vertically integrated businesses in a number of countries. These businesses managed the entire value chain from production to processing to sales and distribution, not only in Africa, but across the world. This worked up to a point, and was particularly useful in terms of driving local relevance and opportunities. However, it also resulted in a suboptimal cost base.

Globalization drove BAT, like most multinationals, to operate in a more integrated and efficient manner across borders. Over the past 10 years, this

has resulted in a move to shared service centers, global sourcing and procurement, a common transaction process, and consolidation of a number of factories into strategic hubs.

In SSA, this process of global integration has resulted in a shift from a federated group of markets operating fairly autonomously to subregions organized around manufacturing hubs. These subregions, in turn, form part of a broader Eastern Europe, Middle East and Africa (EEMEA) region, which is responsible for more than a quarter of BAT's global revenues.

South Africa is a particularly important market for BAT. The 1999 merger of BAT with Rothmans International created what was by far the largest manufacturer of cigarettes in South Africa. To this day, BAT has a market share of more than 80% of the legal cigarette market in South Africa. BAT South Africa also purchases 90% of South Africa's tobacco crop, and runs a major factory near Johannesburg that produces 27 billion cigarettes each year



BAT's African footprint

for domestic and international markets. BAT has reinvested its efficiency gains into the front end of its business, having recently ploughed R1 billion into a direct distribution expansion, creating over 800 jobs in South Africa. BAT now employs more than 2,500 people throughout the country.

BAT has had an operational presence in Nigeria since 1912. Nigeria is a key growth market for BAT in the region, and also serves as a hub for West Africa, covering 26 countries. BAT Nigeria employs more than 800 people directly and, indirectly, supports approximately 1,000 people through its distribution partner. BAT also runs a leaf-growing operation in Nigeria, which provides agronomy support to more than 850 independent farmers. The company purchases approximately

2,000 tonnes of leaf from these farmers each year.

Kenya is one of BAT's third regional manufacturing hub in SSA. As with the South African and Nigerian factories, Kenya manufactures for both the domestic market and for export. Export markets include the other EAC countries, Egypt, Mauritius, Madagascar, the Horn of Africa, Malawi and Zambia. Kenya's neighbor, Uganda, remains an important source of leaf for BAT. The company contracts and provides support – in the form of financing, agricultural and technical inputs – to approximately 17,000 tobacco farmers in the country.

BAT has a significant interest in tobacco growing in SSA and reaches well beyond the manufacturing hub markets, to other

“In SSA, the process of global integration has resulted in a shift from a federated group of markets operating fairly autonomously, to subregions, organized around manufacturing hubs.”

countries such as Uganda, Zambia and Zimbabwe. The company works with tens of thousands of small-scale farmers across the continent, and helps to provide them with sustainable livelihoods. It often provides financial and direct agronomy support, particularly where it is not otherwise available. This covers all aspects of crop production and environmental best practice. In fact, BAT's activities across the value chain, from farming to manufacture, from logistics and distribution to retail, results in hundreds of thousands of direct and indirect employment opportunities across the continent.

A view of

Bharti Airtel

African operations drive a new phase of growth

Bharti Airtel is an Indian-headquartered mobile cellular operator, founded in 1995. It is the market leader in India and has the fourth-largest customer base in the world. Airtel entered the African market in 2010 via the US\$10.7b acquisition of Zain's assets in 15 countries (the largest ever cross-border transaction in an emerging market). Airtel has subsequently entered 2 more countries, and has a wide footprint across 17 countries, covering Anglophone and Francophone Africa.

Bharti Airtel formally launched its mobile telephony services in 1995 after being granted a license to operate in India's capital, New Delhi. By 2004, Airtel had acquired mobile licenses in all of India's mobile telecommunication circles* and was growing its customer base rapidly across India. What distinguished Airtel was its business model. Rather than only focusing on the higher end of the market, Airtel developed a high-volume, low-cost model. This was enabled, among other things, by outsourcing large parts of its IT and network operations to strategic partners including Nokia, IBM and Ericsson (and so converting high fixed costs, which were an industry norm, to variable costs), and by introducing prepaid subscriptions to India.** This allowed them to reduce tariffs significantly and grow their customer base rapidly across India.

By 2007, Airtel had 50 million customers. By 2009, it had breached the 100 million mark, and was the clear market leader in India.

However, growth was also beginning to slow down, so Airtel's leadership began to scan the globe for opportunities in new markets. The first steps outside India were taken with a greenfield entry into Sri Lanka, in 2009, and then with the acquisition of Warid Telecom's operations in Bangladesh in early 2010. However, these were really more of a tactical precursor for a far bolder move into Africa later on that year.

In conducting its global scan, the Airtel leadership had closely considered every potentially viable region in the world – in both developed and emerging markets. Africa was clearly identified as the best long-term fit for Airtel. The key determining factors included high economic growth rates; a large, young and growing population; relatively low mobile penetration rates; and high potential for mobile commerce. On the face of it, certainly from a demographic perspective, there were apparent similarities between Africa and India. Airtel's low-cost, high-volume "minute

factory"**** seemed ideally suited to Africa's largely underdeveloped markets.

Airtel's leadership was therefore prepared to make a big bet on Africa. Initially, it pursued a merger with MTN, the continent's largest mobile operator. However, after protracted negotiations, this fell through. Shortly afterward, the opportunity emerged to acquire Zain's operations in Africa for US\$10.7b. This was the largest ever cross-border emerging market M&A transaction, and transformed Airtel into a significant multinational, operating in 20 different countries on 2 continents.

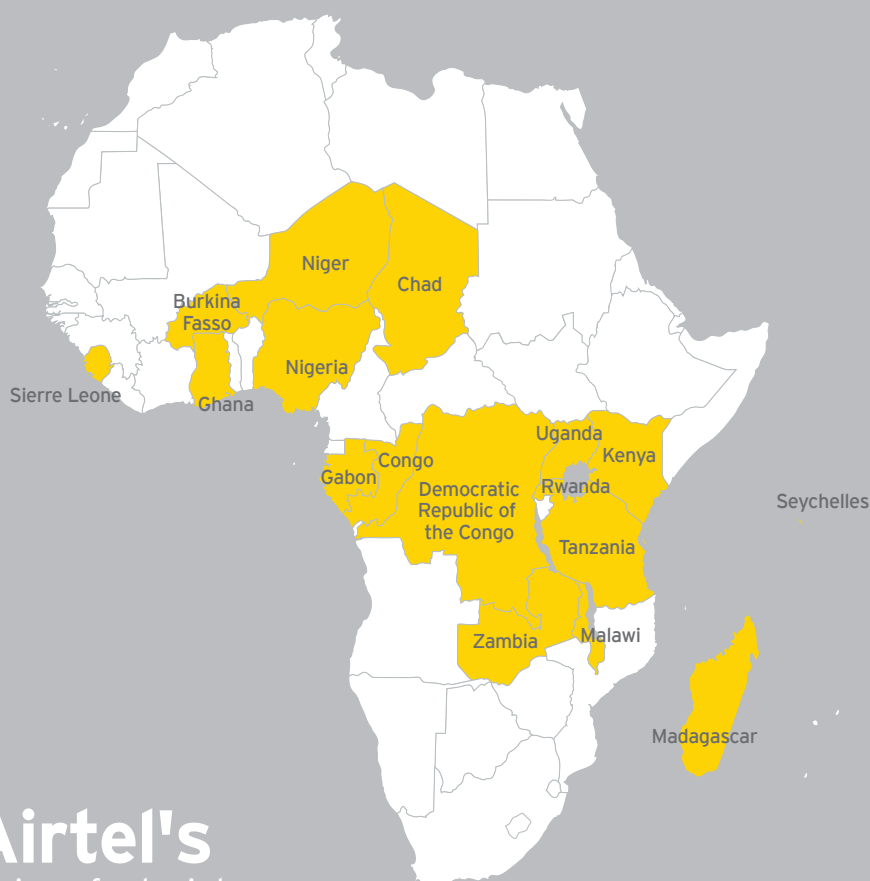
There was widespread optimism that, after a short period of adjustment and integration, and having implemented the minute-factory model, the African operations would drive an exciting new phase of growth for Airtel. The leadership team had, however, underestimated some key challenges, including the inherent



Christian de Faria

Airtel Africa CEO

Christian de Faria is CEO of Bharti Airtel's Africa operations. He has over 30 years of rich industry experience across multiple geographies. Prior to joining Airtel, and taking up this position in January 2014, Christian worked in at organizations such as MTN, Telekom Malaysia, Discvision, Deutsche Telecom and Grundig.



Airtel's African footprint

complexity of operating across multiple markets with different languages, regulations, currencies and time zones; the unexpected cost of doing business across Africa; and the difficulty of replicating the Indian business model in Africa.

Airtel's leadership team is, however, confident that the transition has now been made and it is becoming a strong number two in key markets where there is a dominant number one. This focus is already bearing fruit in Nigeria, Africa's largest economy, where recent industry statistics show that Airtel is now the second-largest telecoms operator by customer numbers. Looking to the future, the emphasis has shifted to in-country consolidation and diversifying revenue streams. In the mobile telecoms sector in Africa, incumbency is critical: the number one and two players dominate and make the bulk of the profit. Rather than looking at expanding its footprint further across the continent, the focus for Airtel

is therefore on entrenching its position in markets where it is number one (e.g., Malawi and Gabon), consolidating its position where it is already a strong number two (e.g., DRC and Uganda), and becoming a strong number two in key markets where there is a dominant number one (e.g., Nigeria and Kenya).

Airtel's leadership team is, however, confident that the transition has now been made and, looking forward, the emphasis has shifted to in-country consolidation and diversification of revenue streams. In the mobile telecoms sector in Africa, incumbency is critical; the number one and two players dominate and make the bulk of the profit. Rather than looking at further expanding its footprint across the continent, the focus for Airtel is therefore on entrenching its position in markets where it is number one (e.g., Malawi and Gabon), consolidating its position where it is already a strong number one (e.g., DRC and Uganda), and becoming a strong number two in key

"The good news is that the business has now stabilized – the brand has settled and is working well. We now know the markets, and both market share and margins are growing."

markets where there is a dominant number one. This focus is already bearing fruit in Nigeria, Africa's largest economy, where recent industry statistics show that Airtel is now the second largest telecoms operator by customer numbers. Diversifying beyond voice, Airtel has also seen significant growth in data usage and mobile money across its markets. Mobile devices are the primary means through which the majority of people in SSA access the internet and, with recent investments in 3G infrastructure, Airtel is well positioned to take advantage of the strong growth in data usage and the demand for affordable financial services.

* Different parts of India are categorized into "circles" for the purposes of mobile licenses. Licenses are awarded per circle rather than nationally.

** The standard model at the time was a "post-paid" contract model, which was inflexible and only affordable to more affluent segments of the population.

*** The term "minute factory" is often used to describe Airtel's business model. The basic premise is that lower tariffs (prices) will lead to higher volumes (i.e., minutes) – simplistically, bringing down prices will lead to people talking for longer. By keeping margins per minute steady (through, for example, outsourcing of IT and network operations) while driving up volumes (i.e., minutes per subscriber), overall revenues and profits grew spectacularly in India.

A view of

Coca-Cola Sabco

Seizing growth opportunities in Africa

The Coca-Cola Company (TCCC) is a US-headquartered company, established in 1886. TCCC is the largest non-alcoholic beverage company in the world, manufacturing over 3,500 products and operating in more than 200 countries worldwide (including every country in Africa). TCCC provides beverage syrup to more than 300 bottling partners around the world, who then manufacture, distribute and sell products for local consumption. Coca-Cola Sabco (CCS) is one of TCCC's largest bottlers in Africa, operating 21 bottling plants and employing about 9,500 people in 7 African and 2 Asian countries. Headquartered in South Africa, CCS is 80% owned by a private investment group, Gutsche Family Investments, and 20% by TCCC.

CCS's roots go back as far as the 1930s. Then, an American businessman, William Hyde, established an office in South Africa to purchase sheep skins for his glove manufacturing business. He held agencies for various American goods, and expanded his interests rapidly in South Africa, including negotiating the franchise to bottle Coca-Cola in Port Elizabeth, Bloemfontein and Pietermaritzburg (which was subsequently

canceled in favor of a franchise for the area east of Johannesburg). In 1940, the SA Bottling Company (Sabco) was established, and the first bottling plant was opened in the South African coastal city of Port Elizabeth.

In that same year, Phillip R. Gutsche joined the company as a salesman. This marked the beginning of a relationship that has passed from father to son, and lasted for more than six decades. Sixteen years later, Gutsche acquired a portion of the company's shares and was appointed a director. By 1960, and with the death of William Hyde's son Gordon, Gutsche became the sole owner of the company. Throughout the 1960s and 1970s, Sabco made a number of acquisitions throughout South Africa. By 1980, it

covered 77% of the country's landmass and was responsible for 17% of TCCC's business in South Africa.

Like many other South African-based companies, opportunities for further expansion were significantly constrained by apartheid-era sanctions and restrictions. However, this all changed in the 1990s. With the end of apartheid, opportunities began to open up outside South Africa. In 1993, Sabco was offered the opportunity to turn around the ailing Coca-Cola bottler in Mozambique. The Mozambique venture proved to be very successful and, in 1995, Sabco was named as the seventh "Anchor Bottler" of TCCC. This was the first of several global achievements that mark CCS



Ian Garnett

CFO, Coca-Cola Sabco

Ian Garnett is the CFO of Coca-Cola Sabco. His areas of responsibility include group information systems, group procurement, treasury, taxation, operational finance, group governance and M&A. He sits on the main board and the boards of the various operating companies.

Coca-Cola Sabco's

African footprint



"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."

Muhtar Kent, CEO, Coca-Cola.

among the very best bottlers in TCCC's worldwide network. It also changed its name to Coca-Cola Sabco. On the same day CCS was named an Anchor Bottler, four African countries were added to the company: Namibia, adjacent to South Africa, and the East African countries of Kenya, Tanzania and Uganda. By 1999, the East African portfolio had expanded to include Ethiopia.

In 2004, CCS ventured outside of Africa, acquiring the bottling rights for Vietnam, Cambodia, Sri Lanka and Nepal. The CCS Asia division grew strongly, servicing more than 150 million consumers in over 200,000 outlets. However, in 2012, a decision was taken to exit Vietnam and Cambodia (the

operations were sold back to TCCC) in favor of refocusing resources on growth in its core African markets. In these markets, volumes grew at an average of 9% in 2013, compared with a global average for TCCC of 1%.

For CCS, this decision means expanding capacity in existing growth markets, such as Ethiopia, Mozambique and Tanzania, which have been among the fastest-growing economies in the world over the past decade. The number of potential consumers of TCCC products is increasing considerably. And so, even though CCS has been operating in these African markets outside South Africa since the 1990s, there are still significant growth opportunities for the existing businesses.

At the same time, there are also opportunities for consolidation. There are currently more than 30 Coca-Cola bottlers across the continent, including multiple bottlers in some countries. For example, South Africa and Kenya each have four, and Tanzania has three. Seizing the growth opportunities in Africa will require substantial investment in capital and skills, and there is a strong case for driving economies of scale. CCS has several advantages in this context. These include access to capital, a strong track record in different parts of Africa, and a strong existing relationship with TCCC (which is also a minority shareholder in CCS). Therefore, it is well positioned to take advantage of any moves toward consolidation.

A view of

DHL Express

Leveraging first-mover advantage

DHL is a global logistics leader with a presence in over 220 countries worldwide. Founded in 1969 in the US to transport documents between San Francisco and Hawaii, DHL soon began to grow its operations across the world. DHL's growth was fueled by burgeoning global trade and, specifically, the need for global banks to transport documents quickly to different parts of the world. The demand for international services in various regions and countries grew quickly, and with it, an entrepreneurial culture within DHL.

Customer demand led to the company first entering SSA in the late 1970s. As trade into and out of Africa grew, so too did DHL's network across the continent. By the late 1980s, DHL already had a presence in almost every African territory. Today, it is one of the most familiar and recognizable brands across the continent.

What this means is that DHL has had a significant first-mover advantage in most African markets. While incumbency in key growth markets such as Nigeria, Kenya, South Africa and Angola is important, it is the depth and maturity of DHL's pan-African network that is perhaps more important.

While key competitors are represented by agents in most markets and may be able to scale up quickly in selected individual markets, it will be challenging to replicate DHL's pan-African network. This means that DHL is very well positioned to take advantage of the anticipated growth in Africa's global and intracontinental trade – both of which have grown fourfold in the past decade. The significance of DHL's presence in Africa becomes even more relevant with Africa being a net importer. It means DHL has to be as dependable for its customers in the UK as it is in South Africa, Ethiopia or Senegal – so customers globally can receive the same level of service both at origin and destination.

Charles Brewer's relocation from running DHL Express in the US to SSA illustrated the rising importance of Africa within the DHL network. The move demonstrated DHL's recognition that Africa offered substantial growth potential, and that DHL had significant first-mover advantage over its competitors, which needed to be entrenched and protected. As a result, investment in assets, technology and people has picked up considerably over the past few years, and there is now a real focus on growth.

For example, DHL is expanding its service points across the continent – from 300 to upward of 5,000 in the medium



Charles Brewer

MD, Sub-Saharan Africa, DHL Express

Charles Brewer is MD, Sub-Saharan Africa, for DHL Express.* A supply chain professional and a specialist in international shipping, Charles has more than 30 years of industry experience, covering four global regions and all disciplines. In his current role, he has 54 countries and territories, 3,500 employees, 250 facilities, 1000 vehicles and 14 dedicated DHL aircraft under his guidance.

* DHL Express is wholly owned by Deutsche Post DHL.



“Africa poses many challenges, but also tremendous potential. My biggest challenge and opportunity is to help unlock that potential in our people and our business.”

DHL's

African footprint

term – through partnerships with telecommunications companies, retail stores and post offices across Africa. There is a particular focus on providing small and medium-sized enterprises (SME) with easier access to international markets, because they are viewed as a key driver of growth for Africa and for DHL. With other international logistics operators beginning to look more seriously at Africa, there is also an important emphasis on investing ahead of the curve.

DHL has consolidated the management of its reporting lines, with all countries and territories in SSA (54 countries and territories in all) now reporting directly into a regional head office situated in Cape Town. This degree of integration, which seeks to strengthen and make best use of the pan-African network, is uncommon among corporates operating across the continent. The structure is made possible by the high degree of trust shown by people in the

market, and a robust, centralized IT platform that provides access to real-time operational data across all African operations.

Crucially, the financial results for DHL's sub-Saharan operations are also beginning to stand out. In 2013, revenue and profit in SSA grew faster than in any other DHL region in the world. Key growth markets include Nigeria and Ghana in West Africa; many parts of East Africa, from Ethiopia right down to Mozambique; and South Africa, where the SME segment is driving strong growth for DHL. A growing profile and strong financial results are ensuring that, for the first time ever, Africa is now being mentioned specifically in Deutsche Post (Deutsche Post is the majority shareholder in DHL) results presentations.

A view of

Ecobank

A healthy balance



Albert Essien

CEO, Ecobank

Albert Essien was appointed CEO of the Ecobank Group in 2014. Mr. Essien started his banking career in 1986 with the National Investment Bank in Accra, Ghana, before joining Ecobank in 1990. He has held several senior positions within the group, including Deputy Group CEO and Head of Corporate & Investment Banking.

Ecobank was established in Togo in 1985 as an initiative to create a private African banking institution in West Africa. In the early 1980s, the banking industry in West Africa was dominated by foreign and state-owned banks. There were hardly any commercial banks in West Africa owned and managed by the African private sector. Ecobank was founded with the objective of filling this vacuum. Ecobank's founders were intent on breaking down the linguistic and bureaucratic barriers that had fragmented markets and hindered development in West Africa. To fully appreciate this vision, one needs to understand that the 1980s was essentially a lost decade for many parts of Africa. This was a time of economic stagnation and political upheaval, with coups, civil wars and single-party rule prevalent across much of SSA. The economic and political conditions in a region fragmented by artificial colonial

boundaries were certainly not conducive to the setting up of a new African bank.

It took almost three years from the constitution of the bank, in October 1985, for it to be actually opened for business. However, just three years after opening its first affiliate in Togo, Ecobank had also opened branches in Nigeria, Ghana, Côte d'Ivoire and Benin. In these earlier days, capital constraints, tight exchange controls and ongoing political instability in West Africa hampered growth. However, a restructuring of the board and the appointment of Arnold Ekpe as CEO in 1996 proved to be key milestones. From 1997, Ecobank embarked on an ambitious diversification strategy, transforming the business from what was predominately a wholesale business to a more balanced portfolio of banking activities. As part of this diversification, the bank also increased its coverage from

5 to 12 countries between 1997 and 2001. At the same time, the bank started modifying certain structures to bring the institution more in line with international standards. Reflecting growing confidence in the bank among international investors, the International Finance Corporation (IFC), the private sector arm of the World Bank, invested in the Ecobank Burkina Faso affiliate in 1997 and in the group in 1998. IFC remains one of Ecobank's major investors, with an effective shareholding of about 14%.

Between 2001 and 2005, the bank went through another period of consolidation. It implemented its One Bank framework to ensure common culture, branding, standards, policies and processes across all its markets and branches. The framework has been a critical success factor for Ecobank, clearly establishing it as an integrated pan-African brand and

Ecobank's African footprint



“Today, Ecobank is recognized as a major financial institution across the continent. But when the concept of a privately owned independent African institution was first mooted in the 1980s, the idea was considered almost crazy.”

Arnold Ekpe, former CEO of Ecobank Group.

organization, rather than a collection of subsidiaries or, as it was sometimes labeled, a federation of banks.

This period of consolidation laid the platform for another phase of rapid expansion. By 2009, Ecobank had established operations in 30 African countries. To enable effective management across such a vast and diverse region, Ecobank has segmented its various markets into six clusters, according to shared attributes such as common currency and central bank, size and alignment with existing regional economic communities:

- ▶ Nigeria is categorized as a cluster in its own right due to its size (accounting for about 40% of total group assets).
- ▶ The Francophone West African cluster is the next largest in terms of assets.

- ▶ The Rest of West Africa cluster comprises mainly Anglophone countries, with Ghana being the largest market.
- ▶ The Central African region constitutes a promising portfolio of businesses, with Cameroon being the largest market.
- ▶ The East and Southern African regions are still in their relative infancy, but with strong growth prospects in markets such as Ethiopia, Mozambique and Angola.
- ▶ A final cluster is International. Ecobank has a presence in key global financial centers, including Beijing, Dubai, Paris and London. The focus is on channeling trade and investment flows to the African platform.

Within these clusters, Ecobank is structured as a network of locally incorporated, regulated banking entities. This enables

a healthy balance between local relevance and responsiveness on one hand, and the common One Bank framework on the other.

On the back of ever-growing demand for financial services and strong investor interest in the continent, Ecobank has developed into one of the few genuinely pan-African companies of scale. Today, almost 30 years after it was founded, Ecobank has grown into a full-service pan-African bank with operations in 35 countries across the continent. It employs more than 18,000 people, services 10 million customers and generates revenues of close to US\$2b. The company is listed on stock exchanges in Nigeria, Ghana and Côte d'Ivoire.

A view of

GE

Putting Africa on the agenda

GE is a US-headquartered diversified multinational whose focus areas include health care, oil and gas equipment, power generation, aviation, locomotives and financial services. GE traces its roots back to the formation in 1878 of the Edison Light Company by Thomas Edison, the inventor of the first practical incandescent light bulb. In 1892, Edison merged his interests with those of the Thomson-Houston Company to form the General Electric Company. In 1896, GE became 1 of the 12 original constituents of the Dow Jones Industrial Index. It is the only one still in business today. Over the subsequent years, GE has grown to become one of the world's largest and most admired companies. Today, it employs more than 300,000 employees worldwide. It generated US\$147b revenue in 2012, and at least US\$1b of revenue in 24 different countries around the world in 2013.

GE first established a presence on the continent in South Africa, in 1898. This was one of its first overseas offices. Since then, that presence has expanded to Nigeria, Angola, Ghana and Kenya (as well as North Africa). Mostly, this expansion was carried out in a piecemeal and ad hoc manner. For much of that time, however, Africa was inconsequential in the bigger world of GE. It is only really in the last four years that GE's activities and investments on the continent have really begun to grow considerably.

A key turning point was the appointment of Jay Ireland, a senior-level GE executive, as President and CEO for GE in Africa in April 2011. This was the first time that a member of GE's corporate executive management team was based in Africa. The appointment signaled a clear intent among GE's leadership to put Africa firmly on the agenda. In another important move, Ireland based himself on the ground in Nairobi, Kenya – GE's regional headquarters. In addition, three senior-level executives were appointed to Ireland's team, including Thomas Konditi as CFO for GE Africa.

With its increased focus on Africa, GE has made remarkable progress over the past three or four years. It has doubled the size of its business in Africa, scaling up considerably in markets such as Nigeria and Angola, and establishing a meaningful presence in new markets such as Ethiopia and Mozambique.



Thomas Konditi

CFO, GE Africa

Thomas Konditi is the CFO of GE Africa. He is responsible for the oversight of SSA, capital markets, financial services, treasury and tax support for the 22 African countries in which GE currently operates.

Jeff Immelt, GE's Global CEO, has been an advocate for Africa. His support has been critical in an organization with the size, complexity and global reach of GE. Immelt has made three trips to Africa in three years, and has clearly put the continent on the agenda as a strategic growth region. In GE's most recent annual report, he mentions Africa in his letter to shareholders. This was the first time Africa had been acknowledged in this way. He wrote that GE's orders in the region have grown from about US\$1.5b in 2010 to US\$3.6b in 2013. Although this represents just 2% of group revenues, the company expects revenue generated in Africa to grow strongly, reaching US\$4b in 2014 and then doubling over the next few years. These expectations are based on building businesses with sales of US\$1b or more in Nigeria, South Africa and Angola. As Immelt puts it in his letter: "We could sell more gas turbines in Africa than in the US in the next few years."

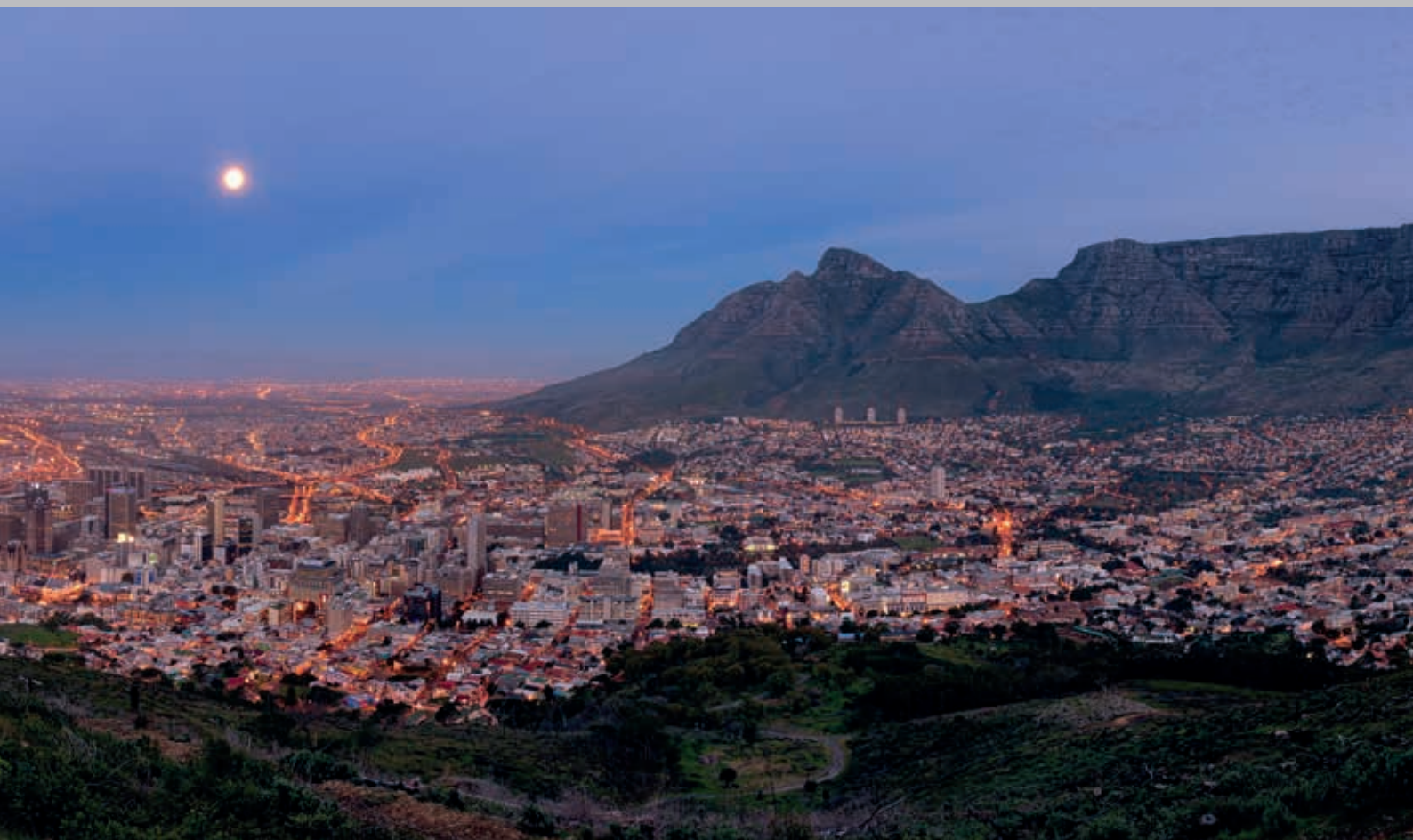


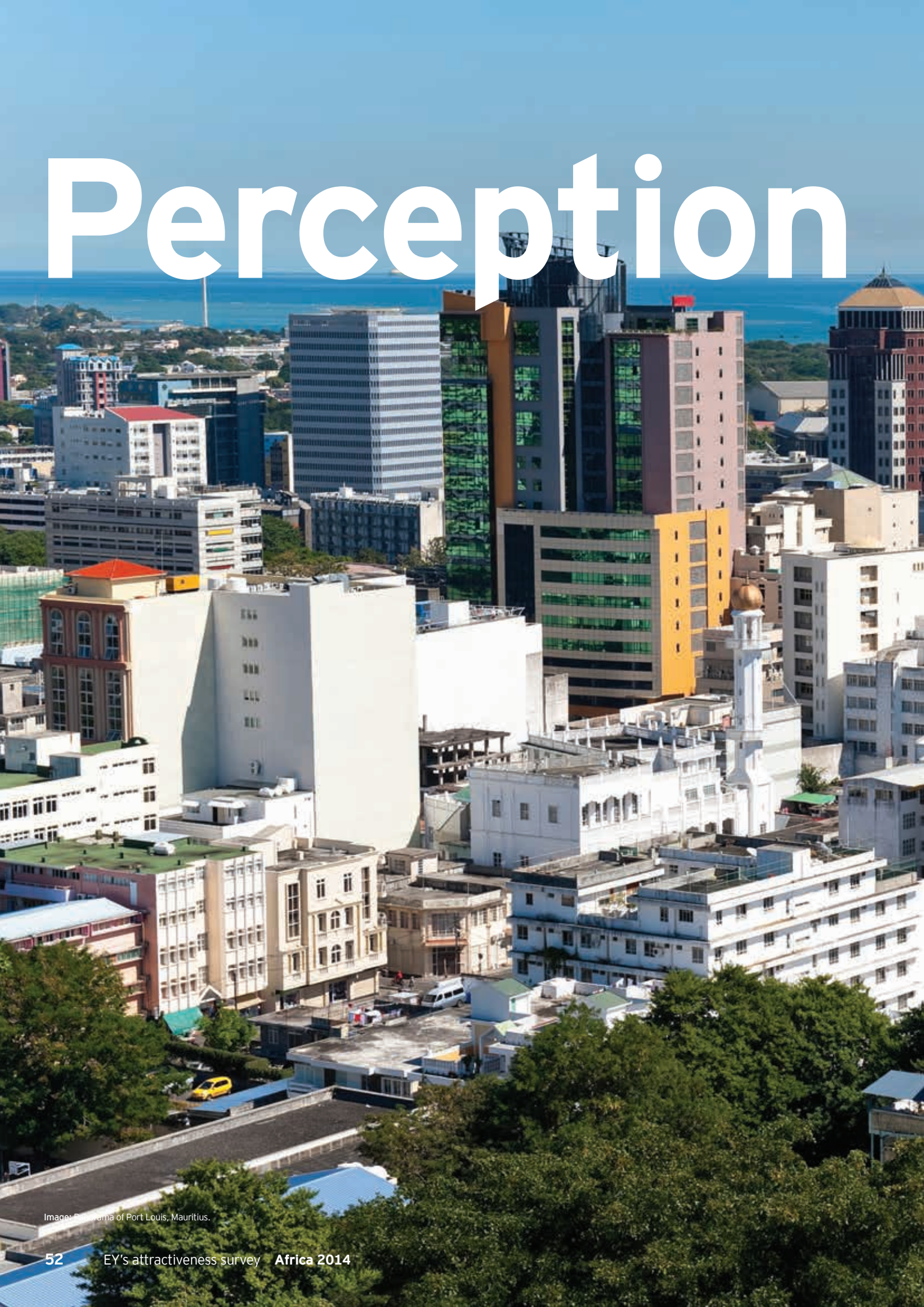
GE's

African footprint

“Winning takes bold commitments, a dedicated team and resilience. In Africa, we are a productivity partner ... growing 30% annually.”

Jeff Immelt, CEO, GE, in his 2013 letter to shareholders.





Perception

Image: Panorama of Port Louis, Mauritius.

A giant leap in Africa's relative attractiveness

How investors view Africa's countries, cities and sectors.

Key points

1

The most striking observation from this year's survey is how far Africa's perceived attractiveness has improved. In less than five years, Africa has risen from eighth position to being rated as the joint second most desirable regional investment destination in the world, tied with Asia.

2

Sixty percent of survey respondents with a presence in Africa believe that the continent's attractiveness improved in 2013. Only around 17% of respondents believe that conditions have deteriorated. Furthermore, nearly three out of four respondents (73%) believe that the continent's attractiveness will improve over the next three years. Only 10% expect that the continent's attractiveness to decline in the medium term.

3

While the resources sector remains critical to FDI interest, agriculture is only marginally behind mining and metals. Infrastructure ranks third in terms of likely growth areas. These changing sector priorities are in line with a growing need to meet the demands of a rapidly urbanizing population and rising middle class.

4

The hub economies in each region – namely South Africa in the south, Nigeria in the west, Kenya in the east, and Morocco and Egypt in the north – are strongly perceived by investors as being the most attractive geographies for investments (and this closely matches actual FDI flows).

5

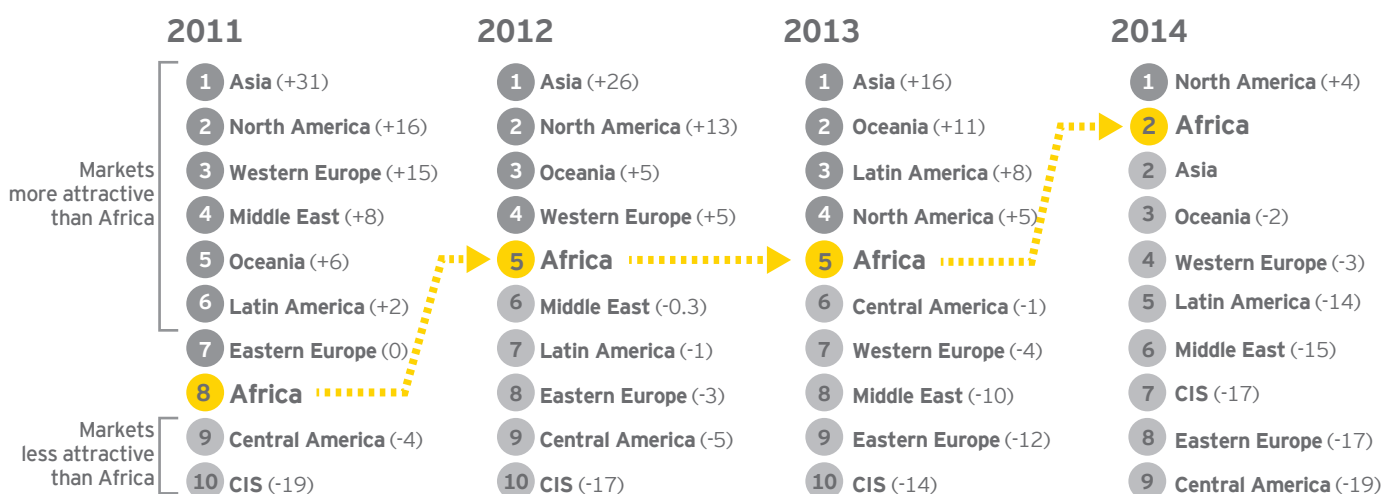
The perception gap between those already doing business on the continent and those with no business presence remains striking. Those with an established business presence in Africa are twice as positive about the continent's prospects as non-established investors, and they rank Africa as the most attractive investment destination in the world. In contrast, investors not established in Africa rank Africa as the least attractive destination in the world.

Africa's regional attractiveness has increased considerably

Africa has steadily been moving ahead of other regions in attractiveness.

Africa's relative attractiveness is on the rise

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



Source: EY's 2014 Africa attractiveness survey (total respondents: 503).

This year, our respondents ranked Africa as a more attractive place to do business than seven other regions. Only North America is perceived to be more attractive. Africa is tied in second place with Asia. This is a very significant improvement from previous years. In 2011, Africa was only ahead of Central America and the former Soviet states. In the 2013 survey, Africa was perceived to be more attractive than 5 out of 10 regions. This trend clearly indicates that Africa's potential as a rapid-growth market is gaining wider recognition.

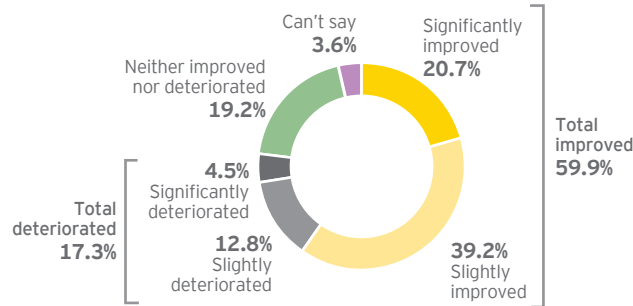
Africa's stronger investment attractiveness is best explained by its own sustained growth rates in the context of slower global growth and, more recently, by structural weaknesses in many other emerging markets in the wake of the unwinding of US quantitative easing. Africa's growth prospects are likely to remain solid, as an urbanizing and rising middle class drives demand for consumer products and improved services.

Africa's improving prospects drive investor optimism

Undoubtedly, perceptions about Africa reflect continued improvements across economic, political and social realms.

Africa's past attractiveness

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



Source: EY's 2014 Africa attractiveness survey (total respondents: 503).

The strong sentiment is driven, we believe, by Africa's leading growth prospects, which remain well ahead of global growth rates. Recently, some of the world's larger emerging markets have witnessed slower growth, while many African countries have proved to be more resilient. And even though contagion effects may well occur, annual growth in Africa is likely to exceed 5% over the medium term.

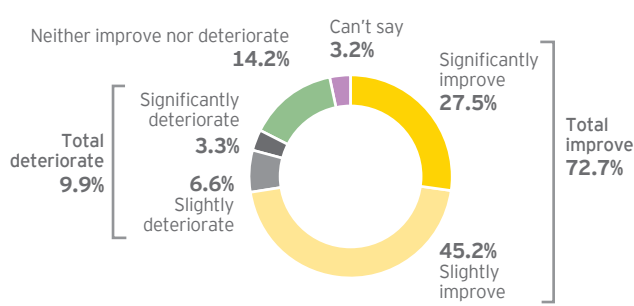
About 60% of our survey respondents believe that Africa's investment attractiveness has improved over the past year, and only 17% believe that conditions have deteriorated. The respondents with a positive outlook are up four percentage points from 2013.

There are noticeable distinctions between investors by their origin. Asian (65.5%) and European (61.3%) executives point to an improvement in Africa's attractiveness. On the other hand, fewer respondents from North America (48.0%) observed an improvement over the past year.

More tellingly, nearly three out of four respondents believe that Africa's attractiveness will improve over the next three years, in line with last year's survey. Again, Asian (78.9%) and European (74.7%) leaders are more optimistic about Africa's future attractiveness. By sector, respondents in ICT (79.6%) and business services (77.7%) are particularly excited about the continent's prospects over the

Africa's future attractiveness

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



Source: EY's 2014 Africa attractiveness survey (total respondents: 503).

next three years. Only 10% of respondents believe the continent's attractiveness will decline in the medium term.

In our previous editions of the *Africa attractiveness survey*, we highlighted the lingering perception gap between those present on the continent and those not. Undoubtedly, this gap remains an issue. Companies already doing business in Africa are far more optimistic than those not present on the continent. However, this year's survey reveals that even the latter group, i.e., Africa's potential investors, believe that the continent's attractiveness has improved, and will continue to do so over the next three years.

Perception gap in Africa

Share of respondents who replied positively about Africa's present and future attractiveness (includes slightly improved and significantly improved responses).

Africa's past attractiveness		2013	2014
Established in Africa	69.3%		73.3%
Not established in Africa	31.9%		39.1%

Africa's future attractiveness		2013	2014
Established in Africa	86.3%		86.7%
Not established in Africa	47.2%		51.1%

Source: EY's 2014 Africa attractiveness survey (total respondents: 503).

South Africa: Africa's most attractive destination, acting as a gateway

Africa is a vast continent, comprising 54 sovereign states. As much as it is important to understand overall perceptions of Africa, it is equally important to understand investors' perceptions of individual countries.

In SSA, investors are most interested in four major economies.

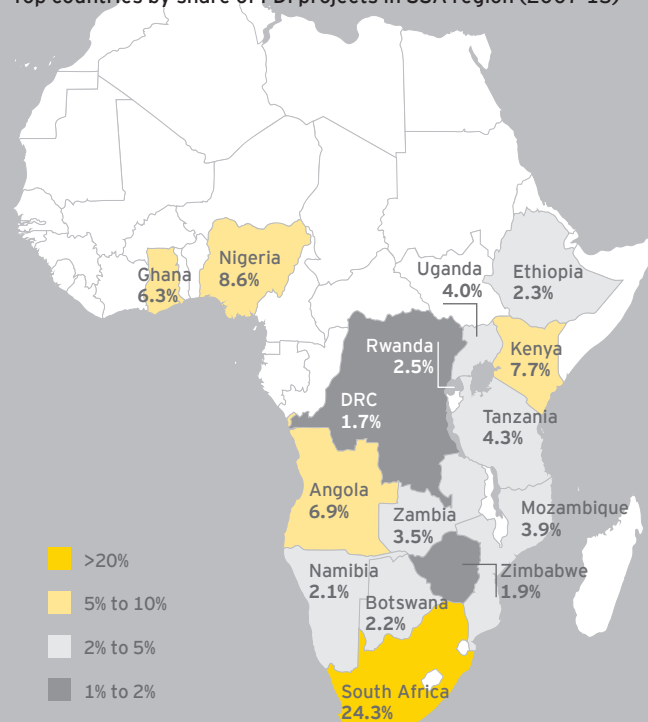
Investors perceive the three regional hub markets, namely South Africa in the south, Nigeria in the west and Kenya in the east, as the most attractive investment destinations in SSA. Coincidentally, these three countries also account for over 40% of total FDI projects. Angola, which is the fourth-largest recipient of FDI projects, is similarly perceived to be the fourth-most attractive

destination. Collectively, the four largest countries attract close to half of the continent's total FDI projects. Foreign companies gravitate toward the familiar, larger economies in each region. In the case of both South Africa and Nigeria, these markets are by far the dominant anchor economies in those regions, each accounting for more than 80% of regional economic output. This provides investors with greater scale and relatively more mature economies. While being the major market in the eastern region, Kenya is not

Most attractive countries in SSA

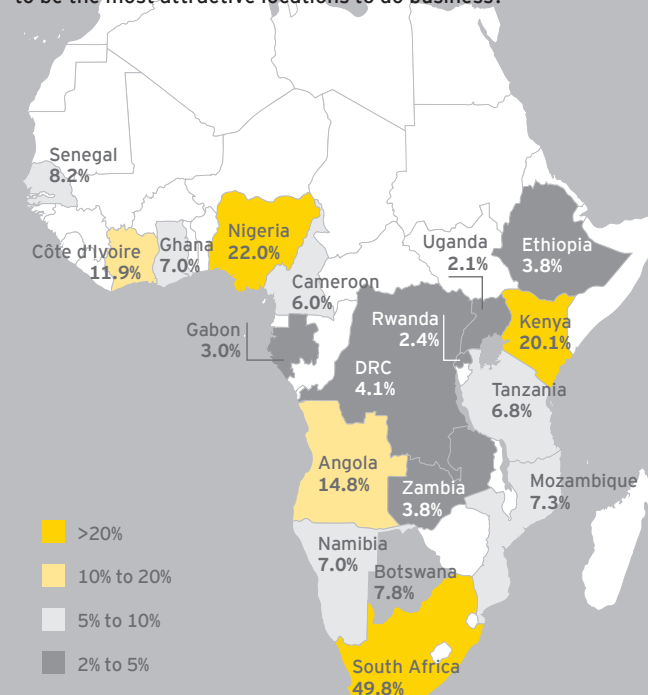
Reality

Top countries by share of FDI projects in SSA region (2007-13)



Perception

Which three sub-Saharan countries do you consider to be the most attractive locations to do business?



Source: EY's 2014 Africa attractiveness survey (total respondents: 503), fDi Intelligence.

as dominant in East Africa, accounting for less than half of the economic output across the EAC.

In line with FDI flows, business leaders rank South Africa as the most attractive investment country, with a sizeable lead over other SSA countries. Nearly half of respondents include it in their top three African markets. In terms of perception, investors highly rate South Africa for its economic environment, infrastructure and natural resources.

The qualities that make South Africa appealing include its sophisticated banking and financial system and its well-developed infrastructure. According to the *Global Competitiveness Report 2013/14*, South Africa ranks 3rd in the world on financial market development and 66th on infrastructure.⁴³ It is also relatively easy to do business in South Africa. It holds the 41st position on the World Bank's Ease of Doing Business 2014 rankings (compared with China's 96th and India's 134th).⁴⁴ The nation's inclusion in the coveted BRICS grouping also adds to its attraction for foreign investors.⁴⁵ South Africa is also one of the largest investors on the continent. It is a key provider of FDI flows into West and East Africa, as well as in close-by markets, such as Mozambique, Zambia and Zimbabwe.

Investors with no business presence hold different perceptions

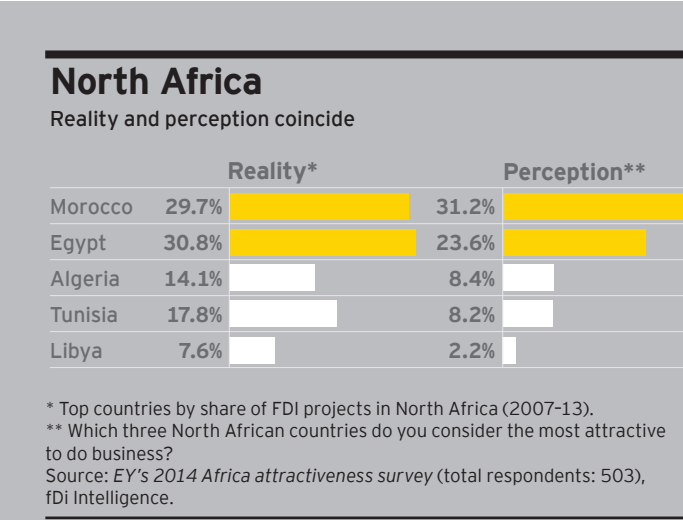
Respondents with no business presence in Africa have far less favorable perceptions about doing business in the continent. Of this group, more than half highlight South Africa as the top SSA destination. They are relatively less aware of opportunities in other countries. One primary example is Nigeria. While 27.5% of investors who already do business in Africa express interest in Nigeria, only 13.3% of respondents with no business presence view the country as attractive. Similarly, 23.8% of those established in Africa are interested in Kenya, compared with 14.5% of those not present.

North Africa: reality and perception coincide

Just under one-third of respondents consider Morocco to be the leading destination for doing business in North Africa. The country leads largely on account of its relatively stable political environment, despite the political turmoil in other countries in the region. Egypt ranks as the second-most attractive destination, driven by its solid economic growth (26.4%), economic reconstruction (16.9%) and infrastructure growth (16.2%).

However, by actual FDI numbers, Egypt leads, with Morocco slightly behind. Egypt benefits from its relatively well-developed infrastructure, advantageous geographical location and its control over the strategic Suez Canal.⁴⁶ Foreign investors in Morocco are encouraged by its proactive FDI policy, national privatization program and supply of skilled workers at relatively low wages.⁴⁷

46. "African Countries of the Future 2013/14," *fDi Intelligence website*, 9 August 2013, www.fdiintelligence.com, accessed 4 February 2014.
47. "Morocco economy: Morocco leads North Africa in terms of FDI inflows," *EY Performance Portal website*, www.performance.ey.com, accessed 3 February 2014.



43. *The Global Competitiveness Report 2013-14*, World Economic Forum, October 2013.
44. *Doing Business 2014: Understanding Regulations for Small and Medium-size Enterprises*, World Bank, October 2013.
45. "African Countries of the Future 2013/14," *fDi Intelligence website*, 9 August 2013, www.fdiintelligence.com, accessed 27 January 2014.

Africa's urban clusters are largely aligned to key hub economies

Perceptions of Africa's key cities.

City attractiveness closely maps country appeal. In SSA, South African cities dominate the rankings, with Johannesburg (34.3%) considered the most attractive city in which to do business, well ahead of Cape Town (14.6%). However, Nairobi (5.6%) ranks ahead of Lagos (5.2%), despite Nigeria being ahead of Kenya in both FDI flows and attractiveness perceptions. This view reflects the reality of the sheer size and complexity of doing business in Lagos. This complexity, coupled with aging infrastructure, can make the city a challenging place. Nairobi, on the other hand, has better infrastructure and transport links, and an easier business environment to navigate.

It is also noteworthy that half of investors name a South African city – Johannesburg, Cape Town, Durban and Port Elizabeth – as their first choice.

In North Africa, business leaders prefer Casablanca (26.0%) and Cairo (19.5%). Tunis is the third-most favored city, followed by Algiers, Tangier and Tripoli.

Cities in South Africa are on top in investors' minds

Which cities in SSA do you consider to be the most attractive to do business in?

	First mention	Total mentions
Johannesburg	34.3%	43.1%
Cape Town	14.6%	23.3%
Nairobi	5.6%	13.2%
Lagos	5.2%	13.0%
Abidjan	1.5%	4.8%
Dar es Salaam	2.7%	4.3%
Durban	1.1%	4.0%
Maputo	1.7%	3.9%
Accra	0.7%	3.9%
Luanda	1.9%	3.1%
Dakar	0.9%	2.2%
None		1.9%
Can't say		22.5%

Source: EY's 2014 Africa attractiveness survey (total respondents: 251).

This year, we discuss the emergence of key urban clusters for investment in Africa. The continent's rapid urbanization is driving infrastructure development and consumer spending. More than 70% of respondents have stressed the significance of a city or urban-center approach to their investment strategy in Africa. In order to attract investors, cities need to focus on the following critical factors:

► **Infrastructure.** Seventy-seven percent of investors cite transport, logistics, utilities, communications and wireless infrastructure as having an impact on their investment plans in urban centers. Infrastructure lies at the center of a city's ability to function and to attract businesses and people. For instance, the Gautrain, a rapid rail network in the Gauteng province in South Africa, has been a key enabler of the province's economic development. The Metro Blue Line transport project will have a similar effect in Lagos.⁴⁸ The development of transport corridors such as the Trans-African Highway is stimulating the rise of urban clusters on the continent.

48. "Tech cities and mega dams: Africa's giant infrastructure projects," CNN website, 10 October 2013, www.edition.cnn.com, accessed 4 February 2014.

Casablanca and Cairo emerge as top North African cities

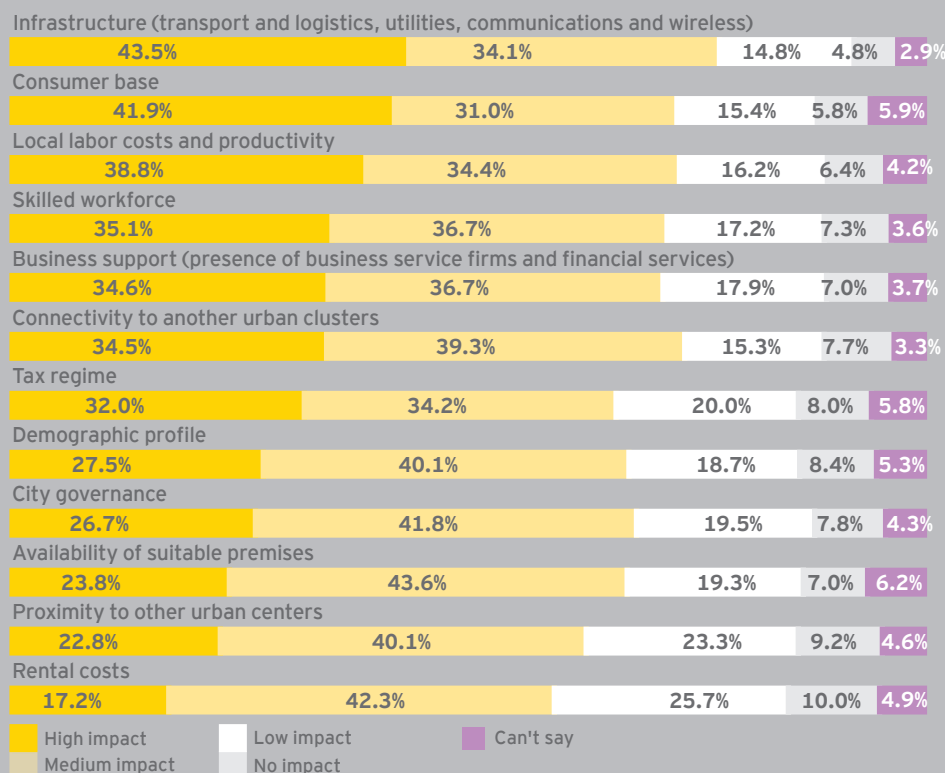
Which cities of North Africa do you consider to be the most attractive to do business in?

	First mention	Total mentions
Casablanca	26.0%	36.5%
Cairo	19.5%	28.3%
Tunis	7.9%	18.9%
Algiers	7.7%	14.4%
Tripoli	2.2%	6.7%
Tangier	1%	4.0%
Marrakech	1%	2.3%
None		7.7%
Can't say		26.7%

Source: EY's 2014 Africa attractiveness survey (total respondents: 251).

Focus areas for municipal governments seeking to improve city attractiveness for investors

What impact do the following factors have on your decisions about investments into an African urban center?



Source: EY's 2014 Africa attractiveness survey (total respondents: 503).



► **Consumer base.** Nearly three quarters of companies require a consumer base. This includes factors such as market size – both in numbers and disposable income. Africa's large urban areas represent a growing and untapped consumer market. While disposable income in Africa's major cities is expected to grow at an average of 5.6% per year up to 2030, aggregate spending power is also set to more than double, from US\$420b currently, to US\$1t in 2030.⁴⁹

► **Skilled, productive and effective labor force.** The quality of education and available health care in a city has a direct impact on its workforce. A growing skilled workforce can enhance productivity, and therefore boost a city's attractiveness to foreign investors. In this regard, municipal governments can partner with businesses to undertake skills development activities. A case in

point is French automaker Renault. Together with the Moroccan Government, it founded the Institut de Formation aux Métiers de l'Automobile (IFMIA), a training institute in Tangier for factory staff and suppliers in the automotive industry. IFMIA helps to supply Renault with workers for its plant. This has helped to make Renault one of the key investors in the Tangier province.⁵⁰ Apart from domestic workforce, cities need to be able to attract expatriates.

► **Business support services.** The availability and presence of firms that provide business services and financial services is a key determinant of a city's attractiveness. More than 70% of respondents highlighted this as an important factor.

50. "Inauguration of second production line at Renault-Nissan Tangier plant," Renault press release, www.media.renault.com, 8 October 2013; "Renault in Morocco," Renault website, www.renault.com, accessed 27 February 2014.

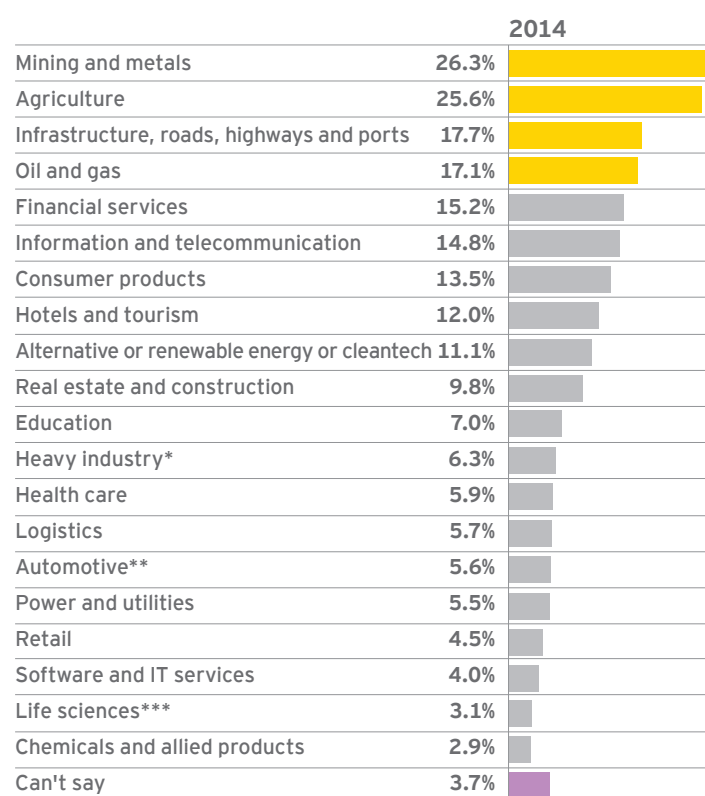
49. Bright Continent: The future of Africa's opportunity cities, Oxford Economics, November 2013.

Resources remains key, but infrastructure and consumer-facing sectors are catching up fast

In line with what the actual numbers tell us, sectors other than extractive industries are growing in importance.

Beyond natural resources: opportunities in consumer-facing sectors

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



* Industrial and commercial machinery

** Manufacturing and equipment

*** Pharmaceutical, medical equipment and biotechnologies

Source: EY's 2014 Africa attractiveness survey (total respondents: 503).

From a perception perspective, the importance of the agricultural sector has increased sharply, ranking only marginally behind mining and metals, in 2013. Increasingly, infrastructure is perceived as a key growth sector. Interest in consumer-facing sectors is increasing, particularly in financial services, telecommunications and consumer products. This is consistent with the actual levels of investment highlighted in the previous chapter.

Africa's perception gap continues to linger

A large number of potential foreign investors continue to view Africa as a high-risk destination.



Perception gap in Africa

Does your company have a specific strategy for investment in Africa?

	Yes	No
Established in Africa	67.0%	26.2%
Not established in Africa	9.6%	89.0%

Source: EY's 2014 Africa attractiveness survey (total respondents: 503. Established in Africa: 306, not established: 197).

Our survey results show that Africa's attractiveness as an investment destination is continuing to improve. However, current levels of FDI inflows are not commensurate with the continent's potential. According to UNCTAD, Africa received less than 5% of global FDI capital between 2007 and 2013. Furthermore, FDI project numbers declined for the second year in a row in 2013. This brings us to the question: why has actual investment in Africa not accelerated more when it appears that investment perceptions have improved so dramatically?

One answer, which has been highlighted in previous editions of the Africa attractiveness survey, lies in the stubborn perception gap between companies already established in Africa and those that do not yet operate on the continent. Those with an established business presence in Africa are more positive than ever about the continent's prospects. This set of investors has a concrete action plan in place to grow

and achieve success on the continent. Two-thirds of investors established in Africa have outlined an investment strategy for growth on the continent. Only 10% of investors with no presence have done likewise.

The perception gap is particularly pronounced when considering Africa's attractiveness in comparison with other regions. As a whole, we have seen a dramatic climb in Africa's relative attractiveness. Interestingly, respondents who are already established in Africa view the continent as more attractive than all other regions. For the first time, this year's survey shows that companies with a presence also perceive Africa to be relatively more attractive than Asia. In stark contrast, those with no business presence in Africa view the continent as the world's least attractive investment destination.

In our view, investors not established in Africa generally base their thinking on ill-informed opinion, which is completely divorced from on-the-ground realities. While we agree that Africa is an inherently challenging place to do business, many companies pursuing a long-term African strategy have generated excellent returns from their investments. In fact, empirical analysis reveals that return on investment from projects in Africa have consistently been among the highest, if not the highest, in the world since the 1990s.⁵¹ These companies have been scaling up their presence on the continent and form some of the largest investors in Africa.

A large number of potential foreign investors continue to view Africa as a high-risk destination. However, this view is often based on perceptions that are 20 to 30 years out of date. We believe it is important

51. "Africa by numbers 2013-14," *Emerging Markets Center website*, www.emergingmarkets.ey.com, 18 November 2013.



There is a stark contrast in views on Africa's relative attractiveness held by respondents with and without business presence in the continent.

to dispel the myths associated with Africa. But it is also important to highlight the real challenges of doing business on the continent and some of the real stories of companies that are successfully seizing the African opportunity. And so, in this year's report, we feature some of those companies that are among the growth leaders in Africa. More specifically, we have analyzed how these companies have addressed the key challenges they have faced in doing business on the continent, and distilled lessons learned into a set of capabilities that we believe are critical to the effective execution of growth strategies in Africa. These capabilities take the shape of a systemic model that can be used to stress-test strategic thinking and execution, wherever on the growth curve an organization may be.

Africa's relative attractiveness

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

		More attractive "A lot more" and "quite more attractive"	Less attractive "Quite less" and "not at all attractive"	Africa's advantage (% points)
Established in Africa				
North America	53.7%	40.6%	+13	
Asia	54.4%	40.0%	+14	
Western Europe	56.7%	39.2%	+18	
Oceania	54.8%	34.4%	+20	
Latin America	63.5%	30.5%	+33	
Central America	62.9%	28.6%	+34	
Eastern Europe	64.9%	29.2%	+36	
Middle East	66.6%	29.7%	+37	
CIS	64.6%	27.5%	+37	
Not established in Africa				
North America	34.3%	63.5%	-29	
Oceania	34.2%	59.6%	-25	
Asia	37.2%	61.1%	-24	
Middle East	39.2%	58.8%	-20	
Western Europe	39.4%	59.0%	-20	
Latin America	40.3%	55.0%	-15	
CIS	41.2%	55.3%	-14	
Eastern Europe	43.5%	54.7%	-11	
Central America	44.5%	49.7%	-5	

Source: EY's 2014 Africa attractiveness survey (total respondents: 503, established in Africa: 306, not established in Africa: 197).

A view of

IBM

Tapping into the African diaspora



Nelly Akoth

CFO, IBM Africa

Nelly Akoth is CFO of IBM in Africa. Based in Nairobi, Kenya, her main responsibilities include overseeing IBM's expansion across Africa.

IBM is a US-headquartered globally integrated enterprise that provides end-to-end IT solutions and consulting services. IBM was officially founded in 1911 and, under the leadership of Thomas Watson, grew rapidly into one of the world's largest leading corporations. Today, IBM employs more than 400,000 people worldwide and generated over US\$100b of revenue in 2012.

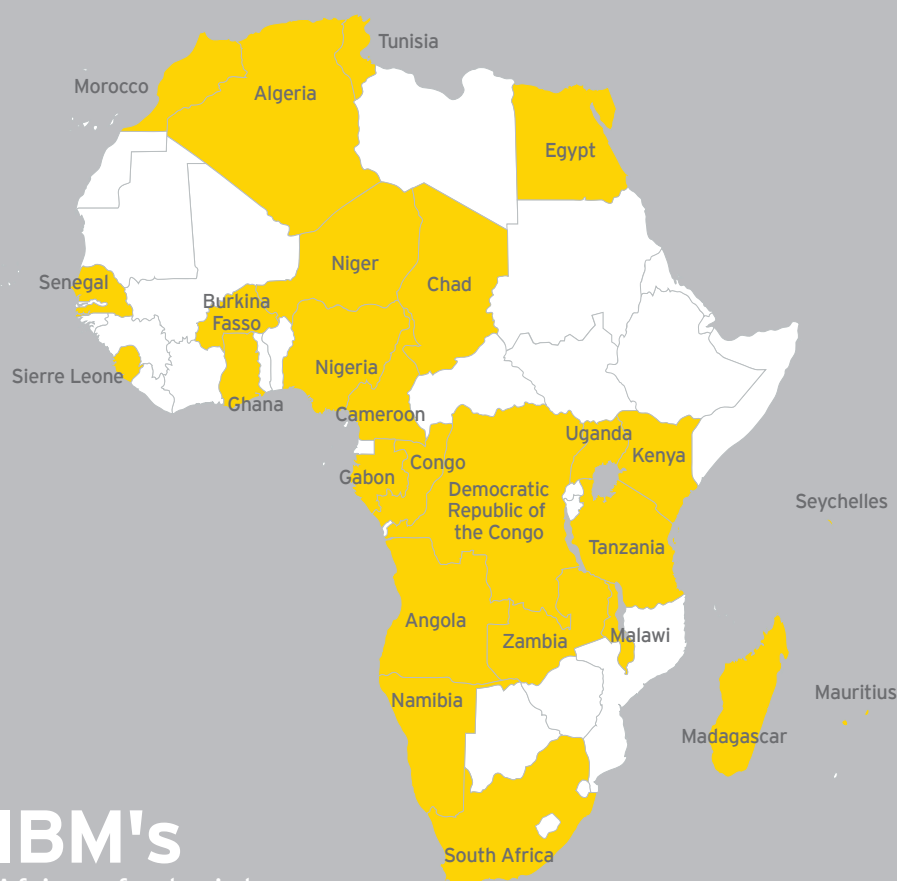
IBM has operated in Africa since the 1930s. It opened a branch office in Algeria in 1933, before expanding into Senegal in 1947, and then to other parts of Southern, East, West and North Africa in the 1950s and 1960s. IBM's investment in the region grew considerably as Africa's economy progressed in the 2000s. Bharti Airtel's acquisition of Zain's telecommunication assets across 16 markets in Africa in 2010 has seen IBM's regional growth strategy accelerate significantly. IBM is a key strategic partner for Bharti Airtel in India. With the African acquisition, IBM was appointed

as a strategic partner in Africa. Its role, under a 10-year contract; worth at signing, US\$1.5b, was to integrate the different IT environments across the 16 African operations into one IT system, and oversee the management of all applications, data center operations, servers, storage and desktop services. The IBM partnership now covers 17 countries across the continent.

Revenues from Africa were only a fraction of the Group's total US\$104b revenue in 2012. However, it expects to have strong revenue growth. As a result of both the Bharti Airtel contract and Africa being categorized as a strategic growth market, IBM has consolidated its operations in hub markets such as Egypt, Kenya, Morocco, Nigeria and South Africa and expanded rapidly into a number of new markets. Today, it has employees in more than 20 African

countries. IBM has established Nairobi as one of its key hubs for Africa operations, where both Bharti Airtel and GE have their regional headquarters. IBM has also established an IBM research lab in the Kenyan capital – 1 of only 12 that the company has in the world, and the first of its kind in Africa.

Through most of IBM's history in Africa, growth and expansion has been a gradual process. The Bharti Airtel contract doubled IBM's footprint across the continent almost overnight. From a practical perspective, this required getting the organizational basics in place very quickly. These tasks included registering and filing various papers, getting people on the ground in new markets, being able to pay people, implementing controls and ensuring compliance with regulations. These challenges were framed not only by the need to cover a vast geographical



IBM's African footprint

expansion, but also by the sheer diversity of markets. Burkina Faso, Chad, Gabon, the Democratic Republic of Congo, Malawi, Madagascar and Sierra Leone represent different geographies, languages, cultures, governments, rules and regulations. These factors all contribute to what is a complex and often uncertain operating environment.

As a global company that is Securities and Exchange Commission (SEC) compliant, and subject to the US Foreign Corrupt Practices Act, it is critical for IBM to get the basics in place from the outset. In an ideal world, this would be achieved by implementing globally consistent processes and procedures, centralizing or outsourcing as many non-core functions as possible, and driving efficiencies and control across multiple territories. However, given Africa's diversity and IBM's rapid expansion into a range of

new markets over the past few years, this is not always possible. The Airtel contract, and IBM's subsequent expansion, has encouraged the company to revisit some of its business processes. It has searched for new solutions that maintain rigor and control, while allowing for adaptation across different local conditions.

However, there are always inherent tensions between the need to adapt and the need to maintain adequate control across a region that is complex and uncertain. It is critical within this context to be very clear about what can be flexible and what is non-negotiable. So, for example, regulatory compliance is essential. There is zero tolerance of any form of bribery or corruption – or anything that could tarnish IBM's brand and reputation. IBM's core beliefs and values – its DNA – are

"We think that Africa is the next major emerging growth market."

Bruno di Leo, GM for Growth Markets, IBM.

sacrosanct, and living those values is non-negotiable.

Expatriates are playing a key role in IBM's expansion across the continent, in both technical and management roles. A critical dimension is the role of "IBMers" – long-time IBM employees who embody the values and character of the organization. Using IBMers in expat roles helps to accelerate the process of embedding IBM values and culture, as they enter new countries and hire new staff. Of course, these expatriates also play a key role in terms of training, up-skilling and knowledge transfer. As much as possible, IBM is also tapping into the African diaspora, relocating IBMers with African roots from other parts of the world back to Africa.

A view of

Mara Group

Reaching across Africa

Mara Group is a diverse family business that has evolved into an investment company. The business started in Uganda, but now has a presence in 19 African countries, as well as India and the UAE. Through its investments and operations, the group employs more than 8,000 people.

Mara Group was founded in 1996, when 15-year-old Ashish J Thakkar decided to leave school and start his own business buying and selling computer parts. However, the group's African roots run much deeper. Ashish's great-grandfather arrived in Uganda in the 1890s to trade commodities, and built a thriving family business. But all this was lost in 1972, when Idi Amin's Government expelled all Ugandans of Indian descent from the country. The family was forced to relocate to the UK, which is where Ashish was born. They decided to return to Africa in 1993 and settled in Rwanda. But within two years, the horrific genocide forced them to relocate again, this time back to Uganda.

The following year, Ashish took the decision to leave school, and began flying to Dubai on weekends to purchase computers and their parts so he could sell them in Uganda. In the ensuing 18 years, that initial foray into IT has expanded into one of Africa's largest IT companies in terms of footprint. Mara now has three different technology-related ventures:

- ▶ Mara Ison is an end-to-end IT solutions provider with projects currently on the go in a range of countries, including Uganda, Kenya, Tanzania, Botswana, Angola, Zimbabwe, Rwanda, Nigeria, Mozambique, Ghana, the Democratic Republic of Congo and Zambia.
- ▶ Ison BPO provides business process outsourcing in 10 different African countries, with Mara being a shareholder in seven of these.
- ▶ Mara Online is an integrated social media offering that combines several online and mobile platforms, including Mara Mentor.



Ashish J. Thakkar

Founder, Mara Group and Mara Foundation

Ashish J. Thakkar founded Mara Group in 1996 at the age of 15. Since then, he has been the driving force behind its transformation into a diversified African multinational. Ashish grew up in the UK and Uganda, and now divides his time between Dubai and Kampala, Uganda.

Over this period, Mara Group has also diversified into several other sectors, and is today a truly pan-African conglomerate. Besides the technology ventures, Mara's other investments include:

- ▶ Manufacturing interests, including Riley packaging, which produces corrugated cardboard packaging; Riley Media, a printing company; and MJG Egi Float Glass, Nigeria's first significant local producer of float glass

Mara Group's

African footprint



“(Mara Group) is today a truly pan-African conglomerate.”

- Real estate investments, including a high-end housing development in Uganda, and large mixed-use developments in Uganda and Tanzania
- An agricultural venture, developing 23,000 acres of land in eastern Uganda
- A JV with Atlas Merchant Capital and Atlas Mara, a financial services vehicle, to explore opportunities in SSA (includes intention to acquire SSA bank ABC Holdings Ltd and ADC African Development Corporation AG)
- An investment advisory business to identify and pursue private equity-type investment opportunities in Africa

opportunities for young business owners through services such as Mara Mentor (an online community that links young entrepreneurs with business leaders), Mara Women (empowering, enabling and inspiring women globally) and Mara Ad-Venture Fund (a micro venture capital vehicle offering early-stage and growth capital).

In 2009, Mara established the Mara Foundation – a social enterprise that focuses on encouraging and supporting young entrepreneurs in Africa. The foundation aims to create business development

A view of

Nestlé

Networks that cater to local tastes



Ricardo Chavez

CFO, Nestlé Equatorial Africa Region

Ricardo Chavez is CFO of Nestlé for the Equatorial Africa Region. This region covers operations across 21 African countries, and includes 1,000 staff, and factories in Kenya, Zimbabwe, Angola and the DRC. He has been based in his current role in Nairobi, Kenya since 2010.

Switzerland-based Nestlé is one of the world's largest consumer products companies. The company was founded in the 1860s, when Henri Nestlé launched Farine lactée, a combination of cow's milk, wheat flour and sugar, which he had developed to feed a neighbor's child who was unable to be breast-fed. The company as it is today was effectively formed in 1905, when Henri Nestlé merged his company with the Anglo-Swiss Milk Company. By 1918, Nestlé had 40 factories worldwide. Today, it operates 447 factories in 86 countries. Nestlé, listed on the SIX Swiss Exchange, generated CHF92.2b last year, making it the largest food company in the world by revenue.

Nestlé's commercial presence in Africa dates back to 1880s. The company established its first production facility in South Africa in 1927, the same year Nestlé started distributing its products in a second

African country, Morocco. From 1957 onward, the company began a process of establishing a commercial presence in virtually every African country. In 2008, the group created a new structure called the Equatorial African Region, overseeing the Nestlé operations in 21 countries across the Equatorial African belt.

Nestlé clearly has a long history of doing business in Africa. It generates revenues of more than US\$3b in Africa, and employs more than 15,000 people across the continent. However, it aims to double revenue by 2020, and investment has scaled up considerably in recent years. Over US\$1b has been invested in more than 20 FDI projects over the past decade, building up local manufacturing capabilities, expanding distribution networks and developing products that cater to local tastes.

This investment includes growing Nestlé's presence in South Africa, where two new factories have been opened, another acquired, and some of their existing facilities have been expanded. This brings the number of manufacturing facilities in South Africa to 10, making it a total of 30 across the continent. Meanwhile, Nestlé has also established a shared service center in Accra, Ghana. It is the company's fourth shared service center, following Brazil, the Philippines and Ukraine. It will support operations across 40 African countries, providing services such as employee payroll, procurement and accounts payable from one central location.

As part of its growth strategy for Africa, Nestlé set up its Equatorial Africa Region (EAR) in 2008, combining a group of 21 countries with growth potential. These markets were previously reporting to other existing regions in Africa, but in



Nestlé's African footprint

“Our company has a long-term commitment to rural development and the use of local raw materials rather than imports. We intend to expand our business significantly in Africa by developing local food resources for our factories.”

Paul Bulcke, CEO, Nestlé S.A.

order to focus more on understanding consumer insights and faster developing these countries, EAR was created. EAR is structured as a wholly owned subsidiary of Nestlé S.A. In 2010, Nestlé's CEO Paul Bulcke announced an investment package of more than CHF150 million over three years. Examples of this investment include:

- **Building a new factory in Luanda, Angola** – Nestlé has been present in Angola since 1972, and an important part of its current sales in the region come from this country.
- **Building a new factory in Kinshasa, DRC** – Following a greenfield entry into the DRC, producing a range of culinary products under the brand name MAGGI®, Nestlé first established a sales office and then a distribution center. It has recently built a factory to entrench its position.

- **Expanding its Nairobi factory** – This factory supplies the East African Community, the Horn of Africa and selected European countries.
- **Expanding and upgrading its factory in Harare, Zimbabwe.**

Local relevance is a critical element of Nestlé's success in Africa. The company currently has 30 manufacturing facilities across the continent, including the 4 in EAR. Long-term sustainable growth will be dependent on leveraging and extending existing local production facilities, as well as developing and enhancing local supply chains with the ultimate objective of producing in EAR for supply to EAR markets.

At the same time, Nestlé has been among those at the forefront of companies creating opportunities for “micro-entrepreneurs” in African countries. As part of Nestlé's My Own Business initiative, for example, the company provides vendors with a Nescafé coffee dispenser they can strap on their back, so individual cups of coffee can be sold in markets, at events, at the roadside, etc. This initiative was launched in Nigeria in 2012, is now also operational in Burkina Faso, Côte d'Ivoire, Cameroon, Ghana, Senegal and Kenya, and will be extended to the DRC, Ethiopia, Angola and Mozambique this year.

A view of

Sanlam

Implementing strategy

Sanlam is a financial services group, headquartered in Bellville, near Cape Town, South Africa. It was originally established as a life insurance company in 1918. Besides being one of the largest financial services groups in South Africa, Sanlam has growing interests across emerging markets in the rest of Africa and in Southeast Asia, as well as in Europe, the US and Australia.

In many respects, the history of Sanlam reflects the broader socioeconomic context of South Africa. The company was established in Cape Town in 1918, originally with an emphasis on the economic upliftment of largely Afrikaans-speaking people in rural South Africa. The founding principle was that small financial contributions from large groups of people could be used for the empowerment of impoverished and marginalized communities.

From the 1930s onward, Sanlam broadened its outlook beyond individuals to include supporting the development of business enterprise. It reinvested the premiums collected from hundreds of thousands of people in the development of an increasingly wide range of businesses. As a result, Sanlam played a prominent role in helping to

shape the modern South African economy. By the 1980s, it had significant investments in almost every key sector of the economy, with Sanlam investee companies employing nearly 450,000 people.

In the early 1990s, South Africa began to reintegrate into the global economy. At this time, the Sanlam leadership realized that the company would have to restructure and focus on its core business of financial services if it was to remain relevant and competitive. As a result, Sanlam was one of the first major South African companies to unbundle its assets. Others, such as Anglo American and South African Breweries (now SAB Miller) soon followed. This process led to the birth of, among others, BHP Billiton and Sappi – both substantial international companies today. Significantly, the unbundling process also led to the first major black economic empowerment

(BEE) transaction in South Africa, with the sale of Metropolitan to a black-owned consortium in 1993. Through the process of this restructuring, the way was paved for demutualization and listing as a public company on the Johannesburg and Namibian stock exchanges in 1998.

The appointment of Johan van Zyl as group CEO in 2003 was another key milestone. He and his executive team announced a deceptively simple back-to-basics strategy. This transformed the business from a traditional insurance company focused on the (predominantly white) middle market in South Africa, into a diversified financial services group operating across Africa and beyond. By consistently focusing on the implementation of this strategy over the past decade, Sanlam's annual profits have almost tripled, and the share price has outperformed its sector peers.



Heinie Werth

CEO, Sanlam Emerging Markets

Heinie Werth is CEO of Sanlam Emerging Markets. He was appointed to that position in 2005, and has been at the forefront of driving Sanlam's international growth strategy. Prior to this role, Heinie held a number of senior positions across the Sanlam Group, including Financial Director of Sanlam Life and Sanlam Employee Benefits (Corporate) businesses.



Sanlam's African footprint

(Indirect presence via associated companies in Gambia, Mozambique, Rwanda and South Sudan)

“Africa has really done well for us ... particularly in terms of return metrics ... if you get a return on equity of 35% or so, it’s something to be proud of.”

Johan van Zyl, CEO, Sanlam.

The acquisition of African Life in 2005 was something of a game changer in terms of Sanlam's international growth ambitions. Prior to this, Sanlam's only business outside South Africa was in Namibia, where it had been operating since 1928. African Life immediately gave it a presence in six other African countries – Botswana, Lesotho, Zambia, Kenya, Tanzania and Ghana. However, as with the implementation of its broader strategy, Sanlam's subsequent approach to growth into and across the rest of Africa has been steady and measured.

This approach is based on the recognition that the financial services sector is underdeveloped in many African markets and that it takes time to establish relationships, build trust, develop appropriate products and grow a viable market. Sanlam has adopted a deliberate approach of entering and expanding in new markets via local

partnerships. Every new market it enters is unique in terms of culture, consumer preferences and business environment. The company's experience has been that local management is best equipped to run local businesses. Sanlam is an active shareholder, but it is clear on where it can add value: by offering deep sector-specific technical skills, such as actuarial and marketing expertise; by sharing knowledge gained through many years of operational experience in the South African market; and by providing capital to support growth.

Following this general approach, Sanlam now has a direct and growing presence in 11 African countries. Its interests span life and general insurance, asset management, credit and banking. In addition, the company has extended its interests beyond Africa into Southeast Asia. Sanlam has a 26% interest in Shriram Capital in India, it acquired 49% of

general insurer Pacific & Orient in Malaysia in 2012, and has recently announced the acquisition of a 51% stake in MCIS Zurich, a Malaysian general and life insurer. Since 2010, earnings from the emerging markets businesses have more than tripled. Sanlam's profits from international interests now represent more than 25% of group profits – up from 2% in 2003.

A view of

SKF

Scaling up expectations



Ali Karademir

Africa Regional Director, SKF

Ali Karademir is Regional Director, Africa, at SKF. He was previously the Regional Director for the Middle East and North Africa for over 10 years, before accepting the new challenge of growing SKF's business across Africa.

SKF is a leading global manufacturer of bearings, seals and lubrication systems, and supplier of services including technical support, maintenance and reliability, engineering consulting and training. SKF was founded in Sweden more than 100 years ago. Today, SKF has 140 manufacturing sites in 28 countries. It is represented in more than 130 countries through its own sales companies and 15,000 distributor locations.

SKF was founded at a time of rapid industrialization in many parts of the world. Demand for the company's core product – a patented ball bearing, which helped to increase the efficiency and longevity of industrial machinery – led to the group's global expansion. By the outbreak of the First World War in 1914, SKF was already one of Sweden's largest companies. It had grown from only a few employees to 3,500, half of whom were employed by foreign

subsidiaries, mainly in the industrialized countries of Europe, North America and Australia.

The effective use of bearings required specialized knowledge. So, early on in its development, SKF also began to offer consulting engineering services. This meant not only selling bearings, but also working actively with clients' engineers to improve the life of their plant equipment. This required both technical competence and a willingness to share knowledge with clients. These characteristics remain central to the way SKF does business today.

SKF first entered the African continent in 1914. By this stage, SKF had established a factory in England, and it was via the English company that SKF launched an agency in South Africa. Although small in terms of SKF's total global business, the South African

business grew steadily. In the early 1960s, it established a bearing factory in South Africa to supply both local and multinational manufacturers. Although the business suffered during the apartheid sanctions era of the 1980s, postapartheid reinvestment has re-established SKF as a market leader. From its central warehouse in South Africa, SKF serves clients via more than 40 distributors across several Southern African countries, including Namibia, Botswana, Zimbabwe, Malawi and Mozambique.

Besides its long history in Southern Africa, SKF has long been active in other parts of the continent. It first entered the market in Egypt in the 1920s. After divesting its Egyptian subsidiary in the 1930s, it re-entered the market for good in 1974. In North Africa, SKF is also present in Morocco, Tunisia and Algeria. In SSA, besides the Southern African markets served out of

SKF's African footprint



South Africa, SKF has also had a presence in Zambia for more than half a century and Kenya for more than 40 years. The company has a physical presence in Nigeria, Ghana, Côte d'Ivoire, Cameroon and Tanzania, among others. It also has distribution partners in many other countries across the continent.

For most of its history in Africa, SKF has managed markets in a fairly fragmented manner, with different countries and subregions having different reporting lines into European countries. However, over the last few years, this has changed dramatically. In 2011, with growth opportunities in Africa becoming more widespread, SKF took the decision to integrate the entire African region under a single, dedicated management team. This has been an important first step, establishing a platform for investment and growth across the region.

The SKF leadership team has identified Africa as a major growth opportunity. Now, having consolidated the management structure, the focus will shift to scaling up some of the existing operations and expanding into several sub-Saharan markets that have been identified as having high potential.

“The SKF leadership team has identified Africa as a major growth opportunity. Now, having consolidated the management structure, the focus will shift to scaling up some of the existing operations and expanding into several sub-Saharan markets that have been identified as having high potential.”

A view of

Tullow Oil

Breaking new ground in Africa

Tullow Oil is a UK-headquartered company that has been operating in Africa since 1986. It has established itself as one of the world's leading independent oil companies. Tullow currently has almost 60 licenses across 15 different countries in Africa. Of a global workforce of around 2,000 people, approximately half work in African operations. Tullow's exploration-led strategy and belief in Africa has resulted in transformational oil discoveries in Ghana, Uganda and Kenya.

Tullow was founded in 1985. From the outset, Aidan Heavey, the founder, had a conviction that a resources company could play an important role in economic and social development in places such as Africa. This belief has remained at the core of Tullow's business philosophy. However, at the time, the oil sector in Africa was dominated by the large global majors – the likes of BP, Shell and Total – so barriers to entry were extremely high. One such barrier is the massive amount of capital investment that is required and so Tullow began a

process of buying mature oil and gas fields that could be reworked and exploration licenses that could add new reserves.

Tullow's very first license was acquired in Senegal in 1986, with the aim of restarting production from the fields on the license. By the end of that year, wells were already on stream and, by the following year, gas sales had commenced. In many ways, a template was established in Senegal for Tullow's subsequent engagement and success in Africa. This included developing specialized low-cost operator skills, a commitment to training local personnel, and a readiness from the outset to address the issues and sensitivities of local governments

and communities.

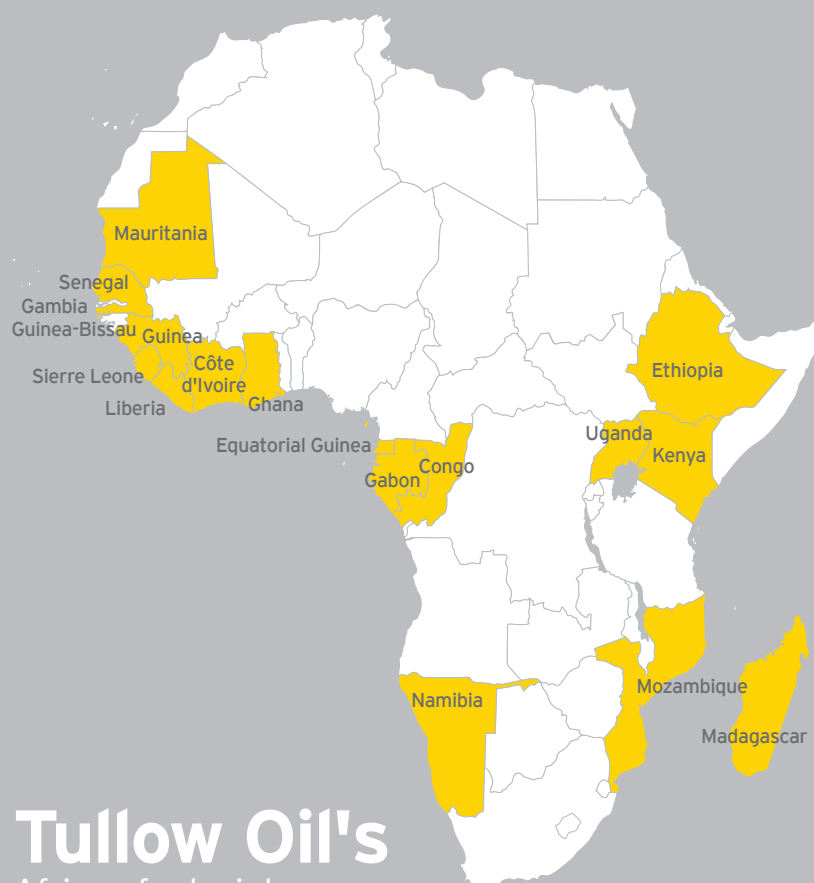
Throughout the 1990s, Tullow expanded rapidly. Besides Senegal, it acquired licenses and acreage in a number of countries, including the UK, Spain, Italy, Yemen, Egypt, Pakistan, Bangladesh, India, Romania and Côte d'Ivoire. An important turning point was in 2000, with the acquisition from BP of producing gas fields, pipelines and processing facilities in the North Sea. The success of this project meant that sufficient capital was beginning to be generated to reinvest in exploration and development activities elsewhere. This proved to be a catalyst for Tullow's eventual success in Africa.



Kevin Quinn

Brand Projects Manager, Tullow Oil

Kevin Quinn is Tullow's Brand Projects Manager. He has been with the company since it was set up and has worked in a number of international locations, including Ghana.



Tullow Oil's African footprint

A real game changer was the acquisition of Energy Africa in 2004. Energy Africa had been created in 1990, as a subsidiary of the South African company Engen. It had established itself as a leading independent oil explorer in Africa. The Energy Africa acquisition not only doubled Tullow's size, it also provided a significant portfolio of assets across five countries on the continent. This included exploration acreage in Uganda that has subsequently proved very successful. It was at this point that Tullow became focused primarily on Africa. Its second major acquisition – of Hardman Resources – followed in 2007.

In the decade since the Energy Africa acquisition, Tullow has been remarkably successful. Its African operations now include eight producing fields in Gabon, participation in the Ceiba and Okume oilfields in Equatorial Guinea, and an interest in the M'Boundi field in Congo,

a large onshore discovery. The most significant discoveries, however, have been in largely uncharted territory from an oil and gas perspective. In 2007, Tullow made its largest ever discovery in Ghana: the Jubilee Field, which moved into production in 2010. A number of major oil discoveries have also been made in Uganda. In 2012, Tullow sold a share in its rights in Uganda to the China National Offshore Oil Corporation and Total for \$2.9b. More recently, Tullow has enjoyed major exploration success in Kenya.

As Africa's leading independent oil company, Tullow's focus remains on Africa. Together with EY, Tullow is a proud partner of Invest in Africa, a group of companies that collaborate to address the cross-sector challenges of working in Africa.

"It started in a small town called Tullow, about 35 miles south of Dublin, Ireland. In the 1980s there were loads of companies starting off in the North Sea and Celtic Sea. I was talking to a friend of mine in the bank one day and he was talking about small oil fields in Africa, which had been left behind by the majors and had no one to work them. That is where the idea came from. I contacted another friend of mine in the World Bank who told me about a project in Senegal. They had some small gas fields that they were trying to get people to develop. So I set up Tullow Oil to rework those old fields. I knew nothing about the oil and gas industry at the time, which made it more challenging. No one thought Tullow would succeed, because of my lack of knowledge of the industry, the absence of major backers and the fact that I was starting a company in a country with no oil industry."

Aidan Heavey, founder and CEO,
Tullow Oil.

Strategy execution

A tall, cylindrical skyscraper with a flat top, surrounded by other city buildings and trees. The building has many windows and a distinctive design. The sky is blue with some clouds. The text "Strategy execution" is overlaid on the image in a large, white, sans-serif font.

Image: Downtown Nairobi, Kenya.

EY's 7-P model

Successfully executing growth strategies
in Africa.





Despite progress, Africa remains a challenging place to do business

The perception gap remains one of the key constraints on growth of FDI into Africa.

Our survey results show that perceptions of Africa's relative attractiveness are improving. But there are still a large number of potential investors who continue to view the region as high risk (often based on perceptions that are 20 to 30 years out of date). Many of these perceptions are simply erroneous. However, even for those who bridge the perception gap, Africa remains a complex and challenging environment in which to do business. While we would argue that, from a risk perspective, many African markets are not fundamentally different to other rapid-growth markets, there are some key differences.

Foremost among these are the sheer scale and diversity of the continent. Although many of us still sometimes lump Africa together in our commentary and comparisons as if it were a single market, it does, of course, comprise 54 sovereign states – representing more than a quarter of all the independent countries in the world – spread across a landmass greater in size than Europe, the USA, China and India combined.

For most companies, very few of Africa's individual markets are likely to provide – in the short term at least – the kind of scale that makes them commercially attractive in and of themselves. As a result, most growth strategies in Africa must target multiple markets. But the opportunities and risks differ widely from country to country and from region to region, and the differences in language and culture are as great as anywhere else in the world, with French, Arabic, English, Portuguese, German, Spanish, Dutch and Italian influences mixed with numerous indigenous languages and cultures.

Patterns of growth are becoming evident

Africa offers abundant opportunities coupled with many risks and challenges. It is a complex, uncertain, paradoxical, exciting and sometimes even dangerous place to do business. Despite this – or perhaps because of it – there are a number of companies that are thriving. And, as an ever increasing number of companies invest in growth in Africa, the general patterns of growth are becoming clearer.



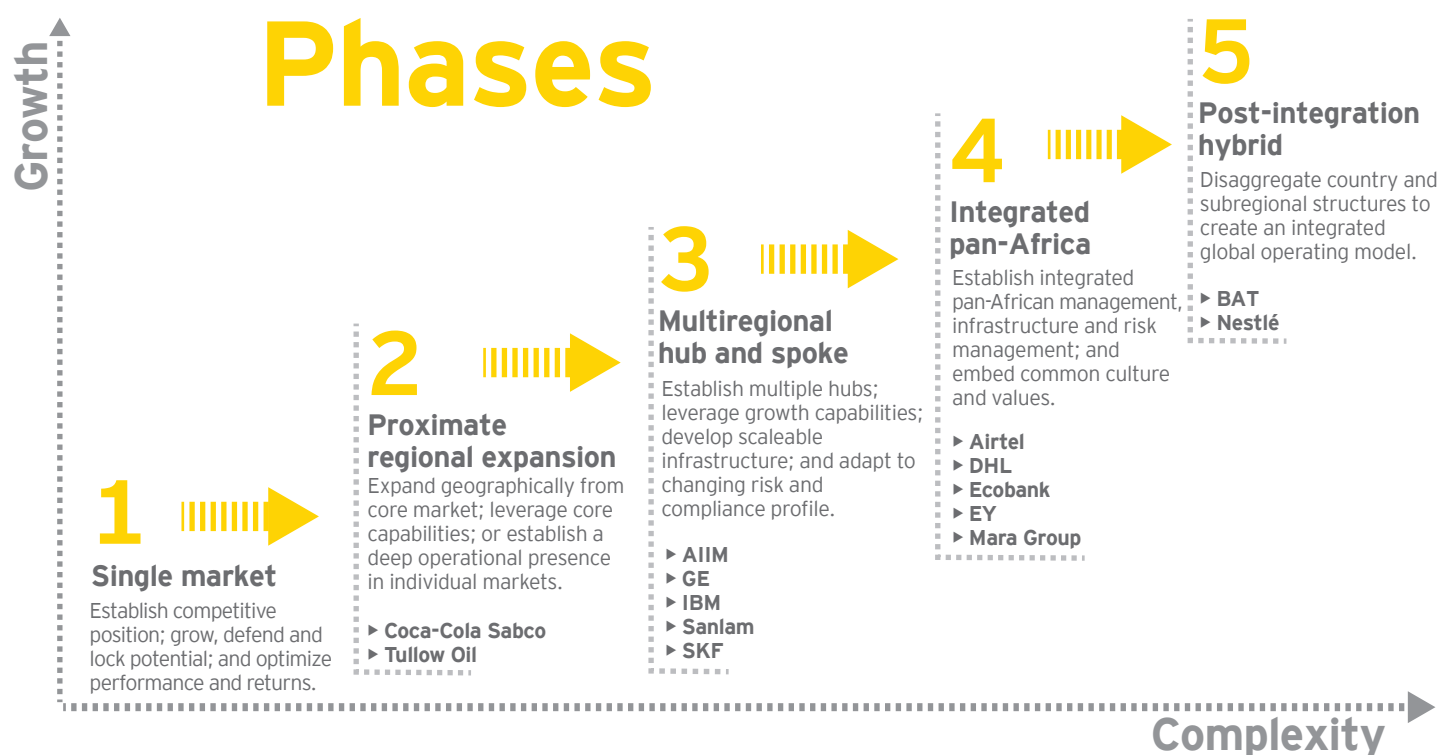
1 Single market. Most companies initially establish a presence in a single market, selected because it offers a specific opportunity or because it is of a sufficient size and has potential to serve as a platform for expansion into other areas. South Africa and some of the North African countries have historically been points of entry for many companies; but a growing number of other countries, including Nigeria, Kenya, Ghana, Senegal and Mauritius, also offer viable options, depending on the nature of the business and its organizational structure.

2 Neighboring or standalone markets. From this initial platform, most companies will then begin to explore opportunities in nearby regional markets; testing the waters in markets that have reasonably similar tax, legal and regulatory frameworks, and where language is not a significant barrier. An increasing number of indigenous African companies are in this phase, particularly those based in South Africa, Kenya or Nigeria. Proximate cross-border expansion is being enabled to a varying degree by regional economic communities (RECs) – there are currently eight RECs covering different subregions across the continent, but they are at different levels of development.

Another version of this phase is where a company expands into more far-flung markets, but operates each one largely autonomously, in a federated kind of structure. This type of model has worked well for Coca-Cola Sabco across their African operations. It is also often used by resources companies that have large-scale, long-term projects in individual countries; Tullow Oil would arguably fall into this category. Both Coca-Cola Sabco and Tullow Oil operate with some form of shared services and, of course, corporate oversight, but their in-country management is fairly autonomous.

3 Regional hub and spoke. Over the last few years, a number of companies that have long been present in Africa have begun to consolidate or scale up their African portfolio – companies including global multinationals such as GE, IBM and SKF, as well as African companies such as Sanlam. Companies seeking to expand into new regions often establish operating hubs in certain countries – usually Nigeria or Ghana in the west; Kenya in the east; Egypt, Morocco or Tunisia in the north; South Africa in the south; and Senegal, Cameroon or Côte D'Ivoire in Francophone Africa.

4 Integrated regional. Some companies with an extensive pan-African portfolio have moved beyond regional hubs into an integrated regional model with a single management structure (although SSA is still often separated from North Africa). This model has been established mostly by services companies, such as EY, DHL and Airtel, and by some of the other telecommunications companies, as well as by several banks, notably Barclays, Ecobank, Standard Chartered and Standard Bank. This model helps companies to manage their African portfolio in an integrated and efficient way. It can also help to create a structure of sufficient size or of sufficient growth potential to be taken seriously in a global organization. This phase may be as far as an organization ever needs to go, particularly for those whose operations remain largely centered in Africa.



5 Post-integration hybrid. Very few organizations have entered what we would consider a post-integration phase. In general, these are larger multinationals that have transitioned to a global operating model with substantial above-market structures and processes (e.g., outsourced functions in various locations around the world, production hubs and global sourcing). We would broadly characterize this phase as the point at which financial returns from several individual African markets (cities, countries and subregions) have become large enough to be material to global results, and the point at which it may make more sense to reorganize these markets as more autonomous entities reporting directly into global structures. Some of the global consumer product multinationals that have deep roots in Africa – including, BAT and Nestlé – are reaching this stage of maturity.

Of course, in the real world, these phases of growth do not often happen in a neat sequence. Time lines are often accelerated, and phases may be skipped or straddled. Bharti Airtel, for example, was quite an extreme case. Although Airtel only entered Africa in 2010, the US\$10.7b acquisition of Zain's operations across 15 countries immediately accelerated it into phase four. The model does, however, provide a framework for assessing where any company is on its Africa growth journey. And it suggests what the company needs to consider, in terms of its organization, to be able to successfully execute its strategy.

Critical success factors for effective strategy execution

Based on our own experiences of expanding and integrating our practice across 33 countries on the continent, of supporting dozens of clients at different phases of their African growth journeys, and of researching and analyzing the growth leaders profiled in this year's report, we have identified a set of capabilities that we believe are critical to the effective execution of growth strategies in Africa.

These critical success factors take the shape of a systemic model that can be used to stress test strategic thinking and execution wherever on the growth curve an organization may be.⁵²

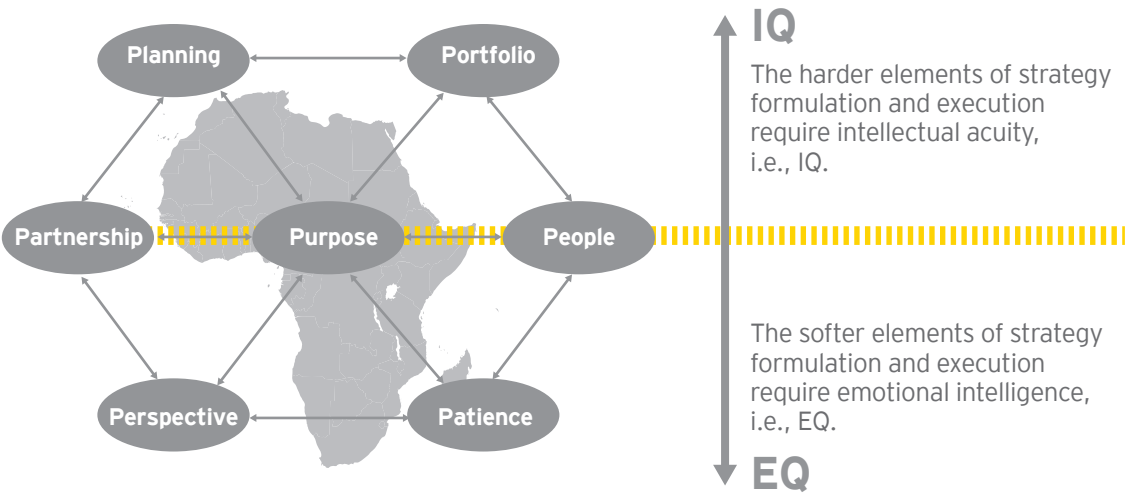
The model is characterized by seven interconnected capabilities (Ps) and is similar in structure to the 7-S model popularized by Tom Peters and Robert Waterman in their book *In Search of Excellence*. The seven Ps are separated by a "yellow line," distinguishing between the harder elements of strategy formulation and execution

(those that require intellectual acuity – IQ), which are above the yellow line, and the softer elements (those that require emotional intelligence – EQ), which are below the yellow line.⁵³ As this model illustrates, thinking about strategy execution is not just a matter of formulating a clear strategy, re-engineering processes or implementing new systems or structures – which is often where organizations focus most of their efforts. In Africa, people and human relationships really do matter, and it is particularly important to emphasize the softer, human elements. Ultimately, though, there needs to be a high degree of alignment among all the P's.

52. Our formal research has consisted of analysis of and interviews with executives from 14 organizations that are among the growth leaders in Africa: AILM, BAT, Bharti Airtel, Coca-Cola Sabco, DHL, Ecobank, EY, Mara Group, GE, IBM, Nestle, Sanlam, SKF and Tullow Oil.

53. The concept of the line is borrowed from Tim Dalmau, an Australian organizational psychologist and change consultant.

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



Source: EY, Africa Business Center™.

Purpose

Effectively executing an African growth strategy is a complex and challenging task. It should not be undertaken lightly, nor should it be a default because growth is sluggish in other markets. Before even thinking about the “how” of growing in Africa, it is critical to first clearly answer “why.” For some organizations – including **EY**, **DHL** and **IBM** – it is primarily about following client demand. For **Coca-Cola** **Sabco**, specific opportunities arose in East Africa that made strategic sense for them at a time when the South African economy was globalizing; **Airtel**’s core business in India was maturing and, after a comprehensive global scan, they decided that African markets were best suited to their business model; for a resources company such as **Tullow Oil**, it is all about geology – Africa offered an opportunity via vast tracts of underexplored, high-potential territory; for consumer products companies

such as **BAT** and **Nestlé**, with long histories and track records in Africa, their competitive positioning, manufacturing presence and established distribution networks position them ideally for growth on the back of the rising African consumer class. The common thread for all of these organizations has been a clear strategic reason to pursue long-term growth in Africa, rather than just a vague intent.

Allied to this should be clarity on capabilities and competitive positioning. What are the capabilities you have that are repeatable, scalable and that can enable the creation of a clear value proposition? **Tullow Oil**, for example, is very clear that its competitive advantage is built on industry-leading exploration capabilities. As a result, it has been able to go into remote territories that others may not have considered, and has had the confidence to invest billions

of dollars in drilling activities. In Africa, **Tullow Oil**’s average drilling success rate (i.e., where some form of hydrocarbon is discovered) is over 70%, which is more than double the global industry average. **SABMiller** expanded across many parts of Africa (and beyond) from its original South African base in the 1990s by deploying small but seasoned management teams, some capital, and proven technical and marketing expertise into new markets. More recently, **Sanlam**, a South African-headquartered financial services firm, has followed a similar approach, generally purchasing a stake in existing businesses and focusing on providing technical (e.g., actuarial) and marketing expertise gained over many years of successfully operating in the mature South African market, to help drive the growth of partner companies in other parts of Africa.



Planning

Given the scale, complexity and fragmented nature of the African continent, making well-informed choices about which markets to enter when and via which mode is critical. Most organizations that are succeeding in Africa plan systematically and revisit their plans frequently to align and recalibrate. However, there also has to be an understanding that executing these plans can be complex, and that too much time and energy can be spent looking for definitive answers in a spreadsheet. It is important to strike the right balance between sticking to the plan – and, more fundamentally, to the core business purpose – and adapting to different needs and circumstances. Successful companies will enable and encourage adaptability in differing circumstances, and will even be prepared to modify elements of the business model. However, they will also apply robust and proven policies, systems and processes that are non-negotiable, and will ensure that they retain what is core to their competitive advantage, whatever the context.

This has certainly been the experience of **DHL**, which operates in every country in Africa. Across the continent, its brand is almost as ubiquitous as **Coca-Cola**'s. **DHL**'s entrepreneurial culture emphasizes the importance of being close to the market, and enables adaptation to local needs and conditions. However, in an African environment that is incredibly diverse, where there are often risks associated with bribery and corruption, and where the power of the connected network is a key differentiator, it is also critically important to be clear on what is non-negotiable. For **DHL**, the brand, critical business processes, centralized IT systems and core beliefs and values form the common ground that then enables a degree of flexibility and adaptability in specific markets.

Given its rapid expansion into new African markets over the past few years, **IBM** has

also had to get the balance right between, on the one hand, careful planning and control and, on the other, the ability to adapt to local conditions and to get up and running quickly. Like **DHL**, the company has a strong emphasis on being clear about what can be flexible and what is non-negotiable. So, for example, regulatory compliance is essential (country laws cannot be bent), and there is zero tolerance on any form of bribery or corruption, or anything that could tarnish **IBM**'s reputation and brand. More fundamentally, **IBM**'s core beliefs and values – its DNA – are viewed as sacrosanct, and living those values is non-negotiable. There is an **IBM** country manager (usually a local) appointed in every country the company operates in in Africa – part of their system of control – and each one is held accountable for instilling the **IBM** DNA in the organization. At the same time, the company strategically deploys "IBMer" – longtime **IBM** employees who embody the values and character of

the organization – in expat roles to help accelerate the process of embedding the **IBM** values and culture as they enter new countries and hire new staff.

From an organizational perspective, some form of regional shared services center can be an important enabler of planning and effective strategic execution. **GE**, for example, has established a regional shared service center in Nairobi for 10 back-office processes and functions, including HR, communications and tax compliance. This is important because it enables the commercial people in the markets to focus on what they are meant to be doing: connecting with customers and growing the **GE** business. Similarly, to ensure consistency across the more than 30 different African markets in which it operates, **Ecobank** has created three IT hubs and three call centers, to ensure brand consistency and common systems and processes.



Portfolio

While we are positive about the growth potential in Africa, we are also realistic about the relative immaturity and risk, as well as the current lack of scale, in many individual markets. We can guarantee that there will be volatility, uncertainty and many challenges – perhaps even failures. So it is important to balance risk across a number of different markets. A sizable African portfolio provides three critical advantages:

1. It reduces the risk of political or economic instability in any one country materially impacting overall earnings.
2. It allows companies an early-mover advantage in markets that are still at an early stage of development.
3. It can provide sufficient scale to make the African portfolio large enough to matter.

A portfolio effect is likely to be particularly important for services and consumer-facing

companies, for whom it may take time to build a business of a worthwhile size in any particular country or region. **Airtel, BAT, Coca-Cola, DHL, Ecobank, EY, IBM** and **Nestlé** for example, all operate across more than 20 different African markets. However, the ability to effectively build up and manage a critical mass of projects and assets across the continent has also been integral to the success of **Tullow Oil**. **Tullow Oil** drills more wells in Africa than any other oil company. For example, in Uganda alone, it has drilled more than 50 wells since 2006. This is partly what has enabled **Tullow Oil** to make by far the most new oil discoveries in Africa in recent years. Having sufficient projects at later stages of development also means that these can be monetized to fund ongoing exploration. For example, production in Ghana will generate ongoing revenue for reinvestment, while the sale of a share of its rights in Uganda (preproduction) provided an immediate US\$2.9b capital boost.

Mara Group, a diversified conglomerate with roots in Uganda, has also expanded across the continent and now has operations, either directly or via its investments, in 19 African countries. Its portfolio across the continent is an important factor in positioning **Mara** as a partner of choice for foreign investors. Because most African markets still remain very small and fragmented, being able to partner with one pan-African company rather than with different ones in different countries can be a key differentiator.

Spreading risk across a range of markets can also help enable earlier entry into less mature or supposedly higher-risk markets. The importance of (and opportunity for) early-mover advantage should generally not be underestimated. Although it may require a leap of faith and should not be done halfheartedly, the anecdotal evidence suggests that, particularly for consumer-facing companies, it is worth

investing ahead of the curve. **BAT, Diageo, Nestlé, SABMiller, Shoprite** and **Unilever** provide examples of this in different African markets. Early-mover advantage – particularly in sectors where barriers to entry can later become high – can end up being critical.

The mobile telecommunications sector, where a limited number of licenses are generally issued, provides a good example of how difficult and costly it is to gain market share once an incumbent is established. In most markets, the number one and two players dominate and make the bulk of the profit. This is why **Airtel**, for example, having stabilized its operations across Africa, is now focusing on in-country consolidation and diversification of revenue streams. Rather than looking at further expanding its footprint across the continent, the focus for **Airtel** is on entrenching its position in markets where it is number one (e.g., Malawi and Gabon), consolidating its position where it is already a strong number two (e.g., the DRC and Uganda), and becoming a strong number two in key markets where there is a dominant number one (e.g., Nigeria and Kenya, where MTN and Safaricom, respectively, dominate the market).



People

Strategies are not self-executing.

Boardroom-level strategy-making can map out the most exciting opportunity matrices and solid risk mitigation measures across the continent – but their implementation inevitably turns on staff in the countries of operation. A commonly cited challenge for many companies expanding in Africa is the shortage of skills. This is particularly acute for companies such as **SKF**, a Swedish manufacturer of specialist machine equipment, which require people with quite specialized technical knowledge.

SKF's value proposition is built not only on the quality of its products, but also on the ongoing on-the-ground technical and consulting support it provides to its distributors and clients. Mining companies, for example, operate very sophisticated equipment that requires skilled maintenance in remote locations in countries such as Mozambique, Zambia and the DRC. Providing adequate support to these clients requires deep sector knowledge and technical skills, as well as the capabilities to transfer this knowledge to distributors and clients. However, in most instances, it is still very challenging to find people with the required skill levels. As a result, these people are very expensive to hire and are very mobile, which creates an ongoing recruitment and retention challenge.

On the other hand, there is abundant latent talent. What sometimes distinguishes the more successful companies in Africa is their ability to recognize this. For example, **DHL** has, in recent years, focused a lot of effort into developing the skills of its people across the continent. **DHL**'s view is that, while there is often a skills gap, Africa does offer enormous human potential, and **DHL** sees that the people in its organization have tremendous energy, dynamism and ambition. This is a fundamentally different perspective to the more conventional line that skills shortages are a critical challenge in Africa.



However, for many firms that are serious about developing their African investments in the longer term, success will depend on the ability to put human resource development, especially for management and technical skills, at the heart of strategy execution. Sustained achievement will depend to a very large extent on finding, training, retaining and supporting good people – in particular, local staff. At the same time, expatriates can play a critical role in establishing a strong operational foundation, ensuring consistency and cohesion in terms of organizational culture and values, and in helping to develop skills and to transfer knowledge. For example, expatriates are playing a key role in **IBM**'s expansion across the continent, in both technical and management roles. A critical dimension of this is the role of IBMers. Using IBMers in expat roles helps to accelerate the process of embedding the **IBM** values and culture as the company enters new countries and hires new staff. These expatriates also, of course, play a key role in terms of training and knowledge transfer. As much as possible, **IBM** is also tapping into the African diaspora, relocating

IBMers with African roots back to Africa from other parts of the world.

GE stresses the importance of getting strong people on the ground who have “dual DNA” – i.e., an understanding both of **GE**, including its systems, culture and values, and of the local business environment. In certain markets, to develop this type of understanding, **GE** has decided to take a long-term perspective. It has begun training future **GE** leaders from scratch. The starting point is the newly created Early Career Development Program (ECDP), a 12-month leadership program designed to give recent university and college graduates challenging work assignments, training and development, and leadership experience (**GE** has now also initiated a pre-ECDP internship program). One hundred and fifty Africans have now participated in the ECDP program. This is the beginning of a 10-year journey of training, work experience and global rotation within **GE** that will ultimately provide a critical mass of African leaders across the **GE** Africa business.

Realising potential

EY 2013/14 sub-Saharan Africa talent trends and practices survey



EY's sub-Saharan Africa talent trends and practices survey 2013/14 presents a comprehensive picture of the talent-management landscape across this large and very varied region. Looking at the research results as a whole, EY has identified four

overarching themes. We believe that these themes should inform the HR strategies of any company with operations in SSA. These overarching themes are:

1. The war for talent in Africa is just beginning. Global studies and long business experience both demonstrate that a company's success is directly linked to its ability to attract and retain the right skills. African business is no exception – indeed, the continent's relative shortage of skills more or less guarantees fierce competition for the right skills. This survey shows that two skills categories will be most in demand: technical/operational and professional.

2. The reliance on expatriates is problematic and needs to be rethought. Traditionally, the easiest way for companies to source scarce skills is to rely on global talent pools – not surprisingly, this is particularly true for global companies who are in a position to redeploy staff. However, the high premium that expatriates attract becomes a source of tension within companies. At the same time, political pressure

for localization is growing across the region. For these reasons, EY believes that companies need to build the capability to facilitate skills transfer from expatriates to local employees, as this will become a vital competitive differentiator. At present, however, it is clear that companies across the region lack this capability.

3. There is an increasing desire to source skills from other African countries or the returning African diaspora. As a consequence of the desire to reduce their dependence on expatriates, some companies are looking to source skills from other African countries or from members of the returning African diaspora. While this could be an innovative and cost-effective way of addressing the expatriate dilemma, EY believes that this needs to be managed sensitively, and that organizations should not disregard the importance of "growing their own timber" by improving their ability to transfer and build local skills.

4. Organizations in SSA are currently weak in those talent-management skills they deem to be a high priority. As will be clear from the previous three points, the capability of an organization's HR function is vital in its success. HR has to be able to identify the skills needed and to source them; it also has to have excellent retention and performance-management strategies to ensure maximum benefit from those skills. And, in particular, HR professionals within the organization must provide the capability to facilitate skills transfer from expatriates, be they from the developed world, other African countries or the African diaspora.

Please visit emergingmarkets.ey.com to download the full report.

Partnerships

The point has already been made that relationships matter, perhaps more so in Africa than in any other region, but it cannot be overemphasized. To develop relationships in Africa requires a significant investment of time and energy. Strong local business partnerships are often critical to success – an effective local partner can help a new market entrant to hit the ground running, providing support with, for example, navigating bureaucracy, coming to terms with local operating issues, and developing an understanding of consumer or client dynamics. **Sanlam**, a South African-headquartered financial services company, has a deliberate approach of entering new markets via local partnerships. Its approach is premised on the view that every new market it enters is unique in terms of culture, consumer preferences and the business environment. The company's experience has also shown that local management is best equipped to run local businesses, while **Sanlam** adds value by offering deep sector-specific technical skills, by sharing knowledge gained through many years of operational experience, and by providing capital to support growth. **Sanlam's** business in Botswana provides a good example of this partnering philosophy in practice. **Sanlam** has a majority shareholding in Botswana Insurance Holdings Limited (BIHL), one of the top five listed companies on the Botswana Stock Exchange, with the rest of the shareholding in local hands. The company is wholly run and operated by local management teams, with **Sanlam** very much in a supporting role.

However, a more common model is to provide local shareholders with a minority shareholding. For example, **Coca-Cola Sabco** has local shareholders in every African country it operates in – other

than Tanzania – with an average local shareholding of 20%. Local shareholders are either prominent businesspeople or, in the case of Namibia and Mozambique, the government; but they all generally play an active role and often chair the local board.

Some of the mature African operators have also listed their in-country operations on local stock exchanges. For example, **BAT** has a secondary listing on the Johannesburg Stock Exchange, as well as local listings in countries such as Kenya, Uganda, Zimbabwe and Zambia; **Nestlé** is listed on the Nigerian Stock Exchange; **Sanlam** has a listing in Namibia; **Tullow Oil** is listed in Ghana.

On the other side of the relationship, the **Mara Group** has successfully positioned itself as a local African partner for several multinational investors in the continent. Mara offers its foreign partners local knowledge and networks, an on-the-ground presence in 19 countries, and has access to its own sources of capital. As a result, **Mara** has attracted foreign investment partners across multiple sectors, including IT, real estate, business process outsourcing and manufacturing.

But partnerships do not only have to be about equity ownership; they come in many different forms. For any consumer-facing company, distribution-related partnerships are likely to be a critical success factor. This is particularly true in environments where the infrastructure is often underdeveloped, there are large rural populations, distances are vast, and retail tends to be dominated by small-scale and informal traders. One model that has worked well for **Coca-Cola Sabco** in parts of East Africa is the Official **Coca-Cola** Distributor (OCCD) approach – a

model whereby the local **Coca-Cola Sabco** factory partners with a number of micro-distributors, each of which is given responsibility for a defined geographical area (generally a 1km radius in an urban environment, servicing at least 500 outlets). Area sales managers, who are full-time **Coca-Cola Sabco** employees, support and assist the local entrepreneurs who own these OCCDs. These OCCDs have become a central element in **Coca-Cola Sabco's** core distribution strategy in several countries, and are responsible for 70% or more of sales volumes in Ethiopia, Kenya, Uganda and Tanzania.

Bharti Airtel has taken the concept of partnership further than most with their Ecosystem model. In India, **Airtel's** high-volume, low-cost model is enabled in part by its outsourcing of large parts of its IT and network operations to strategic partners, such as Ericsson, **IBM** and Nokia (and so converting high fixed costs, which were an industry norm, to variable costs). This, among other things, allowed them to significantly reduce tariffs and rapidly grow their customer base across India. The model has been more difficult to deploy in Africa, given the inherent challenges of managing relationships and providing consistent, reliable service across 17 diverse African countries, but it has encouraged service partners, including **IBM**, to significantly accelerate their growth strategies in Africa. As part of its ecosystem-type thinking, **Airtel** has also entered into several partnerships to innovate and extend its product range. For example, **Airtel** is partnering with **Sanlam** and MicroEnsure to develop low-cost insurance and health funding products across Kenya, Ghana, Tanzania, Zambia, Uganda, Malawi and Nigeria.

Partnerships

There is also ever increasing pressure for multinationals to demonstrate their long-term relevance and commitment to local African economies as partners in a broader sense. Fostering good, proper relations across government and civil society will therefore be vital to realizing strategic aims. This may require dedicated government-relations professionals to support the efforts of management. More importantly, it requires a philosophy and culture that aligns the organization with the host country's longer-term growth and developmental objectives. **Tullow Oil** is one of several resources companies that seem to be getting this right. **Tullow Oil** uses the term "shared prosperity" to describe its commitment to contributing to long-term social and economic development in the countries in which it operates. Departing from the – more traditional – corporate social investment approach, the focus here is on the developmental impact of **Tullow Oil**'s core business. This does not, for example, mean building schools and clinics, however much goodwill these kinds of activities may generate. Instead, **Tullow Oil** has moved away from a philanthropic approach and has started viewing all its social projects as an investment; an investment in managing the impact of their projects, but also as an investment in making themselves the partner of choice in the countries in which they are working. This means changing the focus to technical skills transfer, capacity building for the local oil and gas industry, and the encouragement of foreign investment in the country. For example, **Tullow Oil**'s Closing the Gap program, together with initiatives such as Traidlinks and Invest in Africa, focuses on enabling local suppliers to provide goods and services to international standards. This helps build strong relationships with local people and businesses, and more oil-related money stays in the host country.



Consumer-facing companies such as **Nestlé** and Unilever have been among those at the forefront of companies creating opportunities for micro-entrepreneurs in African countries. As part of **Nestlé**'s My Own Business initiative, for example, the company provides vendors with a Nescafé coffee dispenser they can strap on their back, so individual cups of coffee can be sold in markets, at events and at the roadside. This initiative was launched in Nigeria in 2012 and is now also operational in Burkina Faso, Côte d'Ivoire, Cameroon, Ghana, Senegal and Kenya. It will be extended to the DRC, Ethiopia, Angola and Mozambique this year. Unilever has also introduced its direct-to-consumer Shakti distribution

scheme to Africa – this has been very successful in India, providing a livelihood to approximately 45,000 Indian women who sell Unilever products directly to three million households. Beginning in Nigeria and Kenya, Unilever aims to employ tens of thousands of vendors to sell directly to consumers. Unilever provides microfinance to its vendors in order to enable them set up their businesses. In so doing, it helps to provide a livelihood for people who might otherwise struggle to find work.

Perspective

In terms of macro risks, Africa's countries and regions can be difficult places in which to do business. But our research tells us that Africa is not a more difficult place to do business in, when compared with many other parts of the world. Indeed, on some key indicators, the much-vaunted BRIC countries are more risky or more difficult than many important African markets. At the same time, however, some negative perceptions have a basis in fact. Although some African countries score relatively well on various risk-related metrics, others continue to lag significantly behind in almost all such indices. However, for companies seeking growth in Africa, it may be better not to focus on absolute rankings and other such frozen-in-time snapshots. Experience suggests that rather than trying to look for problem-free African markets, it is a better mindset to try to understand whether and where such problems are generally receding (or are changing and becoming more manageable) and adopting a perspective that tracks progress over time, rather than dismissing markets on the basis of current indices.

More fundamentally, it takes a positive mindset to succeed in Africa – a commitment to seeing the glass as half full. This has been a common theme across virtually all of the companies we have engaged with. This is not to encourage recklessness; effective risk management is critical to doing business effectively in Africa. However, it is only one factor in successfully operating in Africa – there is no doubt that, if you set out expecting

difficulty and risk, you will find it easily enough, and this will probably put a brake on any growth plans. Those who have been successful in Africa have tended to first look for the opportunities, and only then to factor in risks. Hence the significance of balancing an opportunity awareness mindset with a risk management approach.

Moreover, risk and opportunity can often be viewed differently in African markets. Success can come from seeing the opportunities that are inherent in ostensible risks and constraints. For example, infrastructure deficits are typically viewed as constraints or risks to doing business in Africa. Yet meeting the pent-up demand and backlog for infrastructure projects is, as firms such as **GE** and **AIIM** are well aware, also an opportunity. However, capitalizing on that opportunity requires a perspective that does not always come naturally to global multinationals: it requires a developmental mindset that is prepared to make investments in elements of the value chain that would be unthinkable in more mature markets.

AIIM is an equity investor in infrastructure projects, but it has had to make a shift away from simply investing to actually developing projects. For **AIIM**, this is arguably a more fundamental shift than geographical expansion, because it implies a different set of activities and a need for different capabilities. Conventional investment would focus on “prepackaged” opportunities – it is a relatively hands-off activity, with investment decisions being made on the

basis of due diligence and a valuation. However, the challenge in many markets and sectors is that investment opportunities are at a far earlier stage than this, and require hands-on development to get them to a bankable stage. **AIIM** encountered this with both the Imoya wind project in South Africa and the Lekki toll road project in Nigeria. Both seemed conceptually sound, but they required a process of developmental structuring for them to become viable investment opportunities.

Much of **GE**'s revenue in Africa is derived from the sale of equipment for infrastructure-related projects. As with **AIIM**, however, a key challenge the company faces is that, despite the infrastructure gap and the obvious need and demand for infrastructure projects, there is often insufficient capacity and capability in the public sector to develop projects to the point at which they become bankable. Rather than wait for things to happen, **GE** has chosen to address this challenge head on by proactively engaging with governments and state-owned corporations, and by providing capacity to support the early-phase development of infrastructure projects. **GE** has also established a project development organization to help bridge the gap on infrastructure projects between concept and financial close (which is the point at which **GE** can sell its equipment). This 20-strong team works on various ideas to help develop and structure bankable projects, providing a range of value-added services to governments and state-owned corporations.

Patience

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

It generally takes time and investment to generate any kind of meaningful returns from African operations. Most of the multinationals that we have engaged with for this research have been operating in Africa for many years: **Tullow Oil** first entered Africa in 1986, for **DHL** it was in the 1970s, **IBM** 1933, **Nestlé** 1916, **SKF** 1914, and the African roots of organizations such as **BAT** and **EY** are well over a century old. Over time, companies such as these have gained skills, experience and understanding, and they have developed relationships and markets, established competitive positions, evolved operating processes and systems and built up meaningful African portfolios. There are few shortcuts, even for seasoned operators such as these. It is essential, therefore, to align the expectations of the group and of the regional management in terms of the scale of investment required, as well as the potential return on that investment. The reality is that each market will have its own opportunities and challenges, and that time lines for realizing the opportunities will often be longer than originally anticipated.

A firm such as **AIIM**, which is essentially a private equity investor, is at the sharp end of the tension between longer-term investment versus shorter-term returns. Of course, private equity investing tends to have a shorter- rather than longer-term focus, with five- to seven-year

horizons fairly typical. However, unlike conventional private equity investing, equity investing in infrastructure is a long-term game, particularly so in Africa. It is necessary to take at least a 10-year view on these investments – this has been **AIIM**’s experience with investing in road infrastructure in South Africa, and this is the perspective they are adopting with the rest of Africa.

A key consideration for investors is whether policy can be separated from politics, and whether the policies in place will support the business for at least 10 years. For **AIIM**, Kenya is an example of a country that appears to be getting it right, and other countries are also learning as they execute their infrastructure programs.

Sanlam began a process over a decade ago of transforming their business from a traditional insurance company focused on the middle market in South Africa, into a diversified financial services group operating across Africa and beyond. The implementation of this strategy in the ensuing years has been steady, measured and, above all, consistent. **Sanlam**’s approach is premised on the recognition that the financial services sector is underdeveloped in many African markets, and that it takes time to establish relationships, build trust, develop appropriate products and grow a viable market.

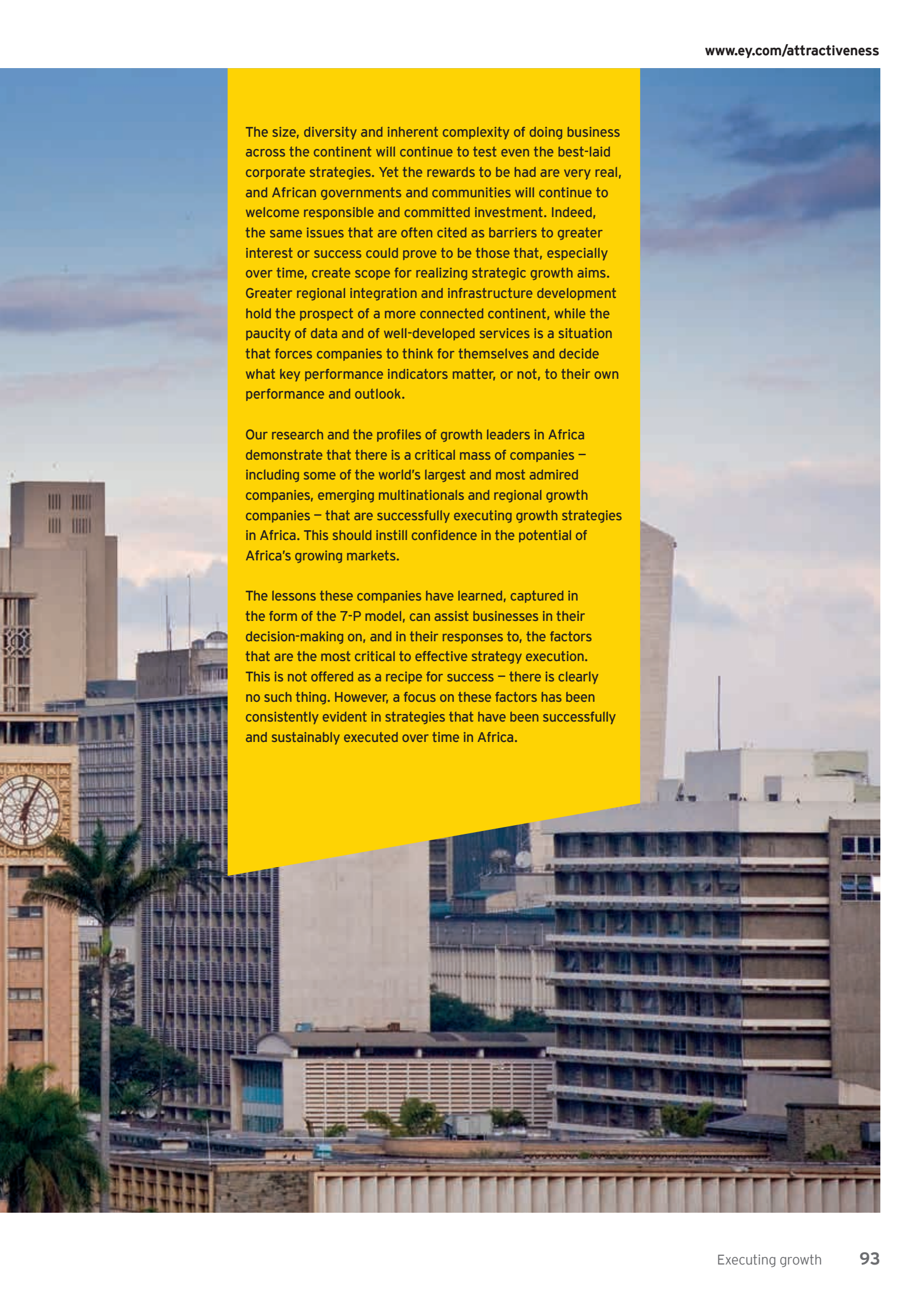
Similarly, **Nestlé**’s payoff line for their long-term strategy in the Equatorial Africa Region is “walk first, run later”; the emphasis being on ensuring that the basics are put in place first. From a product perspective, for example, the focus is on first developing the existing portfolio, with a particular focus on “Popularly Positioned Products” (PPPs) – high-quality, affordably priced, nutritionally enhanced products,

often in smaller pack sizes, and suited to lower-income consumers.

In terms of **EY**’s own experience, we made a decision to make a greenfield entry into South Sudan shortly after its independence in 2012 (making this the 33rd country in Africa in which we have physical operations). Several of the organization’s Kenyan clients were already operating in South Sudan, and so a partner from Kenya, who had played a role in starting up **EY** practices in Rwanda and Uganda, was relocated there to build the new business. The reality, though, is that it is likely to take up to five years before this business becomes profitable – perhaps even longer, if the recent instability in South Sudan continues. However, we remain convinced that, strategically (in the context of how the East African region is likely to develop) and in the long term, this is an important market to be in, and that our early-mover advantage will pay off as the country’s economy and the broader region grow and develop.

An alternative route to success in the continent can perhaps be found through a major acquisition, as with **Airtel**’s acquisition in 2010 of Zain’s telecoms operations across 15 markets (at that time, the largest ever cross-border transaction in an emerging market). However, even in this exceptional case, **Airtel** has struggled to generate the kind of shorter-term returns that they had originally anticipated – the complexity of operating across fragmented markets, higher-than-anticipated costs, language and cultural barriers, and the need to adapt the business model for different local conditions have been among the key challenges they have faced. **Airtel** remains confident about its ability to generate substantial returns from its African operations, but the time lines for those expected returns have been lengthened.





The size, diversity and inherent complexity of doing business across the continent will continue to test even the best-laid corporate strategies. Yet the rewards to be had are very real, and African governments and communities will continue to welcome responsible and committed investment. Indeed, the same issues that are often cited as barriers to greater interest or success could prove to be those that, especially over time, create scope for realizing strategic growth aims. Greater regional integration and infrastructure development hold the prospect of a more connected continent, while the paucity of data and of well-developed services is a situation that forces companies to think for themselves and decide what key performance indicators matter, or not, to their own performance and outlook.

Our research and the profiles of growth leaders in Africa demonstrate that there is a critical mass of companies – including some of the world's largest and most admired companies, emerging multinationals and regional growth companies – that are successfully executing growth strategies in Africa. This should instill confidence in the potential of Africa's growing markets.

The lessons these companies have learned, captured in the form of the 7-P model, can assist businesses in their decision-making on, and in their responses to, the factors that are the most critical to effective strategy execution. This is not offered as a recipe for success – there is clearly no such thing. However, a focus on these factors has been consistently evident in strategies that have been successfully and sustainably executed over time in Africa.

Methodology



EY's 2014 Africa attractiveness survey is based on a twofold, original methodology that reflects:

The real attractiveness of Africa for foreign investors

Our evaluation of the reality of FDI in Africa is based on fDi Markets. The fDi Markets database tracks new greenfield and expansion FDI projects. Joint ventures are only included where they lead to a new physical (greenfield) operation. M&A and other equity investments are not tracked. There is no minimum size for a project to be included. However, every project has to create new jobs directly. Data on FDI project creation and the number of jobs created is widely available. However, many analysts are more interested in quantifying projects in terms of physical assets, such as plant and equipment, in a foreign country. These figures, rarely recorded by institutional sources, provide invaluable insights as to how inward investment projects are undertaken, in which activities, by whom and, of course, where. To map these real investments carried out in Africa, EY used data from fDi Markets. This is the only online database tracking cross-border greenfield investments covering all sectors and countries worldwide. It provides real-time monitoring of investment projects and job creation, with powerful tools to track and profile companies investing overseas.

The perceived attractiveness of Africa and its competitors among foreign investors

We define the attractiveness of a location as a combination of image, investors' confidence and the perception of a country or area's ability to provide the most competitive benefits for FDI. Field research was conducted by the CSA Institute in January 2014, via telephone interviews with a representative sample of 503 international decision-makers. Business leaders were identified and interviewed in 34 countries. Globally, of the 503 business leaders interviewed, 61% work for companies that operate in Africa.

Our survey was conducted among business leaders drawn from businesses across six regions.

The geographic representation was as follows:

- 56% European businesses
- 9% North American businesses
- 15% Asian businesses
- 6% Middle Eastern businesses
- 2% Oceanian businesses
- 2% other businesses

The business leaders interviewed are active in the following key economic sectors:

- Private and business services
- Industry and automotive
- Consumer products
- High tech and telecommunication
- Life sciences
- Real estate and construction
- Energy and cleantech
- Agriculture
- Mining and metals
- Private equity
- Aerospace and defense

Subregion classification

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

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

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

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

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

Sector classification

Sectors in this year's report have been classified based on broad EY sectors. As a result, the numbers differ from previous Africa attractiveness survey reports.

Aerospace and defense: aerospace, space and defense

Agri-products: rubber, wood products

Automotive: automotive components, automotive Original Equipment Manufacturers (OEMs)

Business services: business services

Chemicals: chemicals, plastics

Cleantech: alternative and renewable energy

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

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

Financial services: financial services

Health care: health care

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

Life sciences: biotechnology, medical devices, pharmaceuticals

Metals and mining: metals, minerals

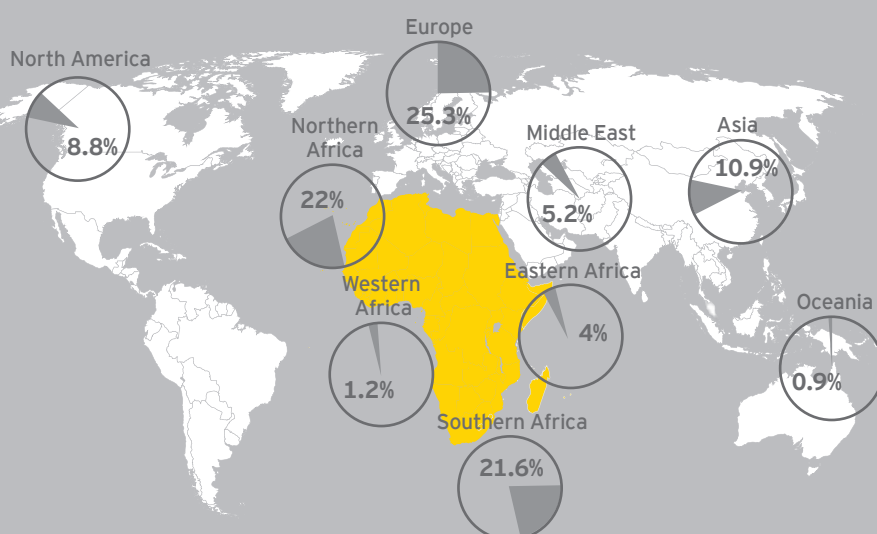
RCP: beverages, consumer electronics, consumer products, food and tobacco, textiles

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

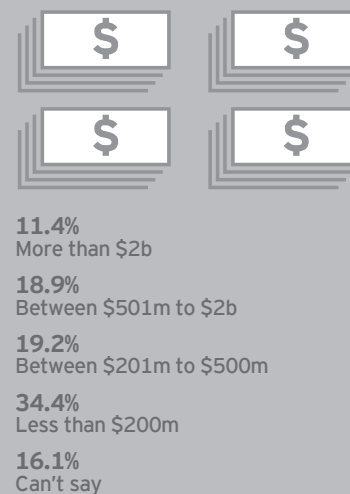
Transport and logistics: non-automotive transport OEM, transportation, warehousing and storage

Profile of companies surveyed

Geography



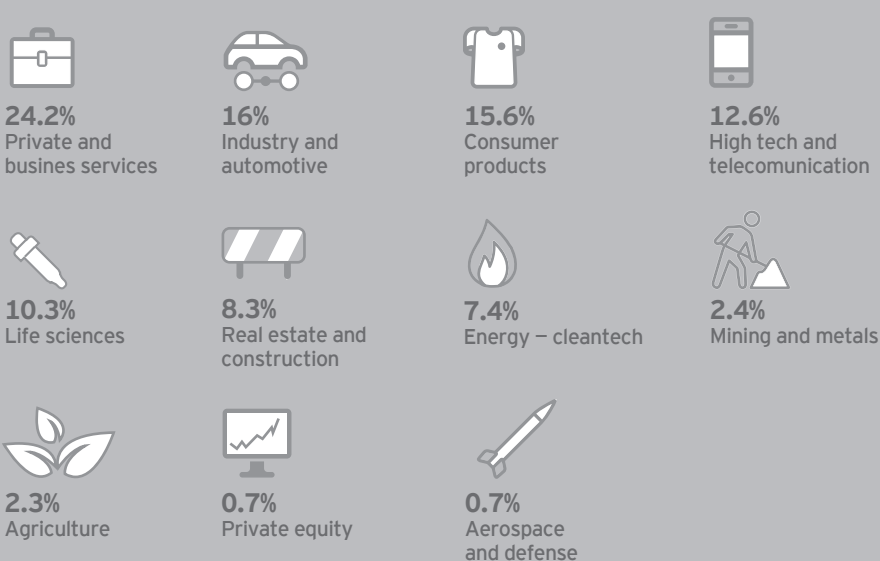
Size (sales turnover)



Job title



Sector of activity



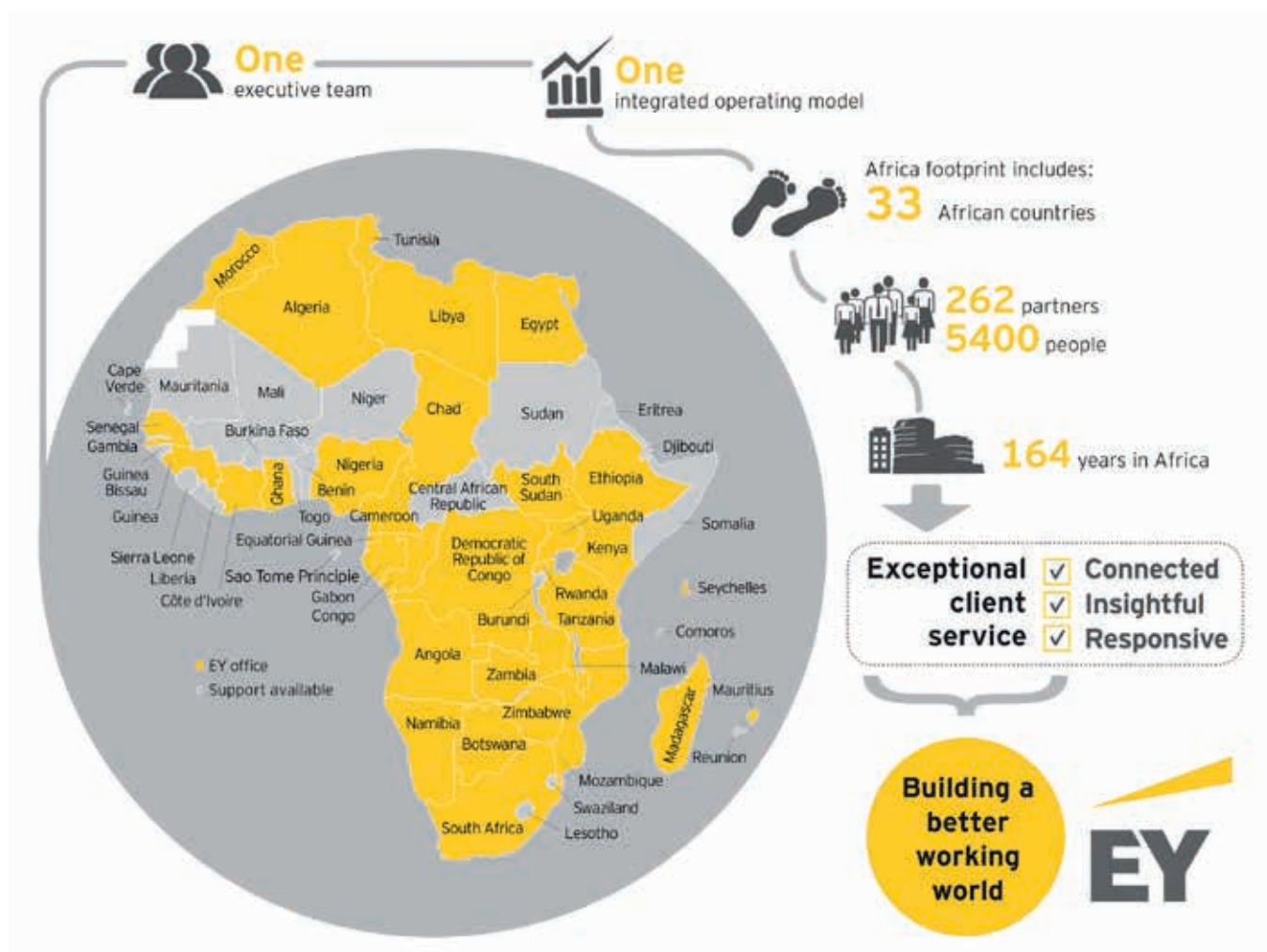
EY in Africa

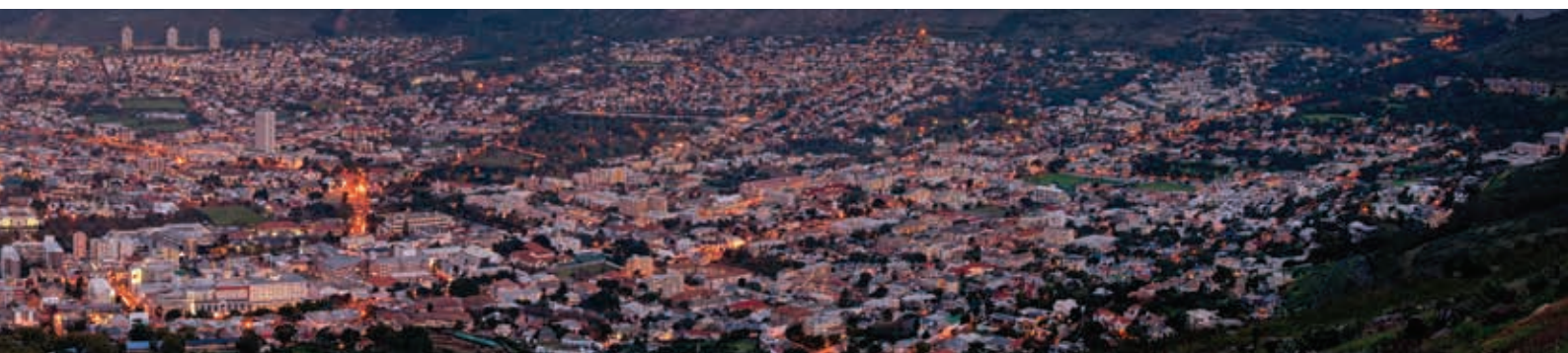


EY is a global professional services organization, with 170,000 people in over 140 countries around the world. EY currently has physical operations in 33 African countries, including 28 in SSA. The organization has been operating in South Africa for 164 years and in other countries such as Nigeria, Kenya and Angola for more than 50 years.

EY has had a presence in many African countries for decades. However, like all the large professional services organizations, the model was traditionally one of loose affiliation under a global brand. This often meant a situation in which individual country (and even city) practices ran independently, were often disconnected

and had different capability and service-quality levels. EY is the first of the large global organizations to definitively break with this model. Five years ago, it embarked on a structured process of integrating all of its Sub-Saharan Africa practices into a single operating model.





A view of EY

The key driver of this integration process has been the changing demands of large, globalizing multinational clients that are driving cross-border growth, particularly into emerging markets. They expect a consistent, coherent, high-quality service across all the territories in which they operate. With ever increasing numbers of clients looking to expand in or enter into African markets, EY's integration process quickly gained momentum. The organization moved from running independent practices to a single integrated operating model across 28 countries in Sub-Saharan Africa.

Although this vastly improved the EY's ability to respond to clients' needs in a consistent and coordinated manner across different countries, it also exposed a key weakness: the capabilities and skills available across different practices were very uneven. Most country practices were structured around traditional accounting, auditing and tax compliance capabilities focused primarily on serving domestic clients. While these capabilities provide a good base in an organization such as EY, global clients, which are often driving quite aggressive expansion plans, demand far greater, and accessible, depth and breadth from their strategic service providers.

For this reason, and in parallel with the integration process, EY globally made a US\$100m investment fund available in 2011 for the African organization to scale up capacity and capability in the right places across the continent. A full-time

senior partner was appointed to execute the investment plan, with a focus on three key activities:

1 Strategic mobility (i.e., relocating executive-level EY people with relevant skills into various African markets).

2 Acquisitions of firms with niche capabilities or strategic market position.

3 Direct recruitment of executive-level capacity in various markets.

4 Development of solutions to support clients in navigating the complexity of doing business across multiple countries in Africa, including Africa Tax Coordination Services and the Africa Business Center.TM

The focus has primarily been on developing strategic resourcing hubs in key sub-regional markets, namely South Africa (Johannesburg), Nigeria (Lagos), Cote d'Ivoire (Abidjan) and Kenya (Nairobi). In these cities, "centers of excellence" have been established around strategic capabilities such as transaction support, tax structuring, forensic services advisory services and relevant sector-specific skills. Besides these subregional hubs, EY has paid specific attention to certain specific markets:

► **Angola has been a key growth market for EY.** From a satellite office of the Portuguese practice a few years ago, Luanda is now home to a growing team of more than 60 people.

► **For historical reasons, Cameroon was an obvious gap in EY's footprint.** Through a combination of mobility, recruitment and acquisitions, EY established its position as number two in that market within three years.

► **Shortly after South Sudan gained independence in 2012,** an opportunity opened up for EY to make a greenfield entry into the country, where several of the organization's clients were already operating.

EY has made good progress in executing an African growth strategy, but the journey is far from over. Some fundamental changes have been made, for example, at the level of structure, process and performance metrics. Energy is now going into deepening relationships across the many diverse peoples, cultures and languages that characterize the continent, while, at the same time, reinforcing a common institutional culture and set of values.

Our increasing levels of integration and investment show our commitment to building a better working world in Africa. This commitment can also be seen in the jobs we have created; in the support we have given clients, nations and governments in transition; in the knowledge we have shared; and in our work to promote the African growth story.

Our Africa Business Center™

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

Its sole purpose is to help clients make their investment and expansion decisions in Africa. Our Africa integration benefits our clients through:

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

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Africa 2014: realizing the possibilities

8-9 October 2014, Sandton Convention Centre, Johannesburg, South Africa

This will be the third Strategic Growth Forum (SGF) hosted on African soil. The focus of our event is exclusively on Africa: on the strategic growth opportunities that the continent offers and the challenges that need to be addressed to realize these opportunities. Through the success of the two previous editions, SGF Africa has established a reputation as an unparalleled opportunity to network, share ideas and challenges, and learn from those who are doing business and implementing government policies across Africa.

Among the key topics that will be explored this year:

- ▶ Africa 2030
- ▶ Building capabilities for growth in Africa
- ▶ Realizing Africa's human potential
- ▶ The future of infrastructure in Africa
- ▶ Innovation
- ▶ Financing Africa's growth and development
- ▶ African success stories

Agenda and logistics will be announced soon. This will include more information on the venue, accommodation, registration fees and travel information.

For more information, please email: eysgf.Africa@za.ey.com or contact Sarah Custers: sarah.custers@za.ey.com.



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Invest in Africa



Invest in Africa's vision is to create diversified growth by uniting companies to address the shared, cross-sector challenges of doing business in Africa. The principle that business is a force for good that can

help drive economic and social development in Africa is one that many leading businesses share; however, it can only be achieved through partnerships. It is on this premise that the Invest in Africa (IIA) initiative was launched.

Founded in 2012 by Tullow Oil, IIA recognizes the importance of businesses working together to create solutions to systemic shared challenges, such as developing local enterprise, sourcing locally and moving goods across borders. As an independent not-for-profit organization, IIA has subsequently attracted other partners from international organizations across the business community, including EY, Ecobank, Lonrho, UT Bank and Guinness Ghana Breweries.

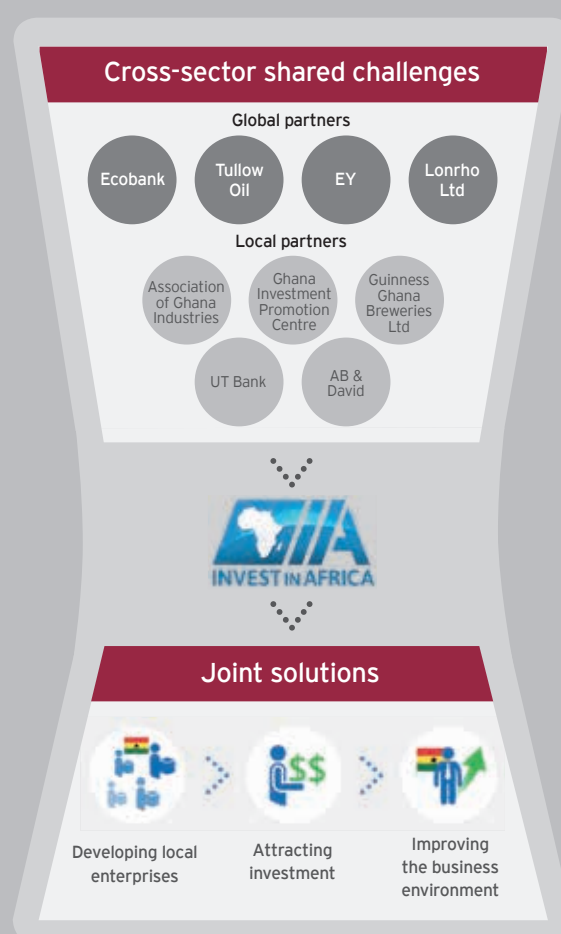
Today, IIA's focus is in Ghana, acting as a springboard into future sub-Saharan African markets. Accordingly, IIA has also partnered with a host of local partners, to support its objectives of championing investment in Africa and developing local enterprise. For example, in Ghana, IIA is working to strengthen the local SME and supplier market by creating an online cross-sector business directory to promote Ghanaian SMEs, helping investors choose the best local businesses partners and best suppliers to do the job.

More recently, IIA has secured investment from the African Development Bank, enabling it to provide practical business skills and management training to local SMEs across key sectors. Looking forward, IIA is committed to expanding into other key sub-Saharan markets to continue providing cross-sector solutions that make good business sense and drive diversified growth.

www.investinafrica.com

"Invest in Africa's commitment to local business makes it a natural partner for us."

Pearl E-Mensah, Deputy MD
UT Bank Ghana



Invest in Africa ©

Publications

Africa by numbers 2013-14



Whether entering into Africa or expanding across the continent, we believe it is critical to develop a structured analytical framework for prioritizing markets. This helps identify markets in which to expand and assess different strategic options. We stress the importance of having fact-based conversations about Africa, informed from a basis of rational analysis.

Realising potential. EY 2013/14 Sub-Saharan Africa talent trends and practices survey



This report conveys optimism about Africa's enormous potential and our commitment to building a better working world. Acknowledging the importance of human capital as a key enabler of growth allows us to consider how its performance and contribution can be harnessed to create that better working world for all in Sub-Saharan Africa.

Positioning South Africa in the context of the Africa growth story



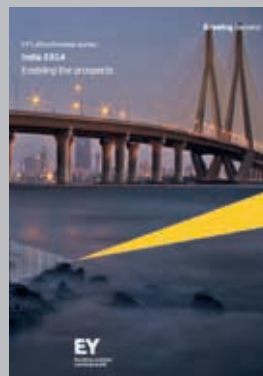
Although FDI trends have been positive, there is still much to be done in South Africa to boost what remains a relatively low share of global FDI flows. Highlighting South Africa's comparative strengths will help bridge the perception gap that limits investment.

Rapid-Growth Markets Forecast – February 2014



Explore trends, opportunities and the latest market conditions in the world's fastest-growing economies. Read the latest *EY's Rapid-Growth Markets Forecast* and find out how surging middle classes in rapid-growth markets are changing the global economy and offering more opportunities to business around the world.

EY's 2014 India attractiveness survey



Despite recent headwinds, India remains one of the top global destinations for FDI. Investors are attracted by its solid domestic market, educated workforce and competitive labor costs. New business partners are ramping up efforts to tap into the country's underlying potential, while international investors are expecting a significant spike in infrastructure opportunities in the near future. Find out more in *EY's 2014 India attractiveness survey*.

Differentiating for success: securing top talent in the BRICs



The lack of critical skills in emerging markets has resulted in a significant human capital problem. This is limiting firms' competitiveness and strategic growth. In this report, we identify five strategies for attracting and retaining talent. The analysis is based on a survey of over 1,000 professionals in the BRIC countries.

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