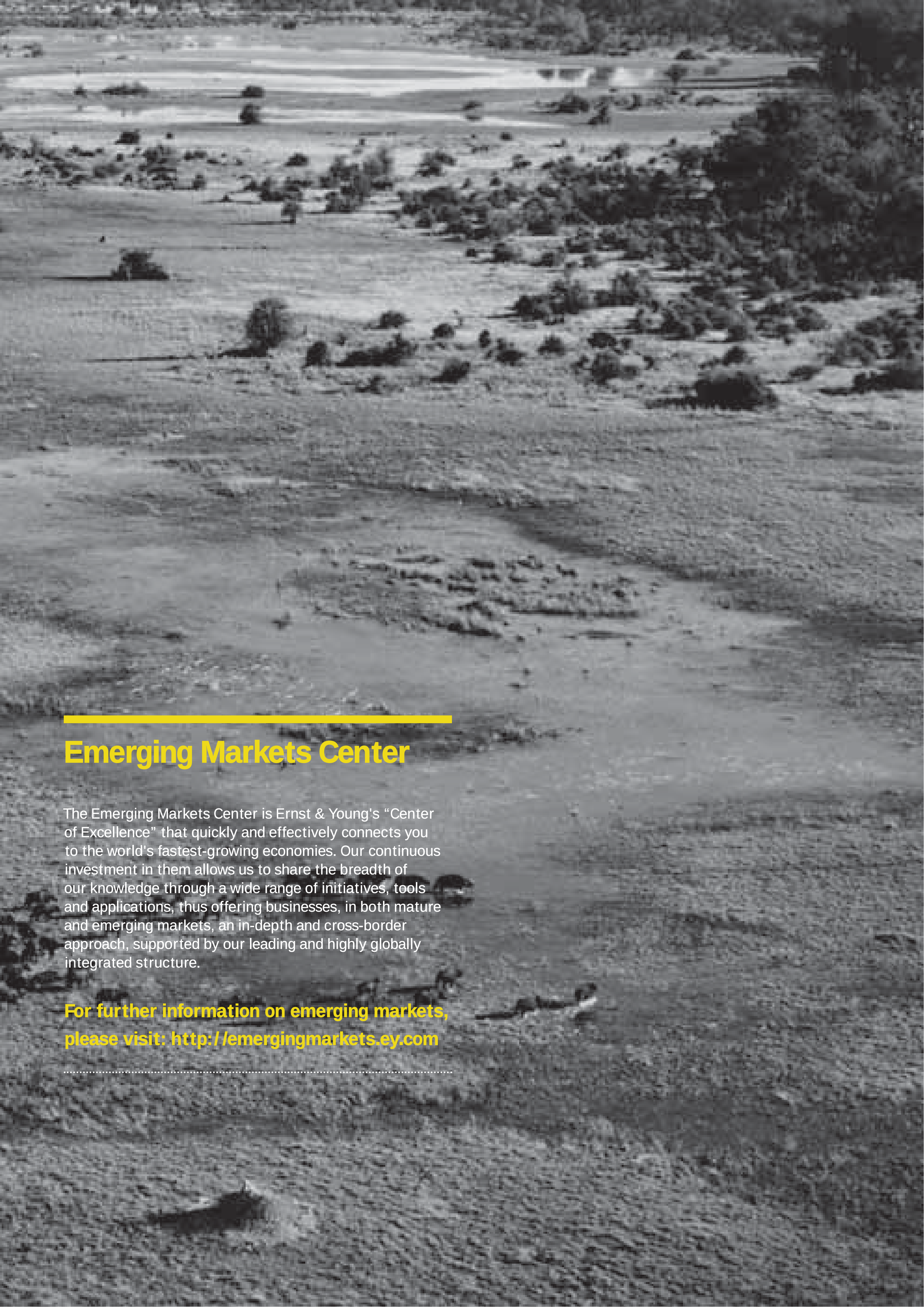
Growing Beyond

Building bridges

Ernst & Young's 2012 attractiveness survey

Africa

Ernst & Young
Quality In Everything We Do



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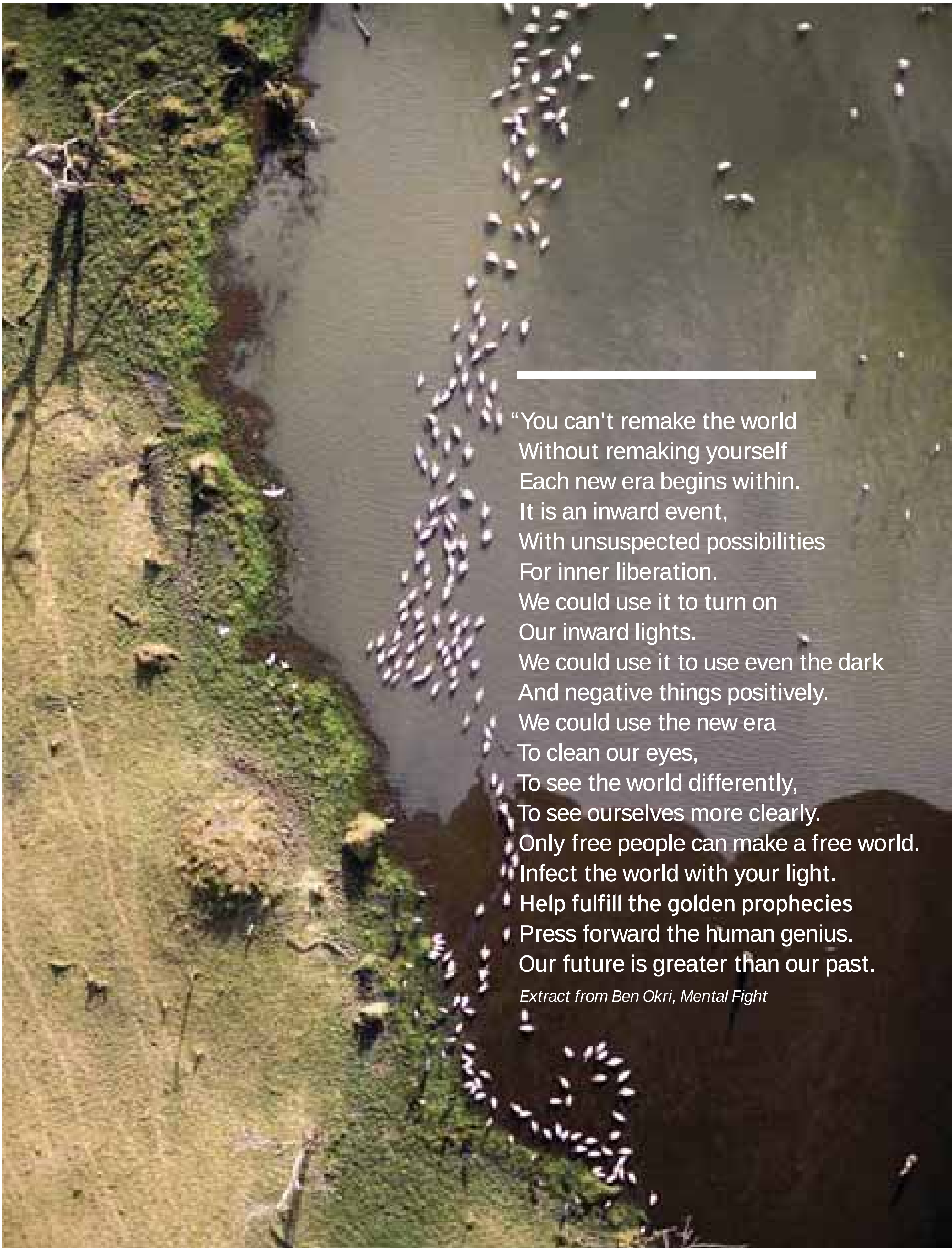


"You can't remake the world
Without remaking yourself
Each new era begins within.
It is an inward event,
With unsuspected possibilities
For inner liberation.
We could use it to turn on
Our inward lights.
We could use it to use even the dark
And negative things positively.
We could use the new era
To clean our eyes,
To see the world differently,
To see ourselves more clearly.
Only free people can make a free world.
Infect the world with your light.
Help fulfill the golden prophecies
Press forward the human genius.
Our future is greater than our past.

Extract from Ben Okri, Mental Fight

Picture: Pelicans and algae bloom in the drying eutrophic Lake Mtera. Tanzania.
Cover picture: aerial View of Herd of African Buffalo. Botswana, Okavango.

Welcome to the second edition

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

Ajen Sita,
Area Managing Partner, Africa, Ernst & Young

Last year we launched our inaugural Africa attractiveness survey. While we already knew from our own experience that levels of interest in Africa were rising, the overwhelming response to the publication took us by surprise. It did, however, confirm the fact that, with Africa's sustained economic growth and growth in FDI over the past decade, the time for Africa is now.

Our recent Strategic Growth Forum Africa, which brought together over 300 African and international business and government leaders, reinforced the message that there is a new story emerging about Africa; a story of growth, progress, potential and profitability.

However, despite growth and progress, our 2012 edition of *Africa attractiveness survey* reveals that a perception gap remains between those already doing business in Africa, who are believers in the emerging African growth story, and those who have not yet invested and continue to associate the continent primarily with instability, conflict and corruption. As a result, and while FDI projects continue to grow strongly, Africa still lags behind most other regions in capturing the imagination of many international investors.

We need to bridge this perception gap by telling new stories about Africa, stories of economic growth and opportunity, democratic progress, and human development. We need to change the stereotypes and demystify Africa. We need to rewrite the news headlines.

However, in telling these stories, we should also not shy away from the challenges that remain if we are going to unlock Africa's vast human and economic potential.

Among the key priorities in our view is the deepening of the physical, economic and emotional ties that connect us as Africans. Building bridges across geographical boundaries to create substantial economic regions will be increasingly critical to our ability to compete effectively in a shifting global economy.

Ultimately too, organizations like ours that are believers in the African growth story must put our money where our mouths are. That is why we are investing so heavily in growing our own integrated presence and capacity across the continent. As an integrated African organization with a physical presence in 32 countries, and leveraging our global brand and reputation, we are now able to increasingly provide our clients with greater confidence to invest in Africa and are able to support them in navigating the challenges and complexities of doing business across the continent.

We remain excited and very positive about Africa. We are optimists, but we are realistic optimists - our perspective is deliberately a glass half full rather than half empty one. This is partly a response to the Afro-pessimism that has been dominant for too long, but mainly because we believe that it takes a positive mindset to succeed in Africa. If you set out expecting difficulty and risk, you will find it. Now is the time to build bridges, physically and metaphorically.

As we present our second edition of the Africa attractiveness survey, we thank all the decision makers and Ernst & Young professionals who have taken the time to share their insights with us.

Welcome! Africa is open for business. Lets build!

Foreword

by His excellency,
Deputy President of
the Republic of South Africa,
Kgalema Motlanthe

Africa's economic performance over the past decade has outstripped any previous period, and current forecasts are that Africa's economy as a continent will grow at about 5.5% this year. The big question is whether this performance can continue and for how long. To answer this question we have to examine the factors that have contributed to Africa's strong growth performance in recent years. Africa is an exporter of natural resources and the price of and demand for natural resources have been strongly driven by growth in China, as well as a few other major developing countries. Secondly, the quality of our macro-economic management has improved enormously, as has the quality of economic leadership in African governments. One of the most important reasons for this sustained growth was that debt levels were low in Africa. The other key macroeconomic variables were within reasonable levels too.

We should not forget that a significant part of the African growth story is about rising domestic consumption. This shows that growth is not entirely unbalanced and not purely dependent on resource exports. Also contributing to the improved economic performance in Africa is the emergence of accountable and democratic governments. And, yet, Africa still received little more than five percent of global foreign investment projects last year. It seems that the African growth story has not yet been fully understood.

Many investors still view Africa as being a more challenging place to do business in than other emerging market regions; this despite the fact that in the World Bank's most recent Ease of Doing Business rankings, 14 African countries ranked ahead of Russia, 16 ahead of Brazil and 17 ahead of India. Similarly, Africa is often perceived as being inherently corrupt. While corruption no doubt remains a big challenge in Africa, 14 African countries rank higher than India, and 35 higher than Russia, in Transparency International's Corruption Perceptions Index.

The policies of the South African government strongly support economic growth in Africa. In practice, our most obvious work in Africa comes in the form of post-conflict reconstruction and peace keeping. But we also provide a considerable amount of technical assistance through government departments and state owned enterprises.

Our development banks — the Industrial Development Corporation and the Development Bank of Southern Africa — have played significant roles in supporting the development of the economies of numerous sub-Saharan African countries. South Africa's infrastructure — our roads, railways, airports and harbors — offer many services to African markets. We are conscious of this and are constantly improving their quality. Similarly, development finance institutions and state-owned enterprises continue to expand their contribution to the economy through the financing and development of new infrastructure.

The South African private sector has had a huge impact on African development since the end of isolation in 1994, and it has done so in a range of sectors. Banking, telecommunications, pay-tv, hotels, the retail sector, business services, construction, mining, farmers and agribusiness — in all these sectors South Africa has invested and raised productivity levels and increased the competitive temperature.

But we are not resting on our laurels, being fully aware that African growth has to be driven forward. It is our ambition that by June 2014, 26 countries with a combined population of nearly 600 million people and a total Gross Domestic Product (GDP) approximately US$1.0 trillion will be united in a single free trade area.

However, we are not naive to believe that by simply removing trade tariffs we will create an integrated regional economy. Non-tariff barriers to trade are more inhibitive of intraregional trade than tariff barriers. There are three main non-tariff barriers.

The first is the lack of integration of systems that allow the movement of people, goods and services across borders. At many borders in Africa there are unnecessary delays due to different certification systems, a lack of coordination between the officials of the different countries across the border, and weak border infrastructure — not enough space, facilities and even border officers.

The second non-tariff barrier is poor infrastructure. Road, rail or power facilities are sometimes substandard, slowing down transport and worst still, making it cheaper for coastal countries to import items from far across the oceans than purchase them from their neighbors

The final non-tariff barrier is the fact that there is not enough industrial diversification among African countries. In many cases, neighbors produce largely similar products and there is no great reason to trade among each other. The solution is to strengthen the competitiveness in African economies in a range of industries. To overcome this challenge we need top class education and skills development, microeconomic reforms and even stronger macroeconomic management.

On their own, governments would be hard put meeting the objective of effecting regionally integrated economies. In Africa we need civil society to play a more energetic role in driving the agenda of African integration forward. In this regard, we in South Africa need to work a little harder to raise awareness of the great achievements of our continent.

There is no doubt that Africa is a place replete with possibilities. On its part, South Africa clearly understands that its growth and development can only happen in the context of an economically flourishing African continent.

Key findings

1. The number of Foreign Direct Investment (FDI) projects in Africa grew 27% from 2010 to 2011, and have grown at a compound rate of close to 20% since 2007.

2. Despite this growth, there remain lingering negative perceptions of the continent – but only among those who are not yet doing business in Africa.

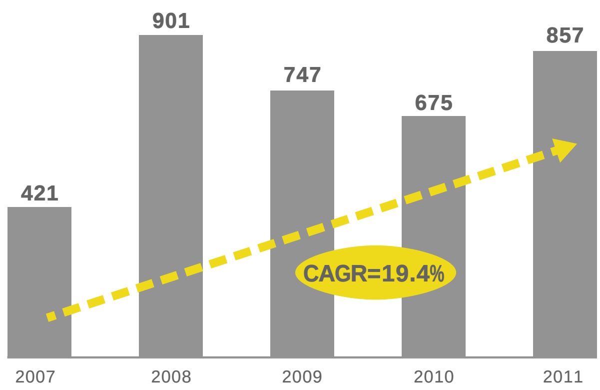
3. The story of Africa's progress, not just in economic but also in socio-political terms, needs to be told more confidently and consistently.

4. This broad-based progress is underscored by a substantial shift in mindset and activities among Africans themselves, with increasing self-confidence and continued strong growth in intra-African FDI (which has expanded by 42% since 2007).

5. Regional integration is critical to accelerated and sustainable growth. Creating larger markets with greater critical mass will not only enhance the African investment proposition, it is also the only way for Africa to compete effectively in the global economy.

6. Bridging the infrastructure gap will be a key enabler of regional integration, growth and development. It also remains a key challenge and opportunity for investors.

FDI projects in Africa have grown at a compound rate of almost 20% since 2007



Source: fDi Intelligence, data as of 3 February 2012; Ernst & Young.

Africa by numbers

54 sovereign states

1 billion people

US$2 trillion Africa's collective GDP (more than India, less than Brazil)

20% compound growth in FDI projects 2007-11

7 African countries among the 10 fastest growing economies in the world 2010-15

5.5% Africa's share of global FDI projects

26 states form the Tripartite Free Trade Agreement

3 of the top 5 fastest growing investors into new projects in Africa are African

US$400 billion South Africa's infrastructure program

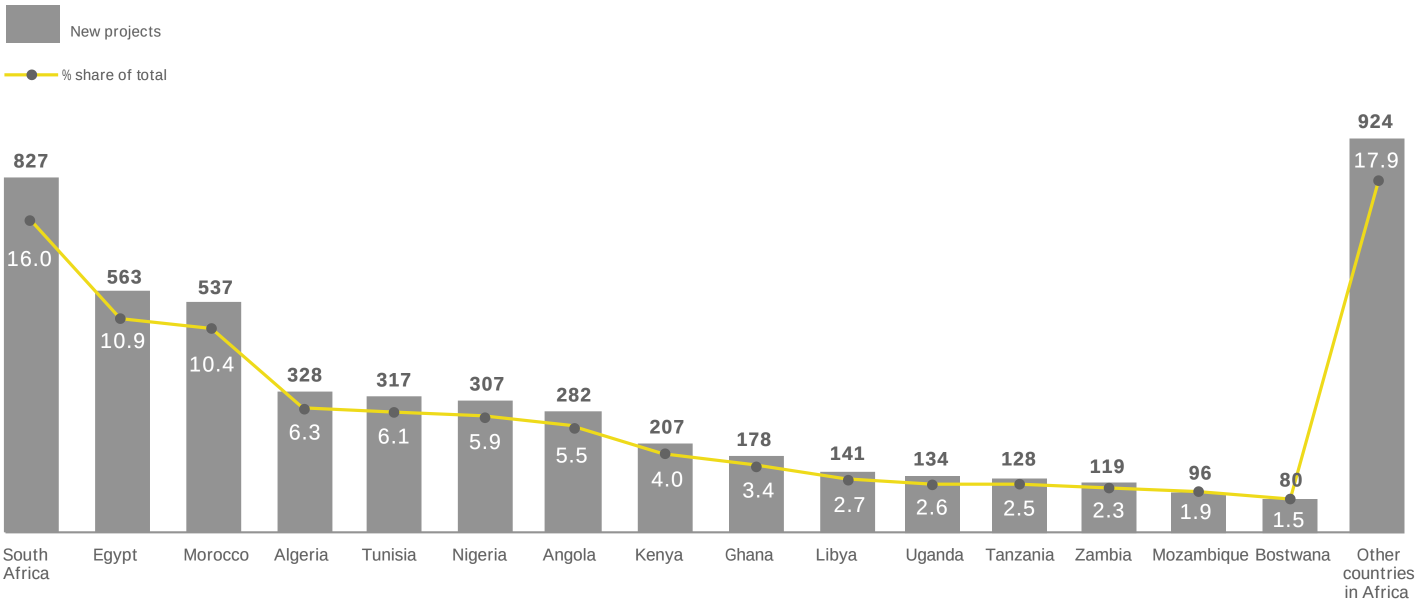
US$85 billion funding for African infrastructure in 2010

35 African countries ahead of China on the EIU's Democracy Index

35 African countries ahead of Russia on Transparency International's Corruption Perception Index

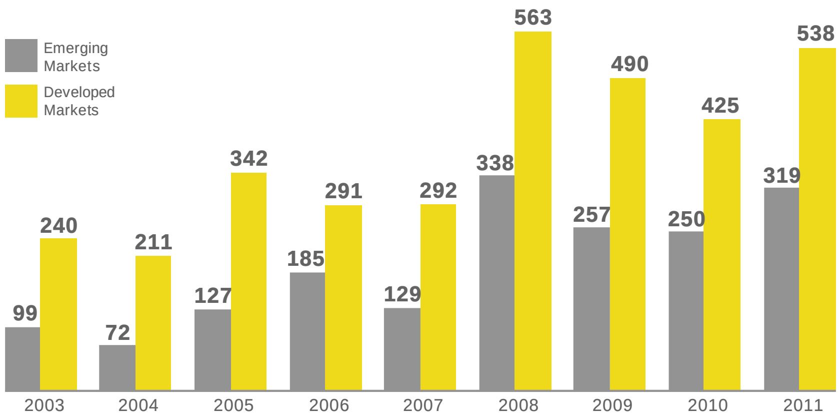
17 African countries ahead of India on the World Bank's Doing Business Index

Top15 African country destinations attract 82% of new FDI project since 2003



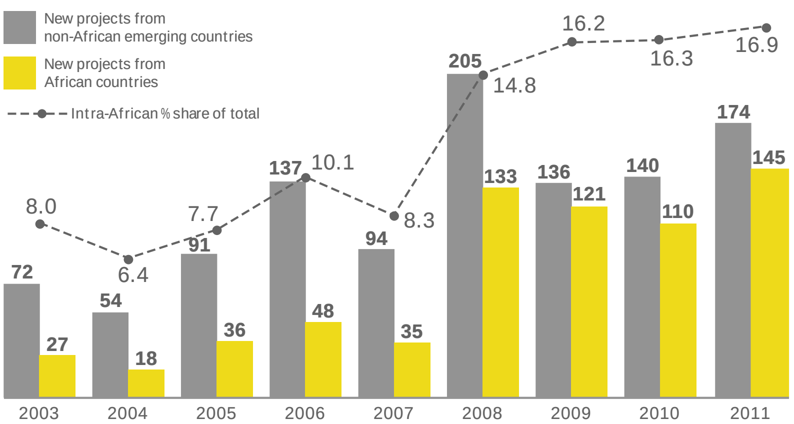
Source: fDi Intelligence, data as of 3 February 2012; Ernst & Young.

Project investment from developed and emerging markets have grown strongly



Source: fDi Intelligence, data as of 3 February 2012; Ernst & Young.

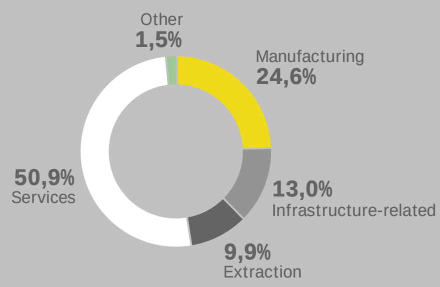
Intra-African FDI has grown at a compound rate of 42% since 2007



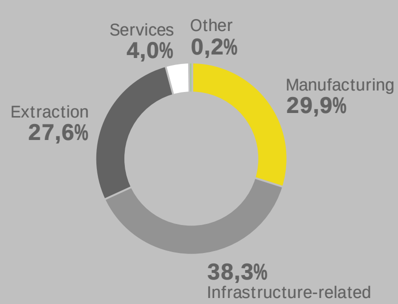
Source: fDi Intelligence, data as of 3 February 2012; Ernst & Young.

FDI is flowing into a diverse range of sectors - manufacturing and infrastructure-related activity account for a significant proportion of FDI

New projects (proportion, 2003-11)



Capital (proportion, 2003-11)



Source: fDi Intelligence, data as of 3 February 2012; Ernst & Young.

Executive summary

In 2011, Ernst & Young's inaugural Africa attractiveness survey declared "It's time for Africa!". One year later, we are even more confident that Africa's time has arrived. With many African countries continuing to enjoy strong economic growth, there has also been a surge in the number of FDI projects across the continent – up 27% from 2010. This stellar performance forms part of a longer term trend that has seen FDI projects grow at a compound rate of almost 20% since 2007, and by 153% in absolute terms since 2003.

However, despite these positive numbers, there remains a lingering concern that Africa's potential will not be unlocked until three key challenges are met:

1. Turn around perceptions in the international community.

Africa is still viewed as unstable, corrupt and generally riskier than other regions.

2. Accelerate regional integration.

This is key to promoting greater levels of regional investment and trade. Regional integration will make it much easier and more efficient to conduct cross-border business, and create markets with greater critical mass and more coherence.

3. Eliminate the infrastructure deficit.

Poor infrastructure is currently a major contributor to Africa's underdevelopment. Its improvement, through investment in the transport, power and communication networks that physically enable regional integration, will help accelerate and sustain Africa's growth and development.

1. Perception versus reality

Bridging the perception gap

▸ **Our survey of more than 500 investors and business leaders highlights the stubborn perception gap that continues to hamper efforts to attract investment into the continent**.
While awareness of its qualities is generally improving, Africa is still viewed as a relatively unattractive investment destination compared to most other geographical regions.

▸ **This year, we have taken our analysis one step further, and split the responses between those already doing business on the continent and those yet to make an investment**.
The results are startling. Those already doing business on the continent were overwhelmingly positive, ranking Africa's relative attractiveness above every other region except Asia (and even then, only marginally so).

▸ **In stark contrast, respondents with no business presence in Africa were overwhelmingly negative**.
In fact, for these respondents, the continent is viewed as by far the least attractive investment destination in the world. They cite risk factors such as political instability, corruption and security as major obstacles.

▸ **This represents not so much a gap, as a chasm between perception and reality**.
The facts tell a different story – one of reform, progress and growth. These trends are repositioning the continent and individual African economies as viable alternatives to other emerging market investment destinations that are often viewed in a far more favorable light. It is a positive story that demands telling and retelling. We have been subjected to negative stories about Africa for far too long.

▸ **So there is still work to be done. Africans, and those with a passion for Africa need to better articulate and "sell" the story of growth and investment opportunity.**
In this report we highlight some of the key messages. Africa's economic output has almost tripled since 2003, and the IMF forecasts that seven of the 10 fastest-growing economies in the world over the next five years will be African. But the story is not just about economic growth. It is also about a long-term process of political, regulatory and social reform.

2. Competing in a global economy

Prioritizing the regional integration agenda

▸ **The single biggest priority over the next decade should be the acceleration of the regional integration process**.
Simply put, if this process does not intensify, Africa will remain structurally marginalized in the global economy and African countries will struggle to attract a greater share of foreign investment.

▸ **Africa is now competing in a reshaped global economy**. **Economic productivity and capital are shifting west to east, and from north to south.**
As the spotlight moves from developed to rapid-growth economies, we believe that Africans have a unique opportunity to break the structural constraints that have long marginalized the continent. This will, however, only be achieved by fashioning greater regional coherence from the current patchwork quilt of 54 sovereign states. Many of these countries have small populations, underdeveloped economies, limited capacities, low per capita income levels and few resources.

▸ **The African Union has officially recognized eight Regional Economic Communities (RECs) and these should form the building blocks for accelerated regional integration**.
Of these, the East African Community (EAC) is arguably leading the way. It is making good progress toward the creation of a market of close to 150 million people, a combined GDP approaching US$100b, and an economic growth rate in excess of 6% over the past decade. These key numbers would put the EAC in the same category as Bangladesh and Vietnam, both listed among Goldman Sachs' so-called "Next 11", the countries, after the BRIC economies, with the highest potential of becoming the world's largest economies in the 21st century.

▸ **An even more positive development is the agreement between the 26 member states for three RECs to establish a Free Trade Area (FTA)**.
This area will represent an integrated market with a combined population of 600 million – a total exceeded among nation states only by the populations of China and India. This FTA will have a total GDP of US$1t, which would put it on a par with Mexico and South Korea, the largest rapid-growth economies after the BRICs, and a long-term GDP growth rate in excess of 5%.

3. Achieving the regional integration process

Bridging the infrastructure gap

▸ **Ultimately, though, regional integration will be driven by sufficient investment in infrastructure, both to connect markets and to generate enough electricity to support the development of manufacturing and other industrial sectors**.

In a study conducted by the Africa Infrastructure Country Diagnostic (AICD), it was estimated that the investment required to bridge the gap between levels of infrastructure in Africa and those in other emerging markets would be about US$90b annually for the decade from 2010 to 2020.

▸ **The AICD estimates that US$30b is already being provided each year by African taxpayers and service users**.

Meanwhile, analysis from the Infrastructure Consortium for Africa (ICA) suggests that, in 2010, external funding for infrastructure from groups such as the G8, development finance institutions and the private sector was just over US$55b. Therefore, investment in 2010 was around $85b – not far off the US$90b that is required.

▸ **The only disappointing aspect of infrastructure investment patterns over the past few years has been the declining contribution of the private sector.**

We estimate that up to 40% of all FDI capital invested in the continent since 2003 has been for infrastructure-related projects. However, there has been a sharp decline in both the number of projects and capital invested since 2008. While this decline is undoubtedly caused by several factors, it appears that there are major unexploited opportunities in areas such as power generation, transport, ICT and water treatment.

Looking forward

Africans leading from the front

These are clearly not the only challenges Africa faces as it seeks to unlock its full potential. However, progress in these three areas will drive FDI, sustainable economic growth and human development.

What gives confidence about Africa's future is the emergence of a generation of outstanding political and business leaders across the continent.Africans themselves are increasingly leading from the front by providing African solutions to Africa's challenges. This trend is illustrated not only by our report's perception survey, which reflects ever increasing confidence and optimism among Africans, but also by the rapidly increasing levels of intra-African investment. This is a critical but perhaps underappreciated element of the emerging African growth story.

In the past decade, we have seen the advent of the 'African Renaissance', the formation of the New Partnership for African Development (NEPAD) and a re-energizing of the African Union. There has been a sharp decrease in political conflict and democracy has spread. Sound economic management and a growing commitment in many countries to tackle corruption has helped more African businesses to become successful multinationals, which compete not only in Africa but across the world.

It is critical that this leadership translates into more engaging and productive relationships between governments and those doing business in the continent. Business is a key partner in the task ahead. For example, businesses must invest in capital projects, pay taxes, create jobs, develop skills, encourage enterprise, facilitate technology transfer and promote corporate social investment.
Many African governments are creating more business- and investor-friendly environments. However, there is still scope to accelerate this process.

Bridging the perception gap

"Until the lion has his own storyteller, the hunter will always have the best part of the story."

African Proverb

73% of respondents anticipate that Africa's attractiveness will improve over the next three years

20% growth in FDI projects since 2007

Over 50% of the projects have been in service-related activities (excluding manufacturing, infrastructure, agriculture and extraction)

The emerging African narrative

A new African narrative is emerging. Political, economic and regulatory reform – processes that began in the 1990s – continue to reshape the continent. Armed conflict is significantly reduced, providing the relative stability required for economic growth and development. Inflation is being brought under control, foreign debt and budget deficits reduced, state-owned enterprises privatized, regulatory and legal systems strengthened and many African economies have opened up to international trade.

These structural changes have helped invigorate markets and commerce, creating an environment that is increasingly conducive to business and investment.

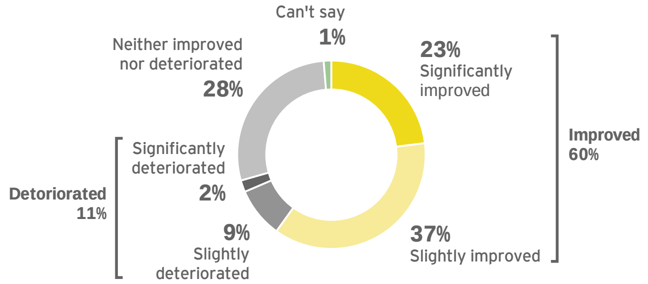
Furthermore, widespread reform, together with steady improvements in political governance, the commodities boom, substantially increased levels of disposable income, urbanization and a rapidly developing services sector, have contributed to a continued and, what we believe to be, a sustainable growth path for Africa.

Perceptions are improving

Overall, this year's Africa attractiveness survey paints a reasonably positive picture reflecting, at a high level at least, growing confidence in Africa's prospects. 60% of our respondents say that their perception of Africa as a place to do business in has improved over the past three years (only 11% say their perception has deteriorated).

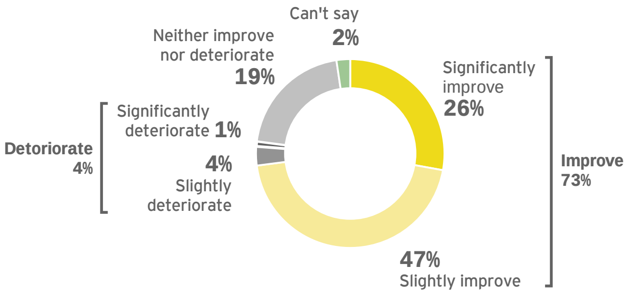
This view further improves when looking forward. Some 73% of respondents anticipate that Africa's attractiveness will improve over the next three years, while only 4% believe that it will deteriorate. Of those who believe that Africa's growth prospects in the near term are significantly positive, half have a dedicated Africa-strategy in place, and 92% have an active business presence on the continent.

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



Source: *Ernst & Young's 2012 Africa attractiveness survey.*
Total respondents: 505.

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



Source: *Ernst & Young's 2012 Africa attractiveness survey.*
Total respondents: 505.

Picture: Lechwe run through prime habitat in this inundated open marsh. Zambia, Lochinvar National Park.

But a clear perception gap remains

These results signal that we are moving in the right direction. However, comparing Africa as a place to invest and do business in versus other geographical regions shows that a perception gap continues to exist. This kind of comparison is critically important, as the global market for FDI is fiercely competitive. As much as individual economies compete to attract FDI, so too do regions.

When comparing Africa to other regions (both developed and emerging), Africa is viewed as relatively unattractive, in comparison to most other regions in the world, comparable only to the former Soviet states as an investment destination.

At face value, these results present some concerns. While perceptions of Africa's attractiveness are improving when compared with other regions, Africa still has much ground to make up relative to other parts of the world. It is, however, interesting to take this research one step further in order to fully appreciate the extent of the perception gap that exists between those already doing business in Africa and those who are not.

Significant difference in investors' perception

	Business presence in Africa		No business presence in Africa		
	Yes	No	Europe	Asia	North America
Respondents	**313**	**192**	**108**	**22**	**41**
Former Soviet States	33.5	-23.6	-35.5	7.3	-22.9
Central America	19.9	-20.7	-25.0	1.9	-32.0
Eastern Europe	19.6	-26.8	-33.8	-1.5	-30.1
Middle East	11.4	-20.3	-34.9	-17.6	2.9
Latin America	17.3	-28.9	-27.3	-31.2	-39.1
Western Europe	17.1	-37.3	-44.2	-25.8	-39.8
Oceania	14.4	-33.8	-40.8	-19.4	-35.6
North America	3.5	-43.4	-45.3	-39.3	-48.4
Asia	-6.1	-43.1	-42.5	-42.7	-48.4
Index of compared attractiveness	**14.5**	**-30.9**	**-36.6**	**-18.7**	**-32.6**

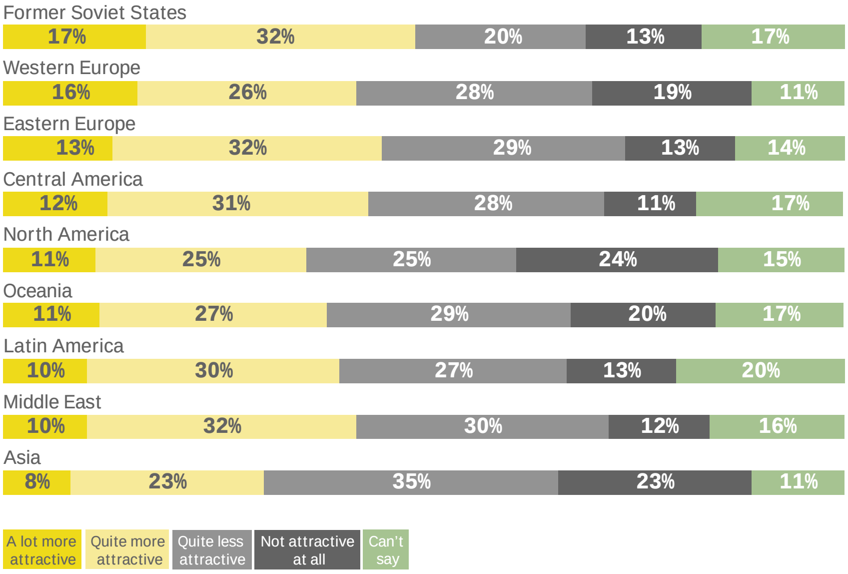
Source: *Ernst & Young's 2012 Africa attractiveness survey.* Total respondents: 505.
The index indicates the relative attractiveness of Africa compared with other regions (a positive score means more attractive, a negative score less attractive).

The relatively negative overall comparisons of Africa with other regions mask an overwhelmingly positive perception among those who already have a business presence in Africa. In fact, the positive sentiment is so strong that those investors with a business presence on the continent rank only Asia (and only slightly so) as a relatively more attractive investment destination than Africa.

In stark contrast, respondents with no business presence in Africa are overwhelmingly negative; to the extent that it actually distorts the overall result. In fact, for those respondents with no business presence in Africa, the continent is viewed as by far the least attractive investment destination in the world.

Breaking these negative perceptions down to account for regional differences, potential investors from Europe are the least positive about Africa's relative investment attractiveness. North American investors are somewhat less so, ranking Africa as more attractive than the Middle East, and Asian investors rank Africa ahead of the former Soviet states and Central America and on a par with Eastern Europe.

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



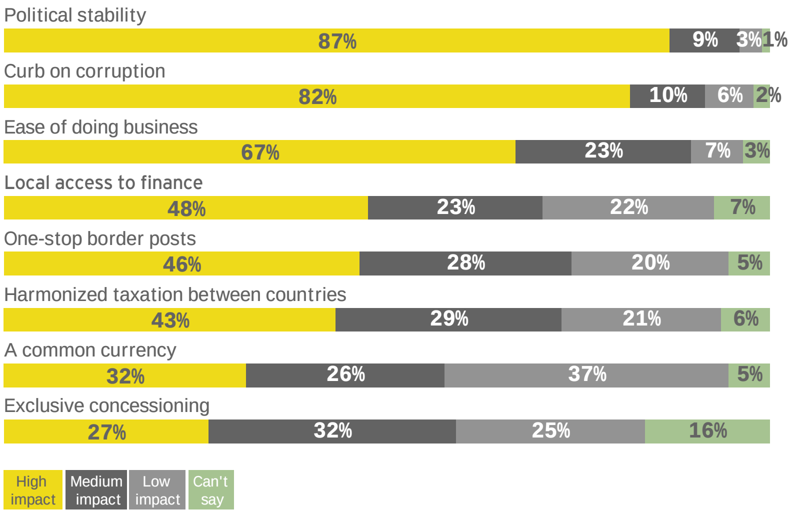
Source: *Ernst & Young's 2012 Africa attractiveness survey.* Total respondents: 505.

What is contributing to the perception gap?

The survey results reveal that negative perceptions of Africa are primarily related to political risk factors. When asked to identify the key barriers to investing in Africa, respondents with no presence yet, and who have overwhelmingly negative perceptions of Africa compared to other regions, cite an unstable political environment, corruption and weak security as major obstacles.

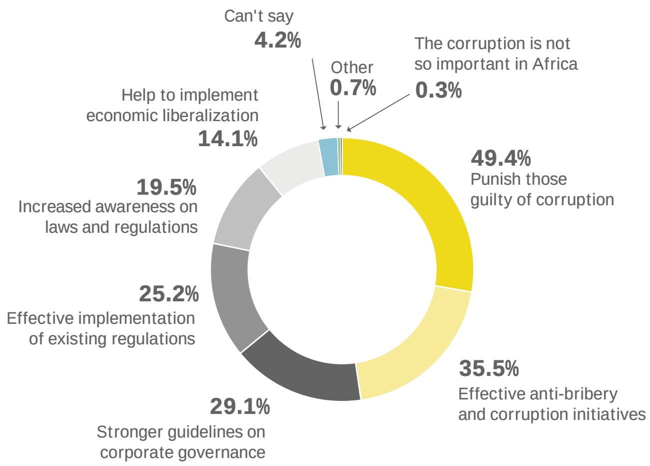
In fact, when the question was turned around and framed more positively – "What impact would the following changes have on Africa attractiveness?" – and directed to all respondents (i.e. both those doing business on the continent and those not), political stability and curbs on corruption again came through very strongly. Other notable areas for improvement included improving the ease of doing business, better local access to finance and several factors relating to more coherent regional integration, such as one-stop border posts and tax harmonization.

What impact would the following changes have on Africa attractiveness?



Source: *Ernst & Young's 2012 Africa attractiveness survey.* Total respondents: 505.

In your opinion, what measures should be implemented to curb corruption?

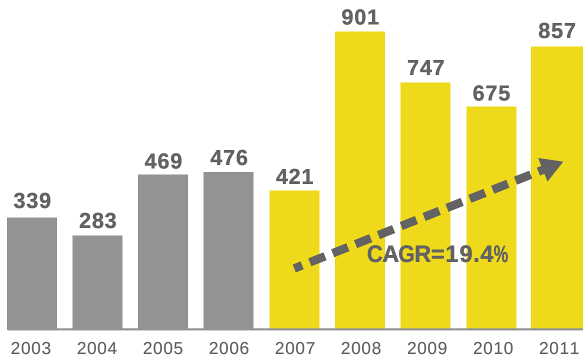


Source: *Ernst & Young's 2012 Africa attractiveness survey.*
Total respondents: 494. Respondents could select 2 possible answers.

The numbers reflect a mixed story too

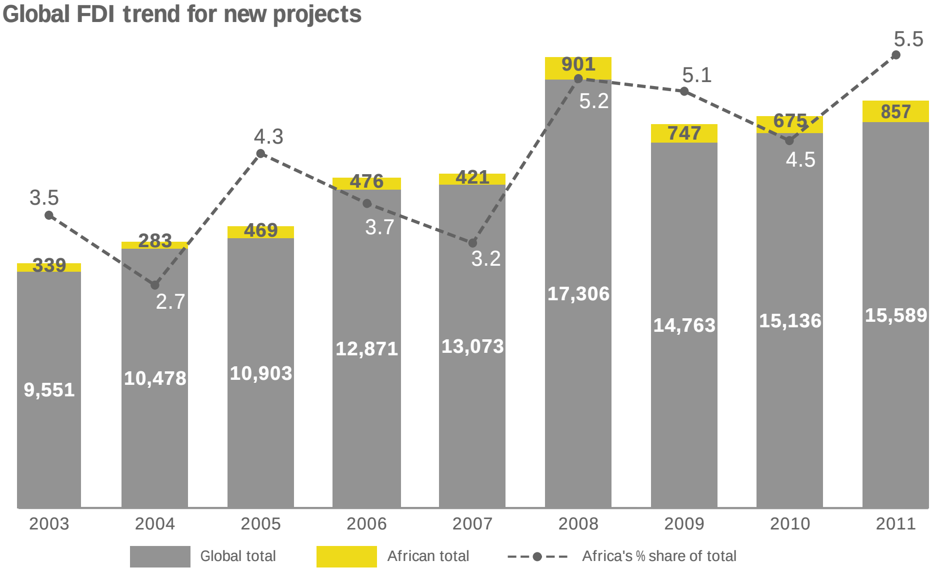
Since 2007 in particular, and even allowing for the negative impact of the global economic downturn, there has been strong growth in the number of new FDI projects in Africa (at a rate of almost 20% compound growth). The trend continued last year with the number of projects close to the peak of 2008, and a year-on-year growth rate of 27%. This certainly reflects both resilience and the growing attractiveness of Africa as an investment destination.

Africa's total FDI by projects



Source: fDi Intelligence, data as of 3 February 2012; Ernst & Young.

Global FDI trend for new projects

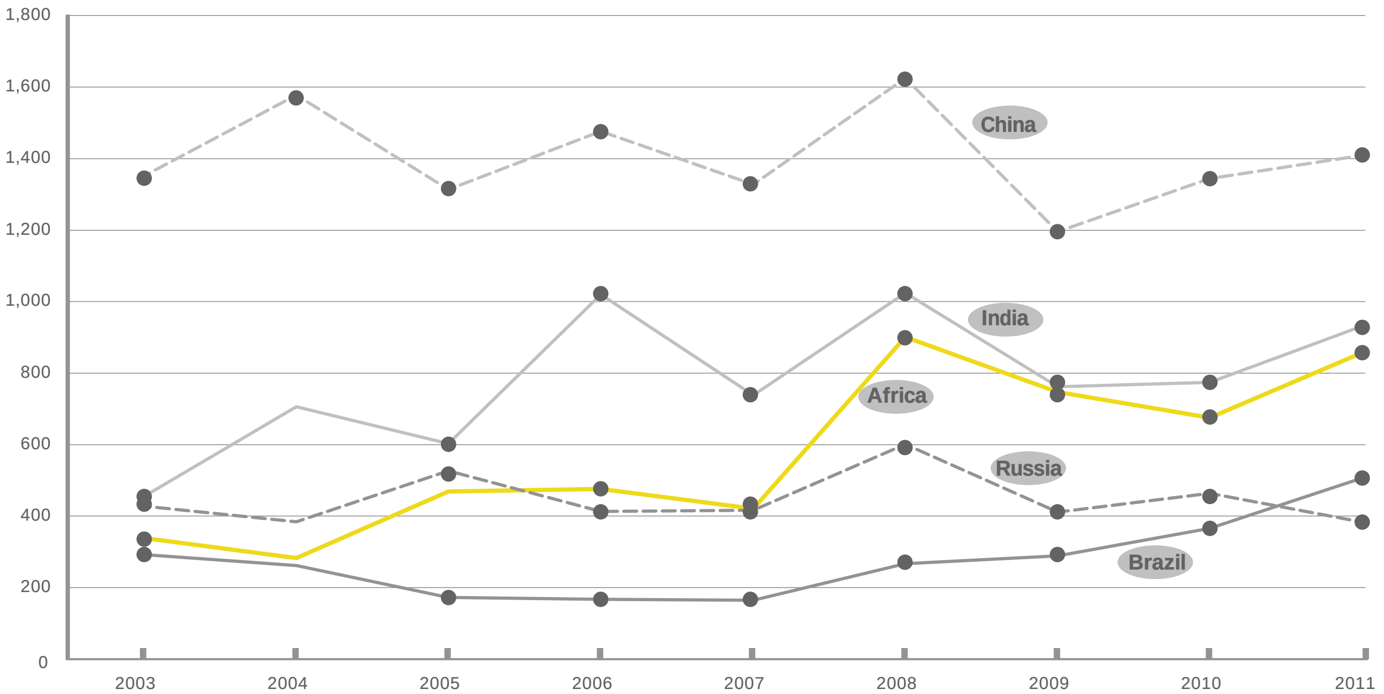


Source: fDi Intelligence, data as of 3 February 2012; Ernst & Young.

At the same time however, the entire continent still only attracted 5.5% of the global FDI projects in 2011. While this is a solid increase from the 4.5% of last year and is, in fact, the highest proportion of global FDI that Africa has ever attracted, we believe that it still does not fully reflect the African growth story.

In fact, in 2011 the entire continent of Africa attracted fewer FDI projects than India and a little more than half as many as China. And since 2003, Africa has only attracted 4.3% of global FDI projects, compared with India's 6% and China's 10.5%.

African FDI into new projects vs. BRIC



Source: fDi Intelligence, data as of 15 March 2012.

African election calendar 2012

Country	Election	Date
Algeria	People's National Assembly and local	10 May 2012
Angola	Presidential and National Assembly	August or September 2012
Burkina Faso	National Assembly	May 2012
Cameroon	National Assembly and communes	June or July 2012
Cape Verde	Local	May 2012
Chad	Local	06 February 2012
Democratic Republic of Congo	Provincial Assemblies	25 February 2012
	Senate (indirect)	13 June 2012
Egypt	People's Assembly	28 November 2011 /11 January 2012
	Shura Council	29 January / 11 March 2012
	Presidential	May/June 2012
	Local	April 2012?
Gambia	National Assembly & local	29 March 2012
Ghana	Presidential 1st round	7 December 2012
	National Assembly and Presidential 2nd round	28 December 2012
Guinea	National Assembly	2012 (postponed from 29 December 2011)
Guinea-Bissau	Presidential (ad hoc, death of encumbent)	18 March 2012
	People's National Assembly	2012
Kenya	Presidential, National Assembly and local	postponed to 4 March 2013 by High Court order from 14 Aug 2012
Lesotho	National Assembly	26 May 2012
Libya	Constituent Assembly	before June 2012
Madagascar	National Assembly	late 2012 (postponed from 13 April 2011)
	Presidential	late 2012 (postponed from 1 July 2011)
Mali	Presidential	1st round: 29 April 2012 / 2nd round: 13 May 2012
	National Assembly	1st round: 1 July 2012 / 2nd round: 22 July 2012
Mauritania	Senate (1/3 members)	before 31 March 2012 (Postponed from 24 April 2011)
	National Assembly, regional and local	before 31 March 2012 (Postponed from 16 October 2011)
Mauritius	Rodrigues Regional Assembly	5 February 2012
Republic of the Congo	National Assembly	June 2012
Senegal	Presidential	1st round: 26 February 2012 / 2nd round: 18 March 2012
	National Assembly	17 June 2012
Sierra Leone	Presidential, House of Representatives and local	17 November 2012
Seychelles	National Assembly	May 2012
Togo	National Assembly	October 2012
Zimbabwe	Presidential, National Assembly, Senate and local	2012 (postponed from 2011)

Source: Electoral Institute for the Sustainability of Democracy in Africa (Updated March 2012)

Perception versus reality

Why does this chasm in relative perception exist? Why are so many of those already doing business in Africa significantly increasing their investments into the continent? What do they understand that those with no current business there do not?

One key factor is the perception gap between negative historical beliefs about the continent, and the positive reality of the African growth story over the past decade. As a result, many investors still seem to approach Africa with greater caution than they do other rapid-growth markets and regions.

While it is important that we acknowledge the factors that are inhibiting investment into the continent, it is also important to be clear on the facts. The perception is that Africa is often more politically unstable, more corrupt and more challenging to do business than anywhere else in the world. The facts, however, tell a different story.

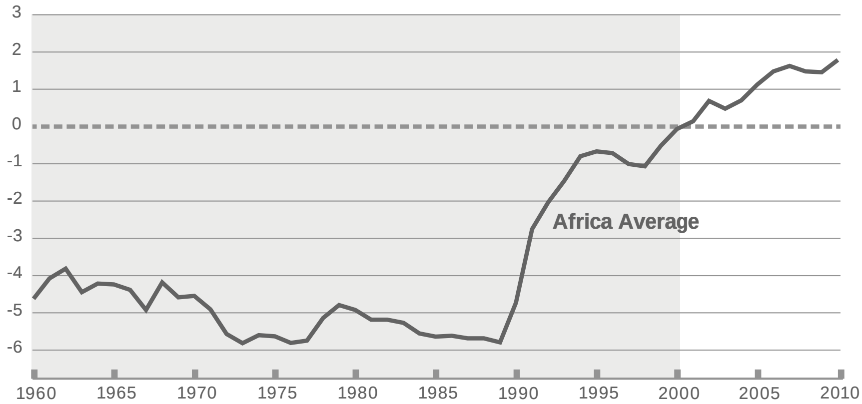
Africa is rapidly democratizing

African democratization is very real, with the one-party state increasingly the exception, rather than the rule. Most African countries have transitioned, or are transitioning toward, some form of participatory democracy and this process of political liberalization has been accompanied by a significant decline in armed conflict across the continent.

Last year alone saw a number of democratic elections, perhaps most notably the successful referendum in South Sudan, the Nigerian election and the peaceful transfer of power in Zambia. In fact, whereas between 1960 and 1990 there was only one instance of an African leader or ruling party being voted out of office, since the fall of the Berlin Wall more than 30 ruling parties or leaders have been changed through a democratic process.

This progress is illustrated in the graph above. Drawing on data from the Polity IV project, which measures country regime trends over time, we have captured the trend for all African countries since 1960. The upward trend since 1990, when the average African state was defined as an autocracy, is remarkable. Today a number of states, including Botswana, Ghana, Kenya, Mauritius, Namibia, South Africa (SA) and Zambia, are defined as democracies, and the average African state is in positive territory on the democratization scale.

African regime trends



Source: Polity IV

To put this in context, whereas in 1990 the large majority of African states would have been defined as "autocracies" according to Polity IV's classification scale, today only two states in the entire continent (Eritrea and Swaziland) have this classification. In contrast, in South East Asia alone, China, North Korea and Vietnam are all classified as such.

Similarly, on the Economist Intelligence Unit's Democracy Index 2011, African countries such as Cape Verde, Mauritius and South Africa, rank ahead of developed European countries such as France and Italy, let alone being well ahead of all of the BRICs and the large majority of significant emerging markets (including Argentina, Colombia, Indonesia, Malaysia, Poland, Thailand and Turkey).

Corruption: a challenge but not pervasive

Along with political instability, corruption is another commonly cited risk to doing business in Africa. There is no disputing the fact that corruption remains a big challenge. This is particularly evident in states with a more unstable political environment, such as Chad, the Democratic Republic of Congo (DRC), and Sudan, and those with a higher dependence on a single, easily controlled commodity, such as Angola and Nigeria. However, perceptions that corruption is rampant across the continent, or that African countries are inherently more corrupt than other rapid-growth markets, do need to be challenged.

Certainly, the extent to which corruption is a major issue varies widely. Several southern African countries, island nations such as Cape Verde and Mauritius, as well as Ghana in West Africa and Rwanda in East Africa, all rank relatively well on various measures of corruption. On Transparency International's most recent Corruption Perceptions Index, for example, there are 14 African countries that rank higher than India and a remarkable 35 higher than Russia.

Similarly, some of the subcomponents of the World Economic Forum's Global Competitiveness Index 2011–12 make for interesting comparisons. For example, based on a 2011–12 weighted average score on "Irregular payments and bribes", Botswana, Cape Verde and Rwanda all rank ahead of the USA. These three countries, as well as Gambia, Mauritius, Namibia and South Africa, rank ahead of Brazil and China. Sixteen African countries – including Ethiopia, Mozambique and Zimbabwe – rank ahead of India, and a total of 19 are ahead of Russia.

Viewpoint

The socio-economic impact of private investment in Africa

Zahid Torres-Rahman, CEO, Business Action for Africa

Business has an interest in Africa developing and poverty being tackled. That's a given. But what is the most effective way in which the different parties can contribute to the solution?

How you can enhance your development impact through running a successful business

In the case of business it's by doing business responsibly and effectively. I don't argue against aid – it's needed in certain cases like humanitarian emergencies – but aid is not the most effective path to development. The most effective path to development in Africa is business. The right infrastructure, investment climate and regional trade and integration are the critical factors which are much more important to Africa's future.

Many companies are doing very good business in Africa but the development community has not yet fully appreciated the development potential of business. At the same time, I think when business looks at development they look at Corporate Social Responsibility (CSR), which is fundamentally the wrong place. This is not about CSR – this is about doing business.

When talking about the development impact of business it's not about social projects but rather how you can enhance your development impact through running a successful business.
For example, when companies source locally they derive a whole range of business benefits such as reduced risk, reduced costs and better supply chain management. The positive development impact of that can be huge – for example, in agricultural value chains, by giving small holder farmers access to long term markets and to the inputs needed for increased productivity. Going forward businesses need to remember that innovation – finding new markets and consumers – is a key driver for development. Doing good by doing good business should be their key mantra.

It is getting easier to do business

Just as many people seem to automatically assume that Africa is the most unstable and corrupt region in the world, there is often an automatic assumption that Africa is the most challenging region in the world in which to do business.

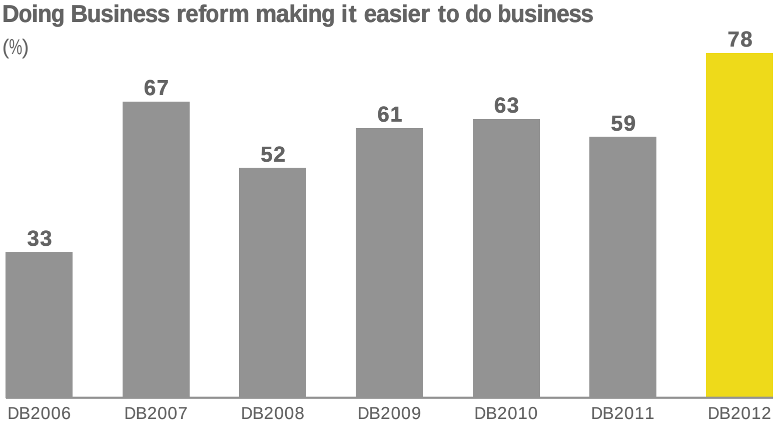
There are undoubtedly very real inherent challenges. Perhaps most prominent is the sheer size and complexity of the continent, combined with the relative underdevelopment of many of its countries. Although Africa is sometimes conceived of as if it is a single country, it is a vast continent, comprising 54 sovereign states. This corresponds to 54 different and often fragmented sets of rules, regulations, stakeholders and markets.

The complexity of growing and operating in Africa is compounded by the fact that relatively few of these individual markets are likely to provide the kind of scale that can make them commercially attractive – at least in the short term. Both growth and risk management are therefore framed by the challenge of effectively "connecting the dots" across multiple operations and territories. Beside the issue of scale, underdevelopment also means that one needs to find solutions for challenges that one may not have even considered in other regions. Among the most significant is the infrastructure gap, more specifically in logistics, communications, transport and energy.

However, within the framework of these challenges, it is getting easier to do business across many parts of Africa. There are a number of African markets that compare very well with rapid-growth markets in other regions. Using the World Bank's Doing Business research as one key indicator of trends, many African economies have made substantial progress. Among the 30 economies globally that have improved the regulatory environment for business the most over the past five years, a third are in sub-Saharan Africa. And during that period, 13 African countries have been featured in

Share of economies in sub-Saharan Africa with at least one Doing Business reform making it easier to do business

(%)



Source: World Bank, *Doing Business 2012*. Ranked by Doing Business report year.

the World Bank's Top 10 business reformers list. In 2011, 78% of governments in sub-Saharan Africa – a record number – changed their economy's regulatory environment to make it easier to do business.

This kind of progress is translating into a steadily improving performance by many African countries in the World Bank's Doing Business rankings. In fact, in the 2012 Doing Business rankings, eight African countries rank ahead of China, the highest ranked BRIC country, 14 ahead of Russia, 16 ahead of Brazil and 17 ahead of India. The highest ranked African country, Mauritius, is ahead of Austria, Belgium, France, the Netherlands and Switzerland. South Africa, the next highest African country, is ranked above the majority of emerging markets.

In comparison with Ernst & Young's portfolio of 25 Rapid-Growth Markets (RGMs), South Africa would rank sixth in terms of the relative ease of doing business (only behind South Korea, Saudi Arabia, Thailand, Malaysia and the United Arab Emirates). Ghana, also included, together with South Africa, Nigeria and Egypt among the 25 RGMs, would rank 13th (ahead of all the BRIC economies,[1] as well as the likes of Indonesia and Turkey).

1. Accounts for mainland China and excludes Hong Kong.

Viewpoint

Shaping markets of tomorrow

Charles Brewer, Managing Director, Africa, DHL

At DHL we are shaping the markets of tomorrow. Not only are we the leading logistics company in the world, but the leading one in Africa too – we have over 34 years of experience as a pioneer and innovator on the continent.

I've been in Africa for about a year and there hasn't been a single week without an overwhelmingly enthusiastic and positive experience. However, there also hasn't been a single week without a frustrating moment – Africa provides a very dynamic but sometimes very challenging environment. And it means you can't always play by the playbook…

An interesting local example is the political tension between South Sudan and Sudan. Many countries don't recognize South Sudan as a shipping destination so, in error, they send their goods through to Khartoum. And, rather than promptly reshipping the goods to South Sudan, it can take days for DHL to obtain the necessary customs release and on-forwarding from the authorities. This example – one of many – shows how the emotive political relationships between countries play into the logistical challenge of doing business in Africa.

Africa provides a very dynamic but sometimes very challenging environment

However, Africa is not always alone with its challenges. I spent eight years in Asia-Pacific and that region has certainly evolved. Only ten years ago, doing business in China or India was considerably more complicated than it is today. For example, India has twenty eight states, and each one can work autonomously, which creates major logistical challenges.

The biggest issue in Africa is the physical infrastructure itself – whether you move a product across border by road, train, plane or ship. This doesn't, in my opinion, prevent growth but is a fairly unique challenge that working in Africa creates – it adds to the cost of doing business.

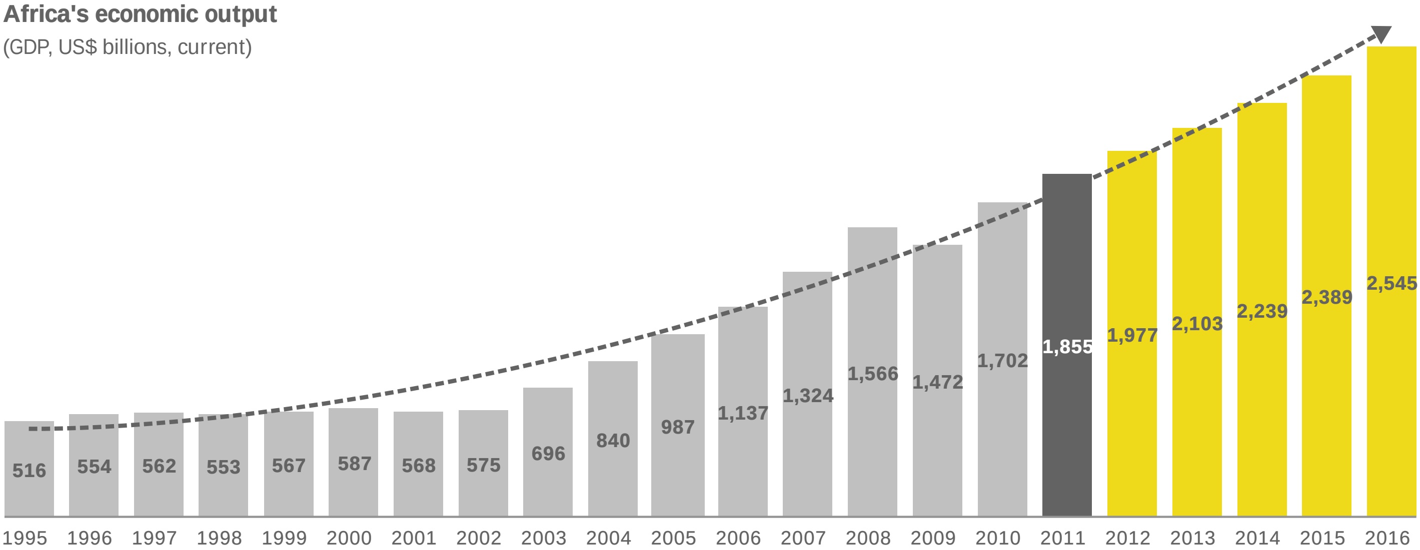
For example, in Mali, the two largest cities share a joint population of just over two million people but there are over twelve million people who don't live in those cities that, for the most part, have never touched or seen one of our products. So the challenge is getting your product into those markets but, equally, it is an enormous opportunity as well.

We're therefore concentrating on a 'go to' strategy which targets the 80 – 90% of the African population who live outside of urban centres. If you can tap into this market, and create the infrastructure and accessibility, then the sky is the limit.

The African growth story

Africa's economic output

(GDP, US$ billions, current)



Source: IMF, WEO Database; expected 2011; forecasts 2012-2016.

When political liberalization and regulatory reform are combined with disciplined economic management and, of course, a sustained commodities boom, it should perhaps be less surprising that Africa has enjoyed such a sustained period of economic growth. In fact, over the past decade, African economic output has more than tripled. According to The Economist, in eight out of those 10 years, Africa has grown faster than East Asia.[2]

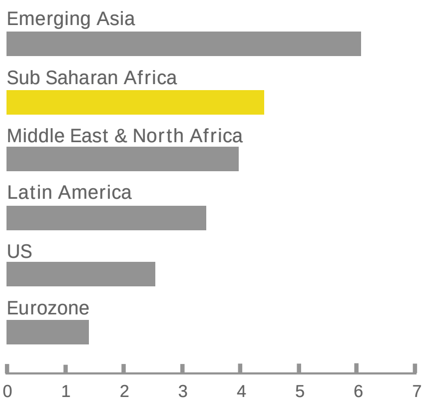
Looking forward, economic growth prospects look positive, with sub-Saharan Africa set to average 4%–5% growth over the next decade, the second-highest regional growth rate after "Emerging Asia", according to Oxford Economics.

It should perhaps be unsurprising then that the growth rates of many individual African countries have been impressive and sustained. According to research done by The Economist, six African countries have been among the 10 fastest-growing economies in the world over the past decade; and seven African countries are forecast to be among the 10 fastest-growing economies over the next five years (Ethiopia, Mozambique and Nigeria are on both lists). Further, The Economist has predicted that over the next five years, the average African economy will grow faster than its Asian counterpart.[3]

Given recent growth, it should perhaps be unsurprising that returns on investment in Africa have been among the highest (if not the highest) in the world. This is not a new trend. One of the key conclusions of a 1999 United Nations Conference on Trade and Development (UNCTAD) report[4]

Economic growth prospects: 2011-20

(Annual growth, GDP in 2005 US$)



Source: Oxford Economics.

World's ten fastest-growing economies

Annual average GDP growth, %

Country	2001-10
Angola	11.1
China	10.5
Myanmar	10.3
Nigeria	8.9
Ethiopia	8.4
Kazakhstan	8.2
Chad	7.9
Mozambique	7.9
Cambodia	7.7
Rwanda	7.6

Country	2011-15
China	9.5
India	8.2
Ethiopia	8.1
Mozambique	7.7
Tanzania	7.2
Vietnam	7.2
Congo	7.0
Ghana	7.0
Zambia	6.9
Nigeria	6.8

Source: *The Economist*, IMF.

2. "The Hopeful Continent", *The Economist*, December 2011.

3. "The Hopeful Continent", *The Economist*, December 2011.
4. "Foreign Direct Investment in Africa: Performance and Potential," UNCTAD, 1999.

Viewpoint

Embracing the opportunities

Donald Gips, US Ambassador to South Africa

I look at the story of Africa and the United States and it is starting to change. There are more Americans certainly coming to South Africa and they can see there is potential. And when you talk to American businessmen, which is what I spend a lot of my time doing, they talk about the potential and the profitability. Sure there is risk, but the potential rewards are commensurate with that risk.

This rising prosperity in Africa will open new markets

Many African governments are raising the bar to make it easier to do business and are welcoming economic investment. Huge strides have been made across the continent, from the large-scale efforts such as regional trade zones to country-specific efforts to streamline bureaucracy and improve access to small and medium business resources. Africa is rapidly re-inventing itself from an aid recipient to a trade and investment destination, and an increasingly important trading partner for the US.

However, while the perception of Africa is changing, we think that governments and business people can do more. As Ambassador, I've made it a personal priority to promote Africa to the American business community. While many US businesses understand – and have embraced – the opportunities, there are others for whom the perception of the difficulties of doing business on the continent outweigh what they see as the benefits.

For some US businesses, the path to investing is as simple as getting past stereotypical and alarmist headlines. For others, specific support will be required to address some of the perceived and real challenges to doing business on the continent.

Working together with governments and business associations like the American Chamber of Commerce, we need to address these concerns and both change the perceptions and clarify the rules so that investment and job creation increase dramatically.

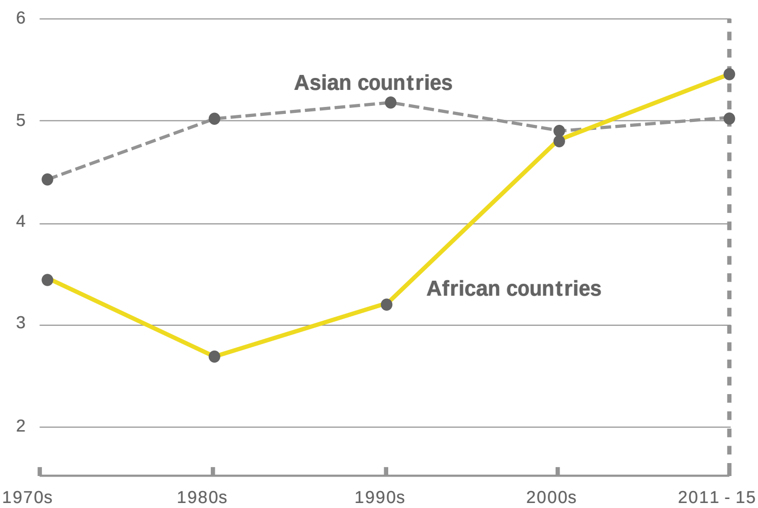
This rising prosperity in Africa will open new markets for American goods and create jobs in both regions. More and more people understand that the 21st century will be the African Century.

The US has been the leading investor into Africa in terms of the number of FDI projects since 2003, with companies like Coca Cola, IBM, Hewlett-Packard, Chevron and Exxon-Mobil leading the way. Although there was a relative decline in US investment in the first half of the 2000s, since 2007, investment by US-based companies in FDI projects has grown at a compound rate of 21.4%. Walmart's US$2.4b acquisition of a majority stake in South African retailer Massmart and GE's recent MOU with the Nigerian Government to participate in a US$10b power sector upgrade are further indicators that US investment activity is likely to continue growing.

was that, during the 1990s, profitability from FDI into Africa was higher than in most other host regions in the world. Among the examples cited was the case of USA FDI into Africa, which averaged a 29% rate of return between 1990 and 1997, substantially higher than any other region during the same period. This assertion of high investment returns from Africa is supported by several more recent studies.[5]

GDP growth

Unweighted annual average, %



Source: *The Economist*, IMF.
Excluding countries with less than 10m population as well as Iraq and Afghanistan.

5. These include Boston Consulting Group, "The African Challengers: Global competitors emerge from the overlooked continent"; Warnholz, "Is Investment in Africa low despite high profits?"Working Paper, Centre for Study of African Economics, 2008; Collier and Warnholz, "Now's the Time to Invest in Africa," Harvard Business Review, Feb 2009; "Lions on the move: The progress and potential of African economies," McKinsey Global Institute, June 2010.

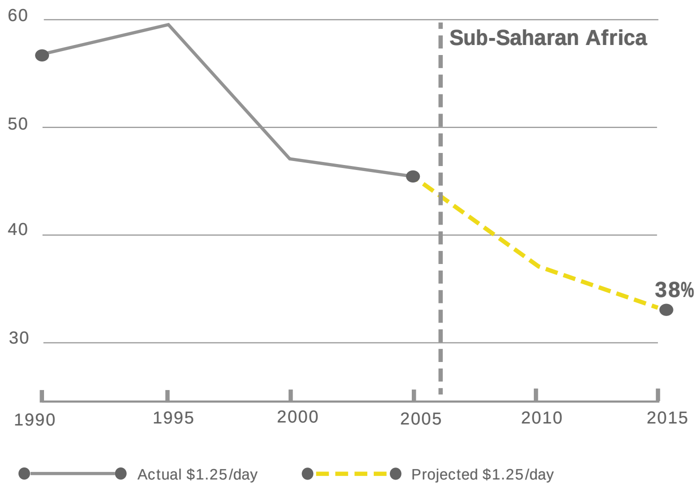
Looking forward: factors sustaining growth

We are confident that Africa's growth rates are sustainable, partly due to democratization and an ever-improving environment for doing business, but also because of three key lead indicators: improvements in human development trends, growing levels of disposable income and ongoing diversification of FDI.

▶ Development: human development numbers are trending up

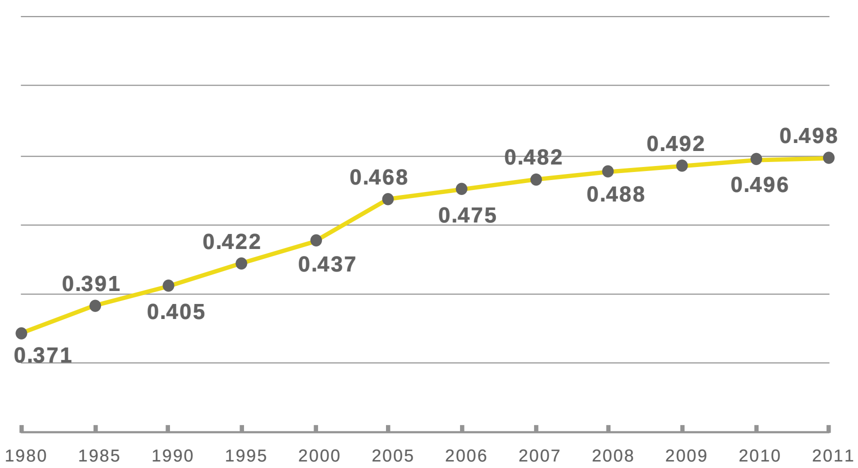
Improvements in the quality of life are not only a key indicator of the ultimate impact of economic growth, but also of its long-term sustainability. While there is obviously still a long way to go, the signs are that progress is being made in the areas of health, education and general welfare in many parts of Africa. An analytical study by Xavier Sala-i-Martin and Maxim Pinkovskiy backs up the view that the quality of life in Africa is steadily improving.[6] In their paper, African Poverty is Falling... Much Faster than You Think!, they reveal that there has been a sharp and widespread reduction in poverty and income inequality in Africa since 1995.

The declining rate of poverty in Africa



Source: Development Prospects Group, World Bank.

Human Development Index (HDI) value - Africa



Source: Human Development Index (HDI) value: HDRO calculations based on data from UNDESA (2011), Barro and Lee (2010), UNESCO Institute for Statistics (2011), World Bank (2011) and IMF (2011).

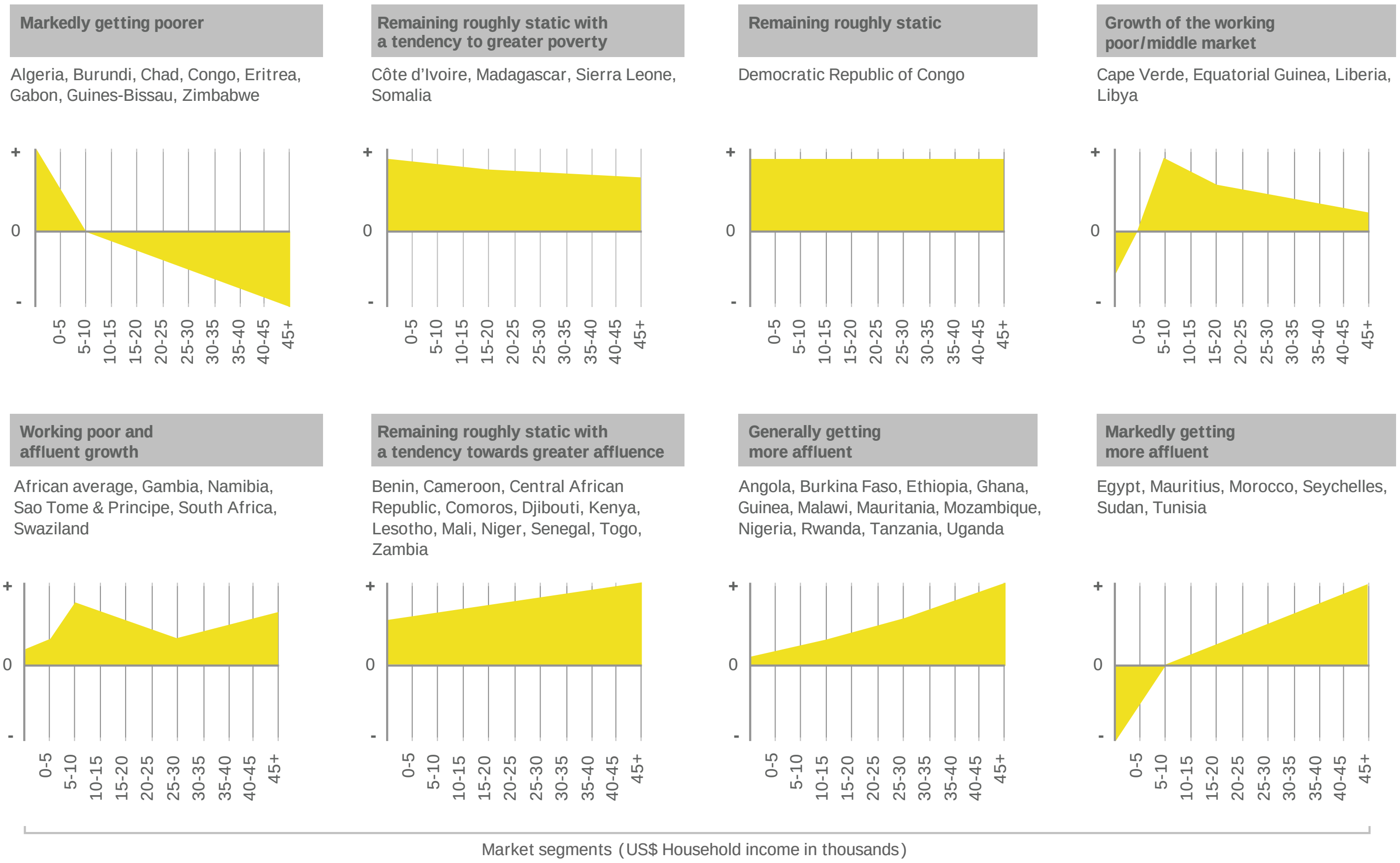
The steady overall improvement in human development is illustrated by the upward trend in the United Nations' Human Development Index 2011, particularly over the past two decades. As a result, and according to the World Bank:

"Progress on the Millennium Development Goals has been sufficiently rapid that many countries (such as Cape Verde, Ethiopia, Ghana and Malawi) are likely to reach most of the goals, if not by 2015, then soon thereafter. Africa's poverty rate was falling at about 1 percentage point a year, from 59% in 1995 to 50% in 2005 (see graph [above]). Child mortality rates are declining, HIV/AIDS is stabilizing, and primary education completion rates are rising faster in Africa than anywhere else."[7]

6. *African Poverty is falling,..Much Faster than You Think!*, Xavier Sala-i-Martin and Maxim Pinkovskiy, National Bureau of Economic Research Working Paper 15775, February 2010.

7. *Africa's Future and the World Bank's in Support to It*. The World Bank, 15 November 2010, March 2011

Patterns of growth in household income for African countries



Source: C-GIDD , Ernst & Young.

▶ Money talks: Africans are becoming wealthier

Africa's population today totals over one billion people with combined consumer spending approaching US$1t. This constitutes an already substantial, but also growing, market opportunity. Ernst & Young's analysis of consumer growth trends over a 10-year period, from 2005–15, reveals a market underpinned by both short- and long-term potential. In general, there is a slowdown in growth rates among the very poor, high growth for the mass market and moderate growth among the more affluent segments.

Based on this analysis, there are only a handful of countries, such as Algeria, Eritrea and Zimbabwe, which show a distinctly negative pattern. By contrast, the pattern across a broad range of countries is one of a marked trend toward greater affluence.

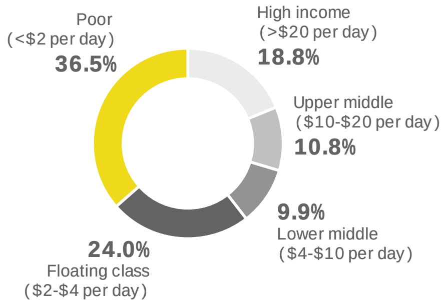
When remittances from the diaspora of African workers are incorporated into the analysis, a substantial potion of the poor population moves into the lower-middle income "floating class" (US$2-US$4 per day) – 24% in 2010 according to African Development Bank estimates. Reshuffling by income this way gives a broader "consumer class", i.e. middle-class grouping (US$2–US$20 per day), which makes up roughly 40% of the African population.

These patterns are translating into ever-increasing levels of disposable income, often much higher than are assumed via official data and indicators such as GDP per capita.

We anticipate that consumer growth will accelerate over the next 15 years. This process will be driven by rapid urbanization, population growth and continued socioeconomic development. Rising domestic demand for, and consumption of, an ever-broadening range of products and services, growing intra-African trade and the increasing diversification of many of the economies on the continent are expected to provide a multiplier effect to the emerging potential evident in African consumer markets today.

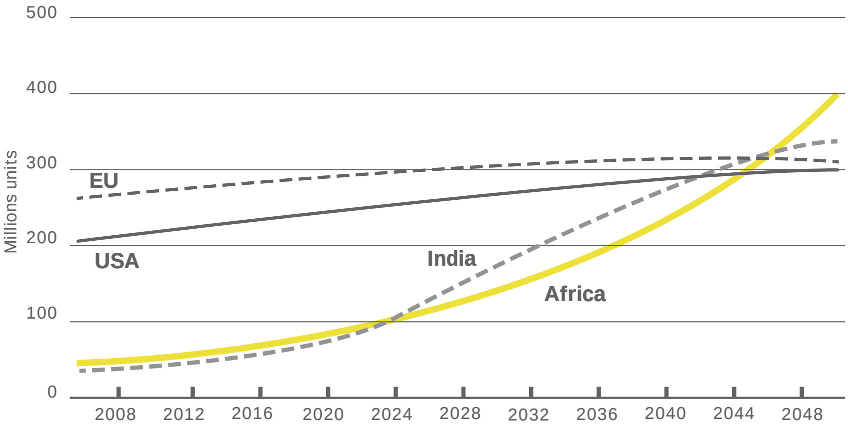
Distribution of the African population by income (including remittances)

(2010)



Source: *The Middle of the Pyramid: Dynamics of the Middle Class in Africa*, African Development Bank (AfDB), April 2011.

African vehicle ownership in global context



As a proxy measure for the rising consumer market and middle-class income growth expected in Africa, the Institute for Security Studies has forecast a rapid rise in African vehicle ownerships – becoming a larger market than India, the USA or EU by 2045.

Source: *Africa futures 2050*, Institute for Security Studies (ISS).

Viewpoint

Government and business have aligned objectives

Jeff Nemeth, President and CEO, Ford Southern Africa

Ford has operated in Southern Africa for 96 years and has been manufacturing on the continent for 88 years. So we have a long history with various forms of government, particularly in the southern half of the continent.

We create a lot of jobs around us and so we are an important industry to government in that regard

The auto industry and government work closely together. Ours is one of the most highly regulated sectors in the world – CO2, safety, and manufacturing regulations. We are also a great engine for manufacturing industrialization – we create a lot of jobs around us and so we are an important industry to government in that regard.

One of the things that is good about doing business in South Africa is that capital inflows and outflows are very easy. But in our conversations with policy-makers, we have also been pressing the South African government to ensure that the country's industrial sector is globally competitive. Our latest product is a Ford Ranger and we are exporting it to 148 countries. Our challenge is exporting it at a competitive cost level. We have been working with the government on transportation because logistics costs are our single biggest cost. As such, the logistics service has to be at global cost levels.

And when it comes to the African continent as a whole, we have encountered some challenges regarding the regulations - not only their onerous nature but also the variation that exists in enforcement – from country to country and within countries. We always strive to abide by the regulations but the problem is a lot of our suppliers and people we deal with are forced into informal channels because of the heavy tax codes and regulations, and because they are not enforced consistently.

Looking forward, it is important to remember that both government and business have aligned objectives. We would rather grow our business and supply base in South Africa because that leads to more customers and will help sell our cars. We believe in jobs and skills growth; we need both to grow our business. While we are driven by profits on behalf our shareholders, at the same time there is huge scope for alignment with government and to help each other out. As long as we find that space and work together both government and business can be successful.

Almost 30% of FDI capital invested into Africa since 2003 has gone into manufacturing activities. Manufacturing has, in turn, contributed 40% of all new FDI-related jobs on the continent over that period. Of that, the automotive sector has been the single biggest contributor, creating over 100,000 new jobs.

Diversification: Africa is moving beyond a dependence on commodities

Ernst & Young's 2011 Africa attractiveness survey highlighted growing diversification of FDI as a key trend. We believe this is an important lead indicator of a broader process of economic diversification that will continue to lessen Africa's dependence on natural resources and, by extension, commodity prices. This year, the trend has continued with greater levels of investment into less capital intensive sectors, resulting in a growing number of FDI projects in relation to the capital amounts being invested.

We have also dug a little deeper into the kinds of projects and sectors receiving capital investment. At a high level, there are four key findings during the period between 2003 and 2011:

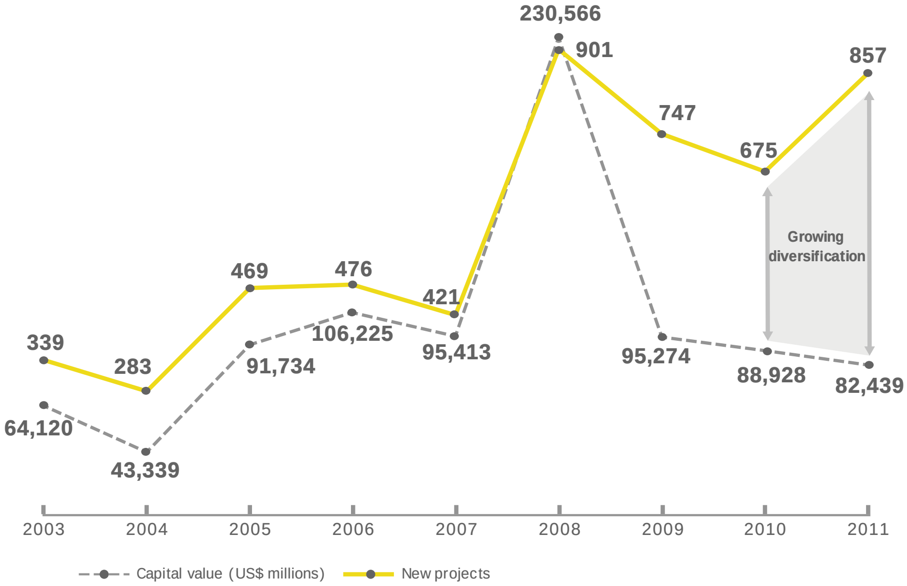
1. Over 50% of the projects have been in service-related activities (excluding manufacturing, infrastructure, agriculture and extraction).

2. Almost 70% of the capital invested into Africa (and nearly 40% of new FDI projects) has gone into manufacturing-type and infrastructure-related activities (and not extractive activities, as many people may assume).

3. Manufacturing activity alone accounts for 40% of all new FDI-related jobs in Africa since 2003.

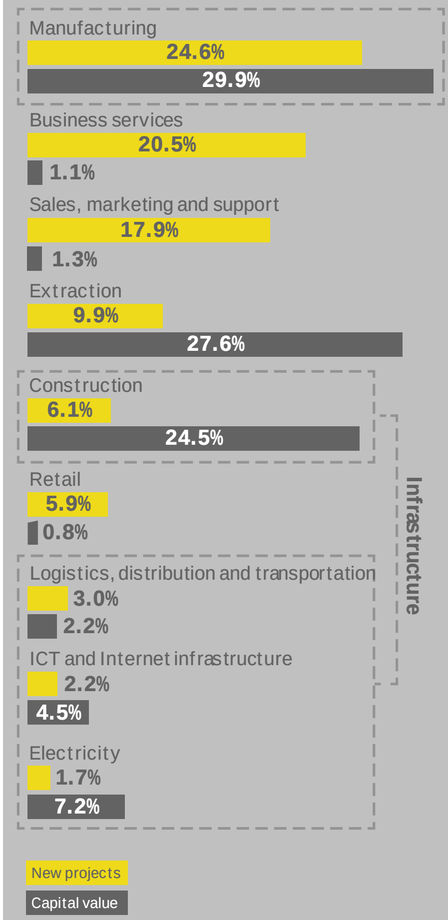
4. Of the investment into manufacturing, a large proportion of the capital has gone into natural resource sectors such as oil and gas and mining.

FDI into Africa
(2003-11)



Source: fDi Intelligence, data as of 3 February 2012; Ernst & Young.

FDI into economic activity - Share of annual total
% share of projects and Capital Value (2003-11)

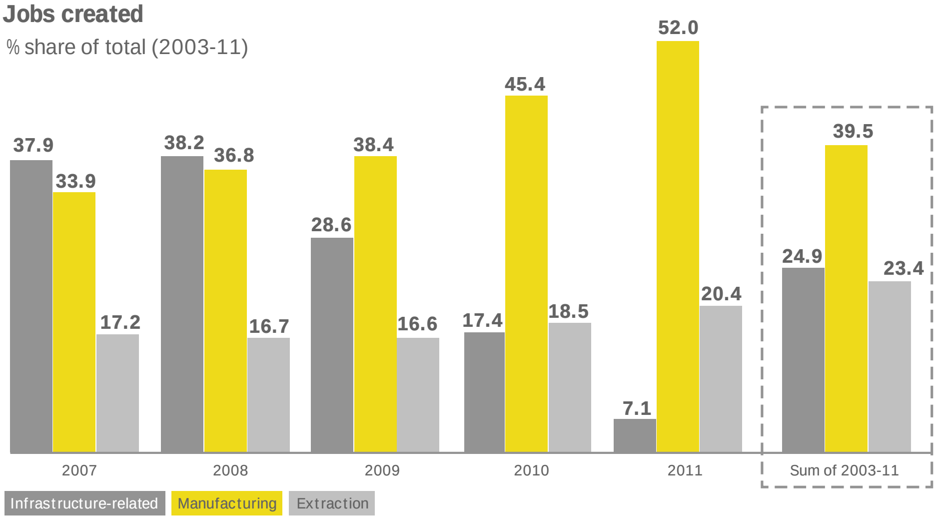


Source: fDi Intelligence, data as of 3 February 2012; Ernst & Young.

The last point relating to investment in manufacturing in relation to natural resources is particularly significant. Sixty-four percent of FDI capital invested into the manufacturing sector in Africa from 2003–11 (which constitutes almost 20% of the total new manufacturing projects) has gone into processing and beneficiation-type activities in the extractive sectors, as opposed to simply extracting resources from the ground and shipping these raw materials to foreign markets. While this may not represent a seismic shift, it is certainly a significant marker in Africa's continued and evolving growth path.

Jobs created

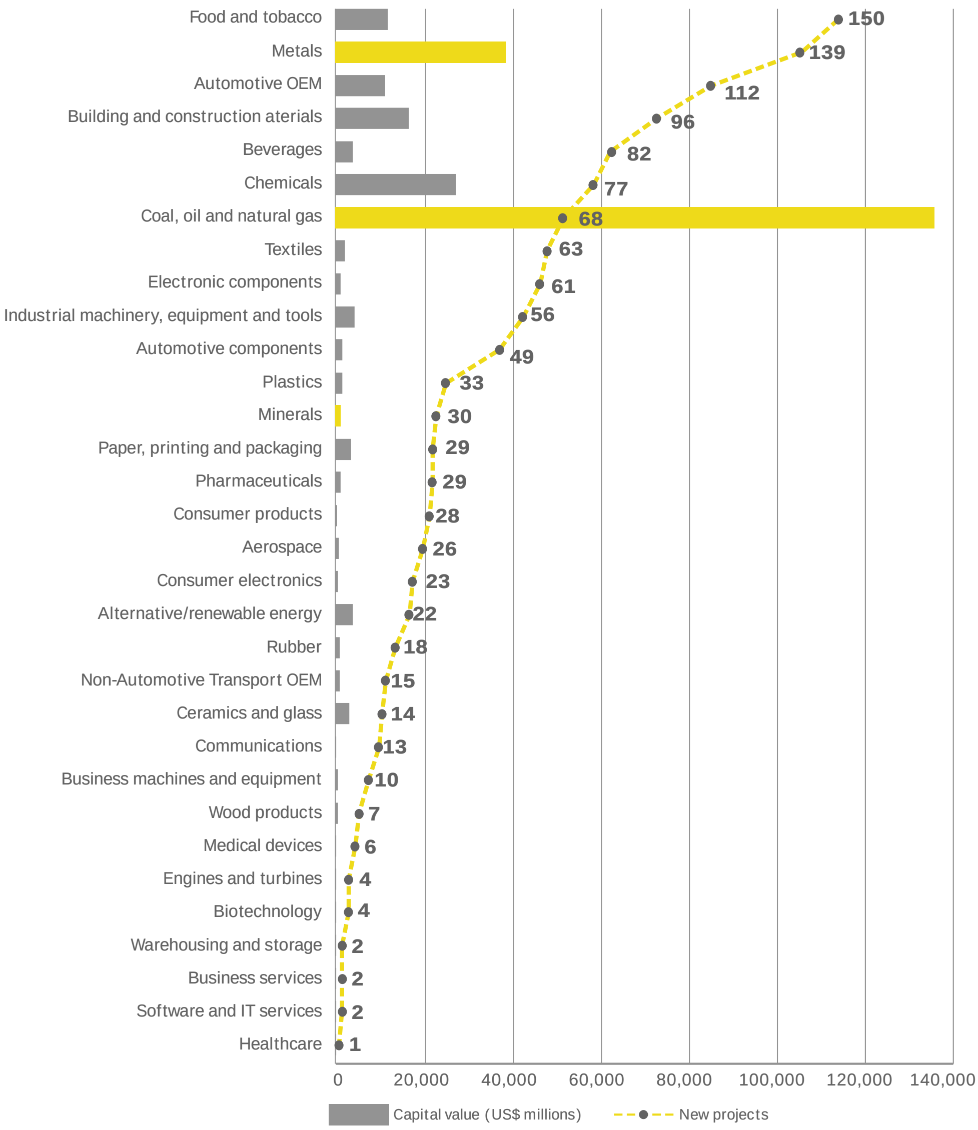
% share of total (2003-11)



Source: fDi Intelligence, data as of 3 February 2012; Ernst & Young.

Manufacturing investment into African sectors (2003-11)

Ranked by projects



Source: fDi Intelligence, data as of 3 February 2012; Ernst & Young.

Articulating a complex investment case

Africa certainly has all the makings of a compelling investment case – natural resources, rapid economic and population growth, maturing political systems, a rapidly improving environment in which to invest and do business and investment returns that are second to none. This is not wishful thinking; it is supported by a diverse body of evidence.

With rapid-growth markets not only dominating investors' attention and capital flows, but also playing an increasingly strategic role in defining the global economic agenda, the competition for FDI is intensifying. African countries must position themselves appropriately in this shifting landscape to attract a greater proportion of the investment that will accelerate growth and development.

The bottom line, though, is that in this contest for international capital and resources, better stories are still being told about other markets. Despite high optimism, high growth and high returns, the perception gap still exists and the African continent as a whole still attracts fewer FDI projects than India and far fewer than China. There is clearly still work to be done by Africans – government and private sector alike – to better articulate and “sell” the growth story and investment opportunity for foreign investors.

However, it is not only about selling the story. The investment case is complex because Africa is not a single country, it is a continent. Substantial challenges remain to be addressed if we are to create a compelling proposition that can compete with the BRIC economies. But as the next section highlights, Africans are leading from the front. With this active leadership to the fore, we anticipate that the mutually reinforcing processes of regional integration and infrastructure will elevate Africa into the premier league of investment destinations.

A radical tactical shift: Africans leading from the front

"If you have the courage and determination and know when to take a radical tactical shift, then virtually nothing is impossible on this continent."

Lewis Pugh, Ernst & Young Strategic Growth Forum, Cape Town, March 2, 2012.

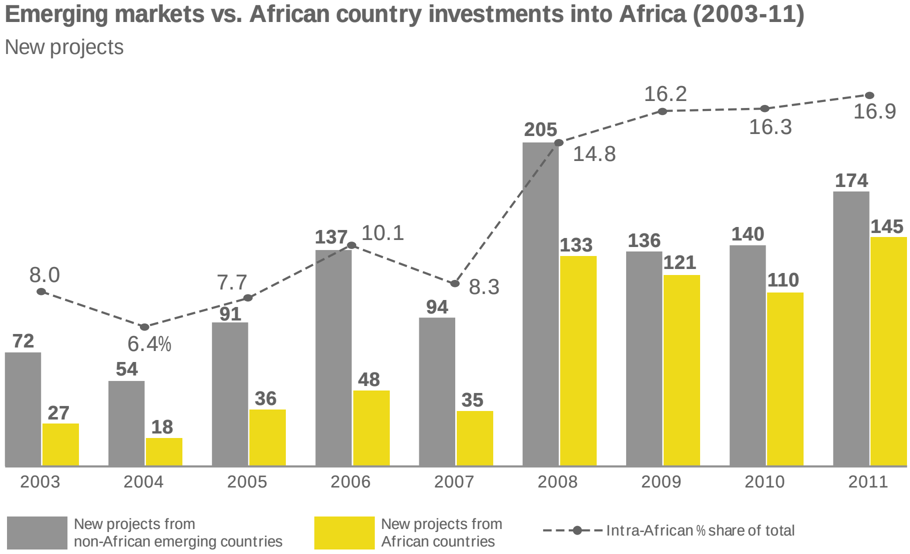
42% the astonishing growth rate of Intra-African FDI since 2007

Top 20 investors into the rest of the continent between 2003–11 include Kenya, Nigeria and South Africa

26 African states participating in the Tripartite Free Trade Agreement

US$93b p.a. required for the decade from 2010–20 to close the infrastructure gap with other developing regions

Growth in intra-African investment continues to highlight growing self-confidence



Source: fDi Intelligence, data as of 3 February 2012; Ernst & Young.

In last year's survey, we highlighted a growing optimism and confidence among Africans about investing and doing business in Africa. This year's survey reinforces this view. A very high proportion of African respondents have positive views on the progress already made and on the continent's attractiveness as a place to invest and do business, both now and into the future.

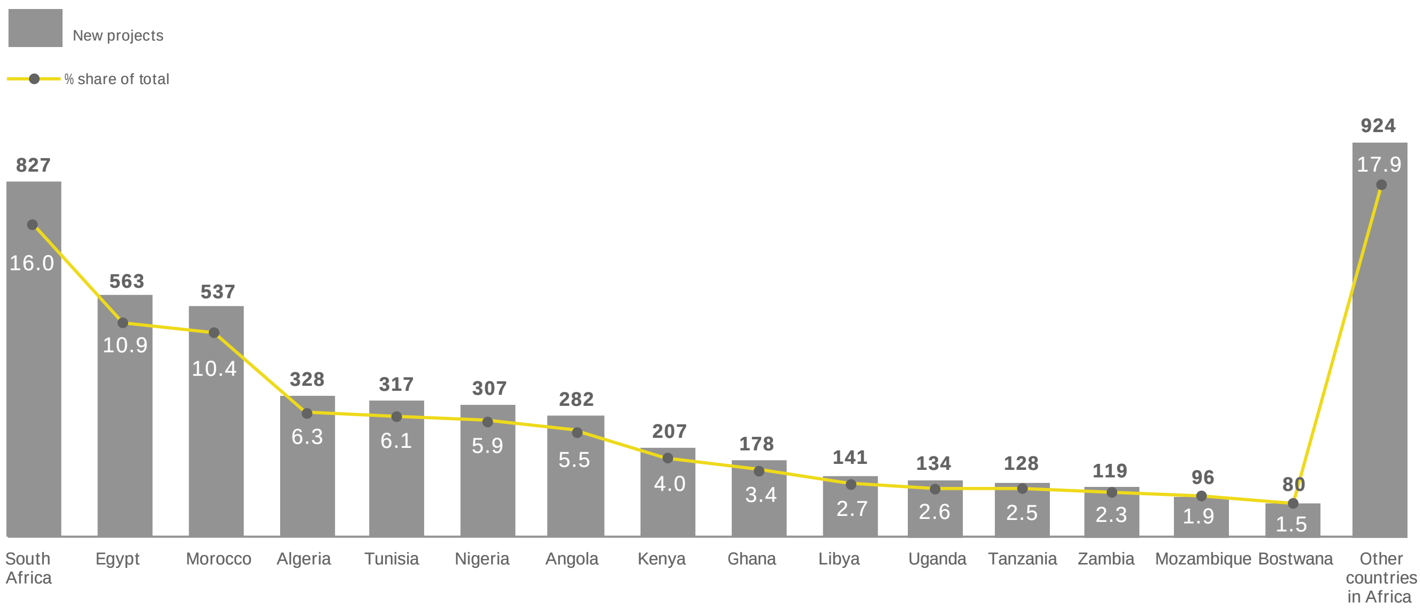
The growing confidence, self-belief and commitment by Africans are reflected in the substantial growth of intra-African investment. Between 2003 and 2011, there has been 23% compound growth in intra-African investment into new FDI projects. This growth is accelerating; since 2007 the growth rate has been an astonishing 42%.

This means that over a period in which the annual number of FDI projects into Africa has more than doubled – from 339 in 2003 to 857 in 2011 – intra-African investment, as a proportion of the total number of projects, has also more than doubled. As a result, in 2011 intra-African investment accounted for 17% of all new FDI projects on the continent.

Picture: aerial view of a zebra herd splashing across a marshy grassland. Okavango Delta, Botswana.

Key sub-Saharan economies are growing their investments

Top African destinations for new FDI project investment (2003-11)

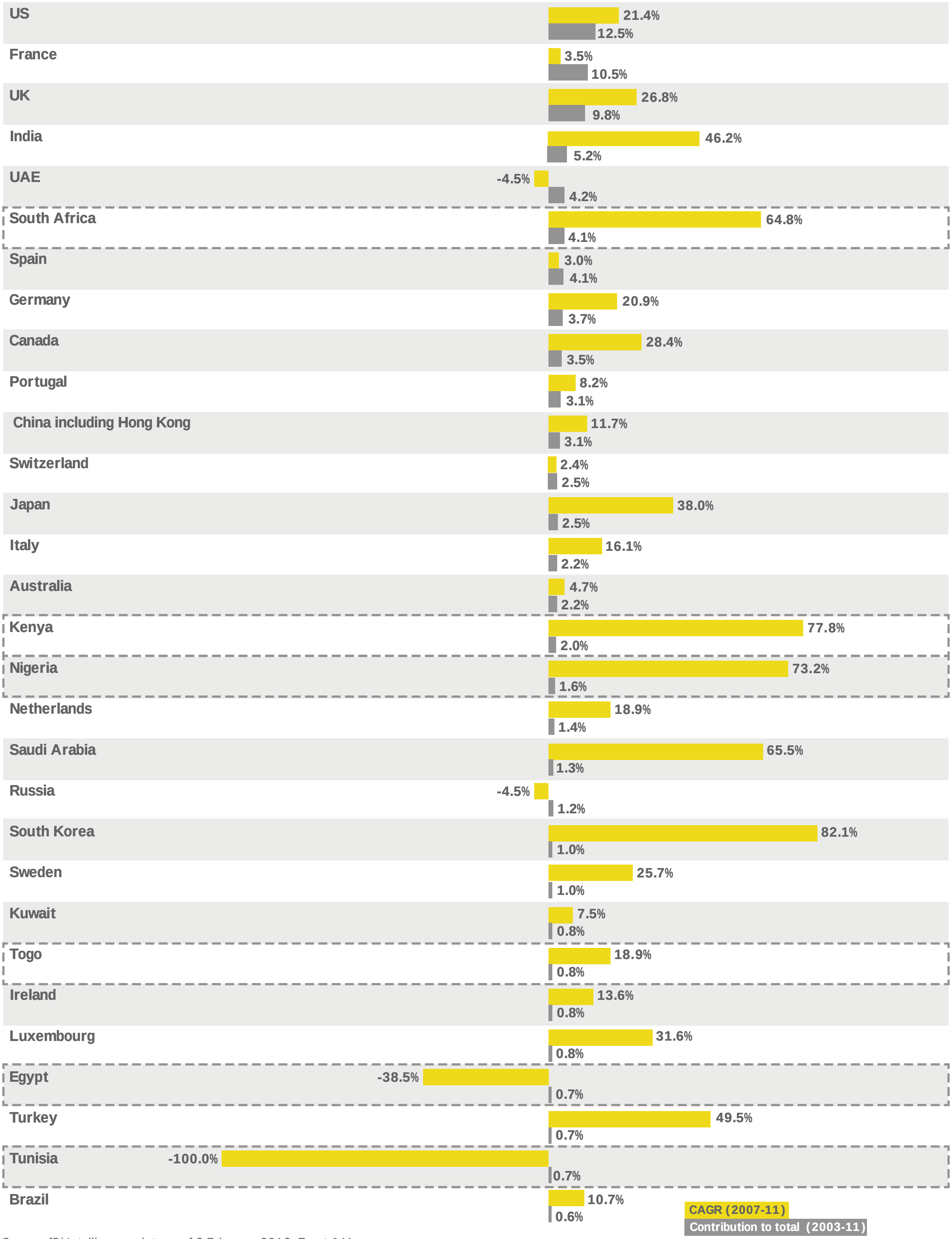


Source: fDi Intelligence, data as of 3 February 2012; Ernst & Young.

The growth in intra-African investment is being led by the respective regional powerhouses of Kenya, Nigeria and South Africa. All three of these African economies are ranked among the top 20 investors into the rest of the continent between 2003–11. Importantly too, in the last four years, all three of these African countries have been growing their investments substantially, ranking among the top five in terms of compound growth of new FDI projects. Over this period, investment from Kenya and Nigeria into the rest of the continent has grown at a faster rate than from anywhere else in the world, at 77.8% and 73.2% respectively, while South African investment has grown at a rate of 64.8%.

Africa's top 30 investors growth in projects

Countries ranked in order of cumulative new FDI projects (2003-11)



Source: fDi Intelligence, data as of 3 February 2012; Ernst & Young.

Viewpoint

The Ecobank success story

Arnold Ekpe, CEO, Ecobank

Nelson Mandela once said: "It always seems impossible until it is done."
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.

We had a clear vision and mission from inception. Our founders did not set out to create a carbon copy of other banks – they set out on a different track. They wanted something that was pan-African from the start, inclusive to customers and be able to make a difference. We have since refined the model – we now say we want to build a world-class pan-African bank with world-class operations and services, supported by strong corporate governance, strong compliance and strong ethics.

We are now present in 32 countries. Ecobank operates as one bank, with common branding, policies, processes and technologies across our entire network – risk management, finance, operations and IT functions have all been centralized. Ecobank today employs 20,000 people from 14 nationalities in more than 1,400 branches and offices across Africa, the Middle East and Europe.

Banking is a specialized and cyclical business; financial institutions need to be strong enough to withstand external shocks but flexible enough to capitalize on the upturn when it inevitably comes. If we were to create a pan-African banking force, we realized we had to adopt a diversified business model – transforming Ecobank from what was predominately a wholesale business to a more balanced portfolio of banking activities.

Having historically been constructed along geographic lines, in 2010 we also reorganized the group into three business units: a corporate banking unit to focus on multinationals, a retail business to focus on domestic consumers and local corporate, and an investment banking – which we branded as Ecobank Capital.

We remain committed to a flexible strategy which utilises both organic and inorganic means of growth

Looking forward, I think the greatest opportunities will lie in the mass retail segment. Less than 20% of the African population has access to formal banking facilities – which represents a huge opportunity. We are looking to empower Africans and want to contribute to the economic development of the countries in which we operate by providing wider access to finance. This will lead to more employment and, over time, a more developed economy.

Size matters in banking as fundamentally it is a commodities business. Critical mass is essential in Africa where operating costs are very high relative to customer volumes. We shifted our strategy to build scale in key markets as scale generates economies. It enables us to hand major transactions and establishes Ecobank as a systemic player in the markets in which we operate.

We remain committed to a flexible strategy which utilizes both organic and inorganic means of growth, with the ultimate aim of being top three in each of our markets. We believe that this approach allows us to react to a market that continues to grow.

However, Africa's fortunes are tied closely to other parts of the world and the continent will not be immune to the Eurozone crisis for example. The banking sector must also confront fresh challenges such as new regulations, high up front funding and risk costs and the need to generate shareholder returns. Ultimately, those banks which can reshape their portfolios, build stronger regional networks and innovate successfully.

Ecobank was the second largest investor across Africa by FDI project numbers (41) between 2003 and 2011 – 98% of those investments have been made since 2007.

Top 20 investors into Africa by number of projects (2003-11) (Parent company): (1) Banco BPI, (2) Ecobank Transnational, (3) BNP Paribas, (4) Tata Group, (5) Kenya Commercial Bank (KCB), (6) IBM, (7) Nestlé, (8) SAB Miller, (9) Coca-Cola, (10) Total, (11) Credit Agricole, (12) Banco Comercial Portugues (Millennium BCP), (13) Accor, (14) Toyota Motor, (15) Lafarge, (16) MTN Group, (17) Hewlett-Packard, (18) Inditex, (19) France Telecom, (20) Chevron Corporation.

Source: fDi Intelligence.

Intra-African trade
is also growing substantially

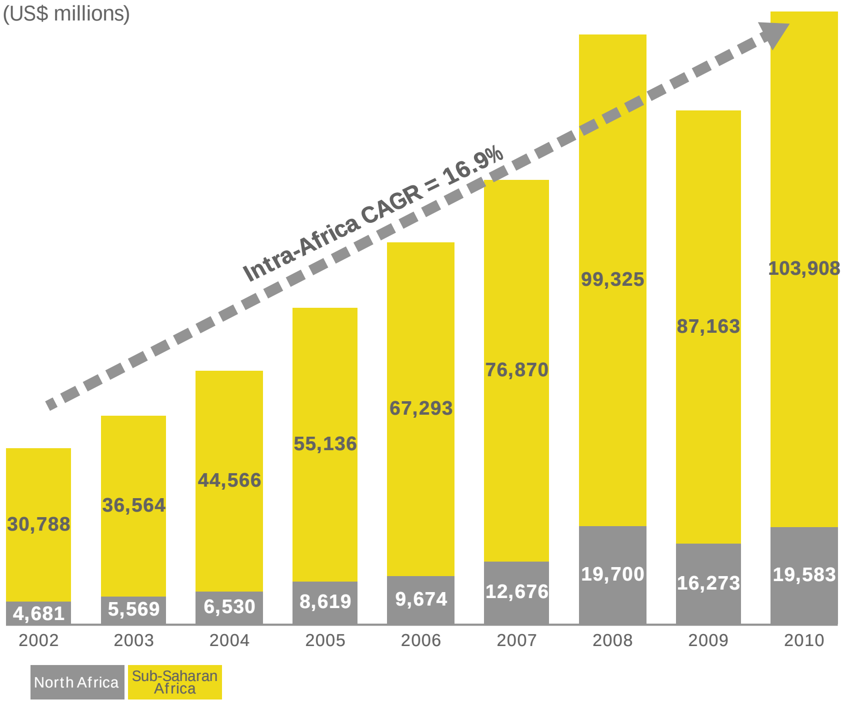
It is important to reflect on trends in intra-Africa trade to see if these reflect a broader process of Africans connecting and working together to take ownership of their own destiny. What the numbers tell us is that intra-African trade, as a proportion of Africa's overall trade, has remained relatively flat over the past decade or so at around 12%. This remains a very low proportion when compared with intra-regional trade proportions in other parts of the world. Intra-Asian trade, for example, is over 50% of total Asian trade and for Latin America the proportion is close to 30%.[8]

Percentage of Intra-Africa trade relative to Africa's total

Year	%
2002	13,2
2003	12,6
2004	12,0
2005	11,5
2006	11,9
2007	11,7
2008	11,8
2009	13,4
2010	13,1

Total intra-Africa bilateral trade

(US$ millions)



Source: Economic Commission for Africa (ECA), Compendium of Intra-African and Related Foreign Trade Statistics - 2011.

However, we should also recognize that Africa's total trade numbers over the past decade have grown considerably, and so, as the graph illustrates, total intra-African trade has actually trebled since 2002, growing at a compound annual rate of almost 17%.

While there remains considerable potential (and, we would argue, an imperative) to further accelerate this growth, the trend is still notably positive.

8. The Centre for the Study of African Economies at Oxford University

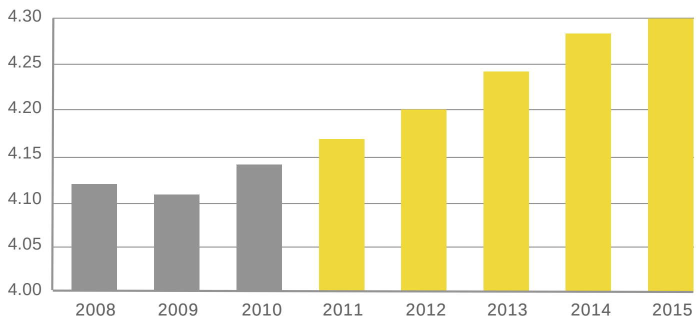
African solutions to African challenges

Ever-increasing levels of intra-African investment, trade and confidence underscore a growing trend of Africans providing African solutions to Africa's challenges. This is a critical but perhaps underappreciated element in the emerging African growth story. In a post-Cold War context, and particularly over the past decade, a growing number of outstanding leaders in government, business and civil society are emerging.

As we look forward, it is important that African leaders across government and business continue to drive toward solutions that will support accelerated growth in both investment and trade in general, but also in intra-African investment and trade. We believe the single biggest priority over the next decade should be the acceleration of regional integration. Simply put, if this process is not accelerated, Africa will remain marginalized in the global economy and African countries will struggle to compete for a greater share of foreign investment.

We have no doubt that African economies will continue to grow over the next decade. However, in a context of increasing globalization, where the ability of economies to compete in a globally interconnected environment is ever more important, growth will always be structurally constrained under current conditions. This is because the continent is simply too fragmented; a patchwork quilt of 54 sovereign states, many of which have small economies, low per capita income levels, small populations and limited capacities and resources. As a result, there are relatively few markets in Africa that in themselves offer any kind of scale or critical mass.

Overall average score for globalization



Source: *Globalization Index 2011.*
Note: The *Globalization Index* measures the extent to which the 60 largest countries by GDP are connecting to the rest of the world in five key categories relevant to business.

At the same time, doing business across borders on the continent can be unnecessarily expensive and inefficient, owing to 54 different (and often fragmented) sets of rules, regulations, stakeholders and market dynamics that need to be navigated.

Deeper integration throughout the continent would enable greater levels of trade, providing a further boost to diversification and sustainable growth and would also create larger markets that are far more attractive to foreign and domestic investors. Furthermore, by pooling human, capital and natural resources and leveraging different comparative advantages, integrated regions can develop common solutions and use resources more efficiently and effectively.

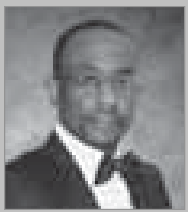
In the midst of a global economy that is being reshaped, with growth and capital flows shifting from north to south and west to east, Africans have a unique opportunity to break the structural constraints that have marginalized the continent for decades, if not centuries.

Viewpoint

Critical building blocks

Lamido Sanusi, Governor of the Central Bank of Nigeria

Nigeria has shown remarkable economic growth, and for over a decade has been featured among the fastest growing economies in the world. It has critical mass with 167 million people, it is the 8th largest producer of crude oil in the world and has substantial gas reserves. However, a lot still needs to be done to enable the country to become one of the top twenty global economies by 2020.



Nigeria is conducive to private investment

A healthy and well functioning banking sector is one critical building block towards sustaining and accelerating growth in Nigeria. The banking sector is a major source of short to medium term funds, and has actively contributed to economic development in Nigeria. No business can succeed without access to adequate working capital and only the banking system can fill this gap. Our response to the impact of the global economic crisis in 2009 was therefore not only a test of our commitment more generally to creating an environment in Nigeria that is conducive to private investment, but more specifically, to ensure that the productive sector has access to this critical source of funding.

Nigeria was not hit by the first effects of the world financial crisis – it was more the secondary effects such as the crash in oil prices. When I took over as governor of Nigeria's central bank in 2009 we had huge macro-economic issues. A significant part of the banking system was on the point of collapse. We did a proper examination of the bank's books and we found out that 10 banks were short of capital. We stepped in, removed the management of those banks and discovered there was margin trading and also outright theft, with money having been taken out of the country with no intention of it ever being paid back.

So we had to set up an asset management corporation to recapitalize the banks and we recovered 200 pieces of real estate in Dubai, Johannesburg and four private jets. It's extremely easy to run a bad bank for a very long time – until there is an external shock. And the financial crisis brought out years and years of fraud that had been covered up in these institutions.

But it's important to put the Nigerian experience in context. First, fraud and corruption was not endemic; it was a tiny minority of Nigeria's banking community that was guilty. Furthermore, Nigerian bankers, as a whole, agreed to place 0.3% of their balance sheets into a special account to fund 66% of the banking bailout – unlike in many countries where the taxpayer bore the brunt of the financial cost.

We had a crisis, and we fixed it. We have done everything that the British and Americans are still talking about. We are one of the few if not the only country to hold the industry to account for what it did. We have held people responsible, we have broken up universal banking, we forced bank CEOs to leave office after 10 years, we have compelled them to adopt IFRS, embrace the Basel III Accord, and overall we have improved governance and risk management. No one can point the finger at the Nigerian banking industry – we have shown others how it can be done.

As we look forward though, the real challenge is lessening our dependence on government as the major driver of the economy. Until we move away from this and hand more of this activity to the private sector there will remain opportunities for corruption. Ultimately, like all countries, we need a civil society that holds politicians to account. That is when government knows it has to deliver.

While corruption remains a key challenge across many countries, African leaders like Mr Sanusi are tackling the challenge head on. He has spearheaded reforms in Nigeria's banking sector since his appointment in 2009, and is widely credited with establishing a foundation for an environment where business can thrive in Nigeria. His blueprint for reforming the Nigerian financial system has been built around four pillars of enhancing the quality of banks, establishing financial stability, enabling a healthy financial sector evolution and ensuring the financial sector contributes to the real economy. As a result of his efforts, Mr. Sanusi has won numerous accolades, including being named the top central bank governor in the world by Banker magazine, Forbes magazine's Africa Person of the Year, and one of Time magazine's 100 most influential people in the world last year.

Building blocks: Regional Economic Communities

▶ Regional integration has been on the agenda for many years

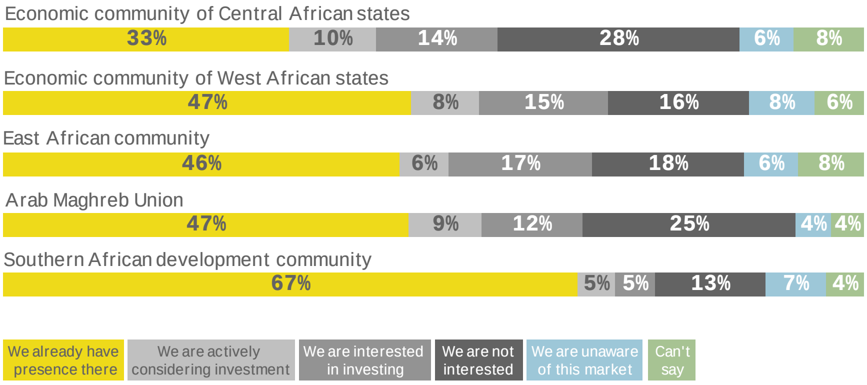
The 1991 Abuja Treaty divided the continent into five regional areas: North Africa, West Africa, Southern Africa, East Africa and Central Africa, in preparation for establishing the combined African Economic Community (AEC) in six phases over 34 years (1994–2027). The ultimate result was envisaged as an economic union with a common currency, full mobility of factors of production and free trade among all countries on the continent. Subsequently, the creation of the African Union (AU) in 2003 and the adoption of the New Partnership for Africa's Development (NEPAD), with regional integration as one of its core objectives, have brought greater focus and urgency to the regional integration process.

The Abuja Treaty recognized Regional Economic Communities (RECs) as the building blocks for integration. Although there is an array of different groupings across Africa, there are only eight that are officially recognized by the African Union (AU) and considered the building blocks of the AEC (see maps on following page).

There are different perspectives on the relative progress that has been made toward the creation of an AEC since the Abuja Treaty was signed. On one hand, it may appear to be a slow, stop-start affair, with very little substantial progress being made. However, it should be recognized that the process was always envisaged, out of necessity, as long-term one. Broken down into six stages, the process remains more or less on track according to this timetable:

1. Creating regional blocs in regions where such do not yet exist – scheduled to have been completed in 1999
2. Strengthening of intra-REC integration and inter-REC harmonization – scheduled to have been completed in 2007
3. Establishing a free trade area and customs union in each regional bloc – to be completed in 2017
4. Establishing a continent-wide customs union and thus also a free trade area – to be completed in 2019
5. Establishing a continent-wide African Common Market or ACM – to be completed in 2023
6. Establishing a continent-wide economic and monetary union (and thus also a currency union) and pan-African Parliament – to be completed in 2028
7. Ending of all transition periods by 2034 at the latest

Which of the following trade zones offer the most potential for doing business in Africa?



Source: *Ernst & Young's 2012 Africa attractiveness survey*. Total respondents: 138.

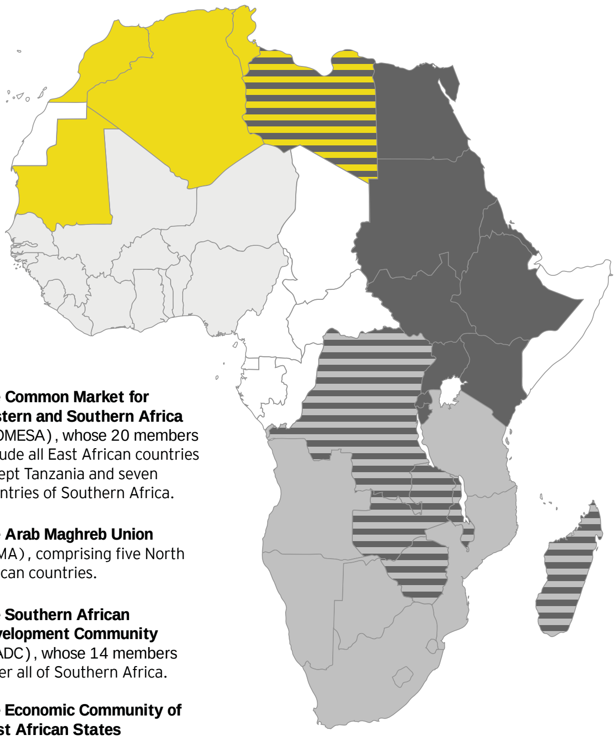
Leading the way: the East African Community

Arguably the most successful example of regional integration is the East African Community (EAC). There has been a long history of cooperation under successive integration arrangements in the region dating back as far as 1917, but the EAC was itself established in 2000 by Kenya, Tanzania and Uganda. Burundi and Rwanda joined in 2007 to complete its current membership of five countries.

In the decade or so since its establishment, the EAC has made tremendous progress. Having established its own customs union in 2005, followed by a common market in 2010, good progress is being made toward implementing the free movement of labor, capital goods and services. What this means is that instead of five separate countries that offer no real critical mass, you have a market of close to 150 million people, a combined GDP approaching US$100b and an economic growth rate in excess of 6% over the past decade. These key numbers would put the EAC in the same sort of category as Bangladesh and Vietnam, both listed among Goldman Sachs' "Next 11," those countries, after the BRIC economies, with the highest potential of becoming the world's largest economies in the 21st century.

For most investors, the investment proposition offered by a combined and integrated EAC, offering an emerging market-type investment proposition on a par with those of Bangladesh and Vietnam, is clearly far more interesting and attractive than anything that the individual member countries could offer.

REC pillars of the African Economic Community

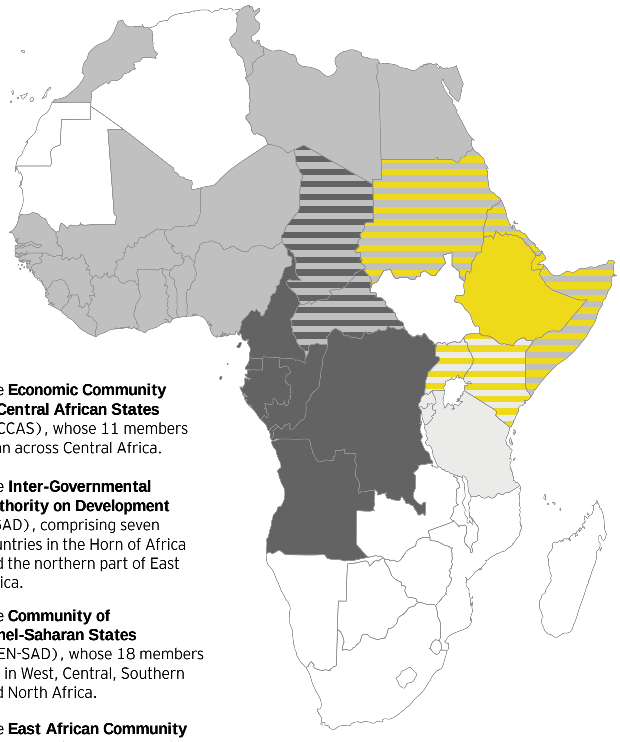


The **Common Market for Eastern and Southern Africa** (COMESA), whose 20 members include all East African countries except Tanzania and seven countries of Southern Africa.

The **Arab Maghreb Union** (UMA), comprising five North African countries.

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

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



The **Economic Community of Central African States** (ECCAS), whose 11 members span across Central Africa.

The **Inter-Governmental Authority on Development** (IGAD), comprising seven countries in the Horn of Africa and the northern part of East Africa.

The **Community of Sahel-Saharan States** (CEN-SAD), whose 18 members are in West, Central, Southern and North Africa.

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

A bold vision of the future: the Tripartite Free Trade agreement

An even more positive development is the agreement between the Heads of state and government of 26 African countries in October 2008 to establish a free trade area (FTA) – now referred to as the Tripartite FTA (T-FTA). This initiative will expand intra-African trade, promote collaboration between the RECs and facilitate joint resource mobilization and project implementation.

To place the significance of the T-FTA into perspective in the context of emerging market benchmarks, the T-FTA will constitute an integrated market with a combined population of 600 million people (only China and India have larger populations), a total GDP of US$1t (which would put it on a par with Mexico and South Korea, the largest rapid-growth economies after the BRICs), and a long-term GDP growth rate in excess of 5%.

This initiative elevates the regional integration process to a new level and will be a massive step forward. The first phase of the negotiations focuses on trade in goods, addressing issues such as tariff liberalization, rules of origin, customs co-operations and non-tariff barriers, as well as the movement of business persons. These discussions are scheduled to be finalized within 36 months, with the intention being that the FTA is in effect from June 2014.

Proposed free trade area

Infrastructure: connecting the dots

While the T-FTA is a significant development both in terms of accelerating intra-African trade and investment and in creating a coherent regional bloc to compete with the BRICs, what will ultimately bring it to life is investment in infrastructure – both to connect markets and to generate enough electricity to support the development of manufacturing and other sectors.

A study conducted by the Africa Infrastructure Country Diagnostic (AICD) – a partnership of institutions including the African Union Commission, the African Development Bank, the Development Bank of Southern Africa, the Infrastructure Consortium for Africa, NEPAD and the World Bank – reveals that the continent's infrastructure lags behind other developing regions. When comparing low-income sub-Saharan African countries to other low-income countries, the gap is all too evident. This is particularly so in the density of paved roads, coverage of telephone landlines and power-generation capacity.

A comparison with South Asia – with a similar per capita income – is particularly striking. Whereas in 1970, sub-Saharan Africa had almost three times more electricity generating capacity per million people than South Asia, by 2000 South Asia had moved far ahead – and it now has almost twice the generating capacity per million people. Similarly, in terms of paved roads and telephone lines, Africa's stocks were once on a par with South Asia, but over time have also fallen behind.

Viewpoint

Mobilizing savings for infrastructure

Brian Molefe, CEO, Transnet

Africa requires spending of more than US$90b a year on its infrastructure but this investment is not going to be funded from external sources alone. Our own governments on the continent have to find a way of mobilizing our own savings so that we, as Africans, can make such investments.

Young Africans need to become more audacious

It is important to remember that infrastructure around the world has been led by governments. For example, the electrification of the United States was the result of President Roosevelt deciding that the country needed to be 100% electrified. Africa will have to follow a similar route. We are not going to be able to rely heavily on the private sector to deliver our infrastructure programmes – not even the traditional institutions. We are going to have to look to ourselves to deliver this.

Most African countries have a government pension fund and these have significant resources, some of which are invested overseas. We're going to have to think carefully about our own savings and leverage those – rather than wait for capital to arrive from overseas. Africans need to take their fate into their own hands.

Our biggest risk is pessimism. We have a host of challenges but I remain confident. We will be able to build infrastructure but to do that young Africans need to become more audacious: audacity, audacity, audacity.

Transnet recently announced a R300b (approximately US$40b) infrastructure investment program aimed at a major shift from road to rail transport, significant expansion of port and pipeline infrastructure and dramatic improvement in export capacity for coal and iron ore. About R200b of the funding will be from operating cash flow, with the balance of the capital requirement financed through bond issuances, commercial paper, bank loans and a combination of FDI, export credit agency capital and term notes.

Africa's infrastructure deficit

Normalized units	sub-Saharan Africa low-income countries	Other low-income countries	sub-Saharan Africa as percentage of other low-income countries
Paved-road density (km/1.000km2)	30	134	22%
Total road density (km/1.000km2)	137	211	65%
Main-line density (subscribers/1.000 people)	10	78	13%
Mobility density (subscribers/1.000 people)	55	76	72%
Internet density (subscribers/1.000 people)	2	3	67%
Generation capacity (MW per 1 million people)	37	326	11%
Electricity coverage (% of housholds with access)	16	41	39%
Improved water (% of housholds with access)	60	72	83%
Improved sanitation (% of housholds with access)	34	51	67%

Clearly some decisive and focused action is necessary not only to arrest the decline but to also dramatically close the infrastructure gap. Otherwise, any efforts at regional integration will do little to accelerate growth in trade and investment, either intra-Africa or with the rest of the world.

Source: Africa Infrastructure, A Time for Transformation; Africa Infrastructure Country Diagnostic (AICD) - The International Bank for Reconstruction and Development / The World Bank, 2010.

Funding infrastructure in Africa: how big is the gap?

In terms of funding requirements, the AICD estimates that an annual investment of US$93b would be required for the decade from 2010–20 to close the infrastructure gap with other developing regions. About two-thirds of this sum would be for construction and rehabilitation and one-third for maintenance. This covers a range of infrastructure needs, including power generation, transmission lines, road and rail networks, water and sanitation and broadband access and much else. This number represents just under 15% of the region's GDP and more than twice the amount that was originally estimated by the Commission for Africa in 2005.

How achievable is this? Consider first that the AICD report estimated that approximately US$45b was being spent annually in Africa on infrastructure. This is higher than was previously thought, but is only approximately half of what is actually required to close the gap. However, while this may appear daunting, relative to investments made in some key emerging markets, it does not seem insurmountable. For example, during the mid-2000s, China was spending approximately 14% of GDP on infrastructure investment, in 2007 Brazil launched a four-year, US$300b plan to modernize roads, ports and power plants, and India began implementing a plan a couple of years ago to spend US$500b on infrastructure over five years. And in this year's Budget Speech, South African Minister of Finance, Pravin Gordhan, announced a list of 43 major infrastructure projects with a combined value of R3.2t, approximately US$400b. Some R845m (over US$100b) of which has been budgeted for energy, transport and logistics projects over the next three years.

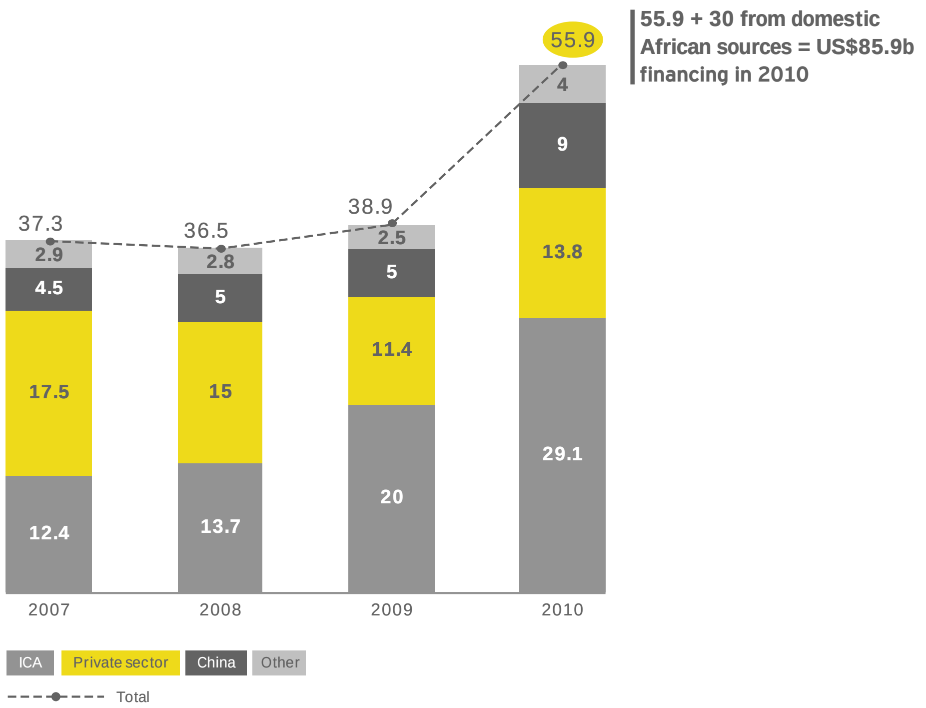
	Capital expenditure US$b, p.a. 2010-20	Operating expenditure US$b, p.a. 2010-20	Total US$b, p.a. 2010-20
ICT	7	2	9
Irrigation	2.9	0.6	3.4
Power	26.7	14.1	40.8
Transport	8.8	9.4	18.2
Water Supply and Sanitation	14.9	7	21.9
Total	**60.4**	**33**	**93.3**

Source: Africa Infrastructure, A Time for Transformation; Africa Infrastructure Country Diagnostic (AICD) - The International Bank for Reconstruction and Development / The World Bank, 2010.

What is immediately striking about the US$45b that the AICD identified is that US$30b of it comes from domestic sources, primarily – the African taxpayer. The remaining US$15b would be from external sources such as development institutions and private sector investors.

It is also important to note that there has been significant growth in external funding for African infrastructure projects since the data for the AICD report was collected. The most substantial increase has come from the Infrastructure Consortium for Africa (ICA), an initiative launched in 2005, whose members include the G8 countries and

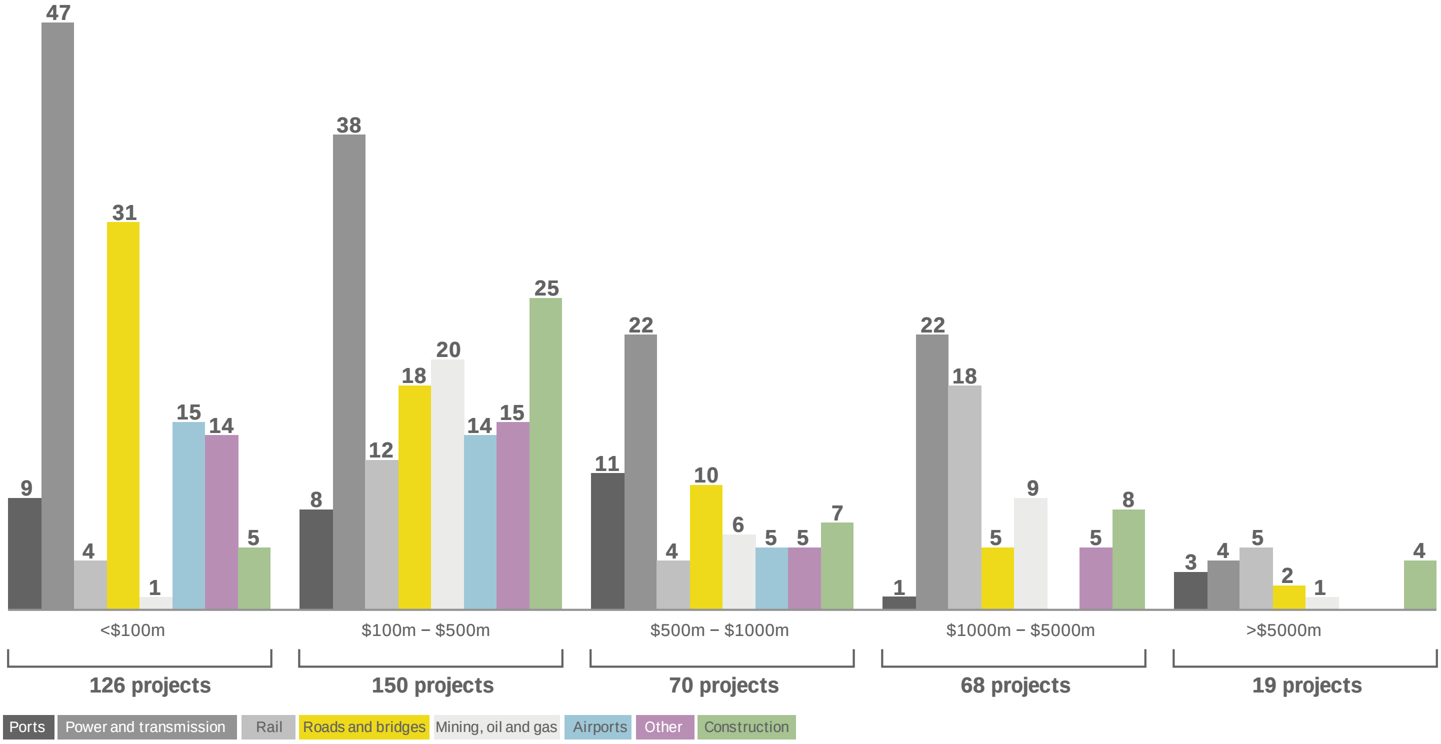
External support to African infrastructure



Source: Infrastructure Consortium for Africa (ICA) Annual Report 2010.

Infrastructure-related number of projects by value and sector – up to 2012

(US$ millions)



Sources: BMI, EIU, Nedbank, Web Search, Factiva Press Search, World Bank; EY Analysis.
"Construction" includes residential, commercial and industrial construction. "Other" includes Defence, Health, Education, Public Transport & Telecoms.
Projects that are in the "completed" or "cancelled" stages are not included. Projects for which the value is unknown are not included.

multilateral institutions such as the African Development Bank and the World Bank. The ICA is working to scale up investment for infrastructure development by coordinating the activities of its members and other significant sources of infrastructure finance, such as Arab, Chinese and Indian partners. This has resulted in considerable growth in infrastructure investment over the last few years – ICA investment alone has grown over 2.5 times since 2007 to almost US$30b in 2010.

When one also factors in the growth in Chinese infrastructure investment in Africa (which had grown to approximately US$9b a year by 2010), and makes the reasonable assumption that domestic financing has at least remained at the US$30b level, it is reasonable to conclude that in 2010 and 2011 we have been very close to the approximately US$90b required annually to close the infrastructure gap.

Viewpoint

Focusing on infrastructure

Sarah Dunn, Southern Africa Head, Department For International Development (DFID)

There is no doubt that one of the greatest factors of underdevelopment and a constraint to doing business in Africa is weak infrastructure.

At DFID we select which infrastructure programs to focus on and support. We look at what can truly be transformational, and our focus is on regional infrastructure. There are opportunities as a lot of extractive industries are set in landlocked areas. However, successful execution requires effective partnerships. We work closely with national governments and the regional economic communities, who identify and ultimately own the projects. We also need to work more cleverly with the private sector to maximise effectiveness of projects. Doing feasibility and preparation work is important in this context.

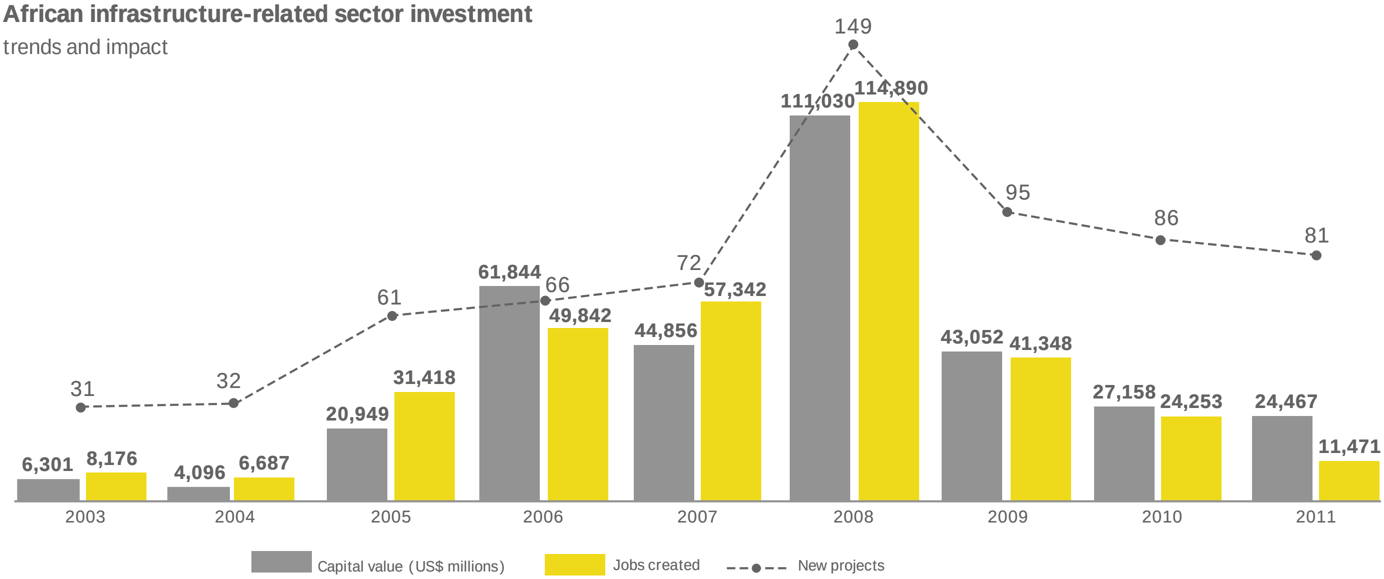
Successful execution requires effective partnerships

However, better infrastructure is not the only factor to sustained future growth. There are a range of other issues such as lifting the regulatory burden which also need to be focused on.

What about the private sector?

African infrastructure-related sector investment

trends and impact



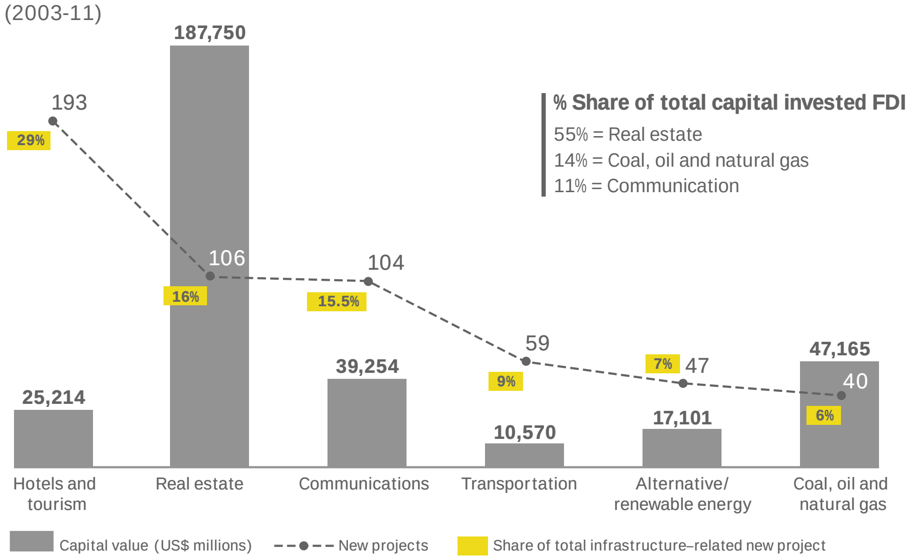
Source: fDi Intelligence, data as of 3 February 2012; Ernst & Young.

The only disappointing aspect of infrastructure investment patterns over the past few years has been the overall decline in private sector investment. More specifically, with regard to FDI, there has been a disappointing downward trend since the global financial crisis. Although, by our estimates, up to 40% of all FDI capital invested into the continent since 2003 has been into infrastructure-related projects, there has been a steep decline both in the number of projects and capital invested since 2008.

There are without a doubt several factors contributing to this performance, not least of which have been the global economic context and the ongoing European sovereign debt crisis. However, given the substantial and coordinated growth in ICA support, China's outlay, and African governments themselves making substantial infrastructure investments, there seem to be major under-tapped opportunities for the private sector in areas such as power generation, transport (e.g., ports, airports and toll road concessions), ICT and water treatment.

Infrastructure-related investment by top sector engagement

(2003-11)



Source: fDi Intelligence, data as of 3 February 2012; Ernst & Young.

Fostering productive government-business relationships

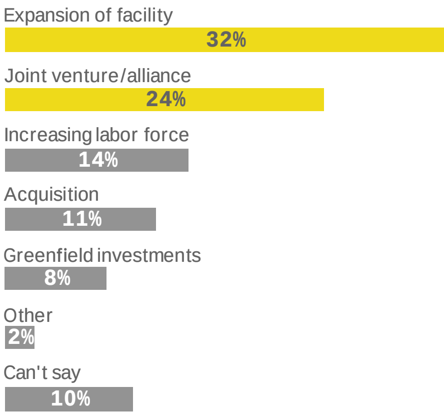
In order to increase the levels and efficacy of private investment in infrastructure, more African governments also need to prioritize the implementation of Public-Private Partnership (PPP) frameworks and teams that support mutually beneficial long-term relationships. More broadly, it is critical that relationships between business and government in Africa become more engaging and productive.

Our survey results and broader engagement with our multinational clients reveal a strong willingness to share equity with local African partners and a commitment to making a long-term difference to the economies and societies in which they operate.

Business, both local and international, must be viewed as a key partner in developing solutions to Africa's critical challenges and as a key driver of economic and social development. A vibrant private sector, with firms investing, creating jobs, paying taxes, developing new skills and transferring new technologies, is critical to promoting sustainable growth and opening up opportunities for all members of society.

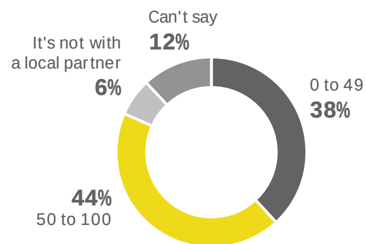
Many African governments are making good progress but there is still much scope to accelerate this process, and to ensure sustainable progress for all stakeholders.

How are you planning to invest?



Source: *Ernst & Young's 2012 Africa attractiveness survey*. Total respondents: 191.

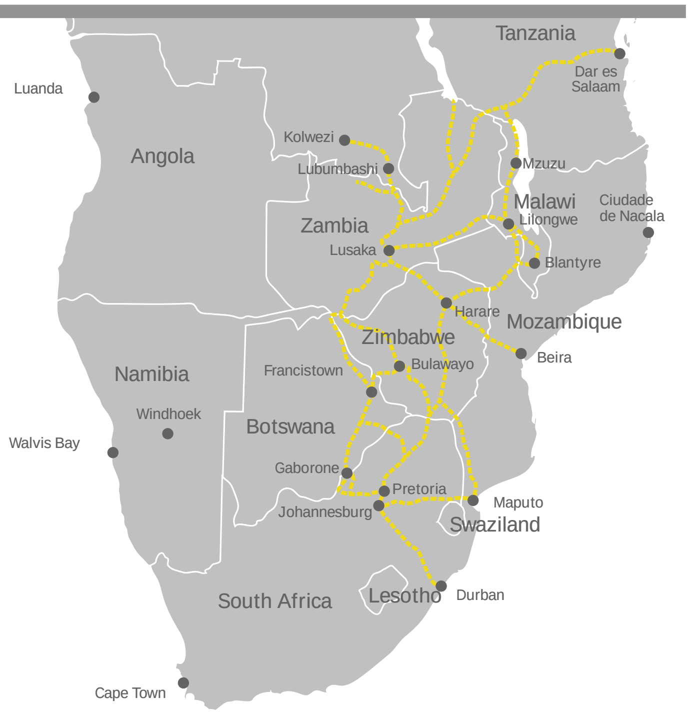
What is the maximum equity share you would be willing to sacrifice to your local partner?



Source: *Ernst & Young's 2012 Africa attractiveness survey*. Total respondents: 45.

Tripartite North-South Corridor

One notable initiative already launched under the Tripartite Arrangement is the Tripartite North-South Corridor Investment Program, a model "Aid for Trade" pilot program. With initial funding of US$1.2b (a large proportion coming from the African Development Bank and the Development Bank of Southern Africa), and strong support from the South African Government among others, actions are being taken to fast track this project. This program supports some of Africa's busiest trade routes: linking the port of Dar Es Salaam in Tanzania to the copper belt in Zambia and into Lubumbashi in the DRC, and then down through Zimbabwe and Botswana to Africa's largest and busiest port, Durban, in South Africa. In effect, the Corridor system, with its spurs, will service eight countries, Tanzania, the DRC, Zambia, Malawi, Botswana, Zimbabwe, Mozambique and South Africa. It is a significant step forward in physically connecting a critical mass of signatories of the T-FTA.



Africa's strengths and challenges for different categories of investors

A set of assumptions about Africa's strengths and challenges underpins these growth projections. Countries can position themselves more competitively, and help focus investment for optimal returns, if they understand these factors and work strategically within the framework of opportunities and constraints.

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

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

Viewpoint

The relationship between government and business

Elias Masilela, CEO, Public Investment Corporation, South Africa

The government needs the private sector to thrive and pay taxes, whilst on the other hand, the private sector looks to government to provide the right investment environment. This means that the relationship between government and business is imperative. In particular, from a South African perspective, the key priority is to make it stronger because there is currently not enough trust between the two entities. It does not make sense for business to sit on the sidelines and wait for government to generate policies that get fed down to them. They are part of the system and need to be part and parcel of the formulation of those policies. What we also know is the ability of business to maximise profit depends on the right environment to be in place.

The fundamental basis for this discussion is understanding where the role of government starts and where it ends, defining those goods and services that need to be produced by the state, those that need to be produced by the private sector, and avoid any overlaps which are an unnecessary cost of capital and time to the economy.

Another critical factor is the level of human skills available to government and private sector. I have observed that the level of professionalism in both sectors has been compromised because, as professionals, once we find ourselves on one side of the divide, the tendency is to be narrow in our thinking. When in government, we tend to be preoccupied with government policy to the extent of ignoring the inherent needs of the privates, which allow it to achieve what it exists for, namely, making profits,.

Working together to deliver a stronger economy will help bridge the differences that currently exist

Whereas, in the private sector we worry only about profit maximization, almost at all cost, to the detriment of the long term gains of the economy and with unfortunate disregard for policy. In the US and other economies, they have done very well with the application of the principle of revolving doors. Many people in the private sector, who have been very successful, yearn to go into government because they know that they can contribute to changing the environment in which they live.

In South Africa this principle does not yet exist. To most professionals, the two sectors are seen as vastly different worlds, that have nothing in common. To the contrary, the two sectors should have complementing objectives, processes and characteristics.

The private sector perceives inefficiencies in the state, and government gets frustrated with what it perceives to be tendencies of the private sector to focus purely on the short term profit motive and not on the long term sustainable needs of the country's production process. These polar positions need to be brought together through genuine, open and frank engagement, particularly around the mutual priority of the country's delicate economy. Working together to deliver a stronger economy will help bridge the differences that currently exist.

Africa's strengths and challenges

In terms of each of these factors, Africa has strengths and challenges, which are summarized in the tables below:

African FDI	Strengths	Challenges
Resource seeking	▸ **Well endowed with natural resources** Nigeria and Angola are in the top 20 oil producers in the world. Indeed African countries make up eleven out of the top fifty countries in terms of proven oil reserves, South Africa, Ghana and Tanzania are in the top twenty gold producers and Zambia and DR Congo are in the top twenty copper producers. ▸ **Large labor force** The working age population is forecast to grow much faster in Africa over the next ten years than in emerging Asia or in Latin America. ▸ **Very competitive cost base** Unit labor costs are expected to remain low in the next ten years. Higher wage inflation in China and India will open up opportunities for other emerging markets in Africa as low-cost producers.	▸ **Low education levels** In the majority of sub-Saharan African countries, education levels are low but improving. Examples from Latin America and Asia show that vast progress toward 100% secondary education can be made within 25 years. ▸ **Ensuring FDI benefits the community** Often when a country grows fast, inequality also grows and the African countries must ensure that FDI agreements benefit communities.
Market seeking	▸ **Large consumer market for certain products and services** e.g. mobile phones and financial services. In Angola, Senegal, Nigeria and Tanzania at least half the population have a mobile phone, up from barely any a decade ago. This number will continue to rise very fast. ▸ **The tourism market is potentially very large** Tourism already accounts for more than 20% of export revenues in many African countries, including Ethiopia, Egypt and Tanzania, and many countries have large potential to exploit with appropriate investment.	▸ **Market size** The majority of economies in Africa are very small relative to countries in other regions of the world and the sub-Saharan market is very fragmented. ▸ **GDP per capita** Many of the high-growth sub-Saharan African countries such as Ghana, Nigeria and Ethiopia still have very low per capita incomes compared to emerging countries in other regions, despite enjoying fast growth in recent years. This is partly due to high inequality in many countries. ▸ **Raising consumer spending** Though the consumer base in Africa is large, current incomes are low and this will limit the market size for sales of consumer products initially but the potential for growth in consumption remains substantial.
Efficiency seeking	▸ **Proximity and historical/cultural/linguistic links to the EU** In 2011, more than 50% of exports from Cameroon, Morocco, Mozambique and Tunisia went to the Eurozone. North Africa has particularly good proximity and trading links with Europe. By 2020, Europe's exports to Africa and the Middle East will be around 50% larger than its exports to the US. ▸ **Straddles time zones across Asia, US, EU** Africa shares part of its working day with Asia, the US and the EU.	▸ **Infrastructure** Transport and telecommunications frameworks are underdeveloped relative to other emerging regions such as Asia and Latin America. But this has been improving and will continue to do so. ▸ **Ease of doing business** Many countries in sub-Saharan Africa rank lower than emerging Asia and Latin America in the World Bank's Doing Business Index. However, the survey revealed that 36 of 46 governments improved their economy's regulatory environment for domestic businesses in 2010-11—a record number since 2005.
Strategic motives	▸ **Growth potential** Africa is forecast to grow significantly faster than the world average over the next five years.	▸ **Political stability-Democracy** In the near term, establishing political stability is a key concern for the Middle East and North Africa. In the medium and longer term, strengthening the foundations of democracy and improving the environment for business, should help to boost potential growth in a number of sub-Saharan African countries.

Source: Oxford Economics.

The FDI outlook for selected African countries

Source: Oxford Economics.

Angola

Angola is one of the leading destinations for FDI capital in Africa, attracting more than more than US$58b between 2003 and 2011. Over 80% of this FDI has been in oil, and Angola's substantial oil and mineral reserves will continue to be the main attraction for investors over the next five years.

However, the country's growing middle class will also be attractive to investors looking for new markets, and investment into sectors such as communications, construction and real estate are likely to grow too.

Key challenges remain weak infrastructure and high perceived levels of corruption, and these will hinder efforts to increase FDI to a wider range of sectors.

As a result, most FDI in Angola will be focused on the natural resource sectors for the foreseeable future.

FDI inflows to Angola are forecast to average USUS$7.6b p.a. over the next five years, with approximately 30,000 new jobs created as a result.

Cameroon

FDI capital from 2003-11 has amounted to US$15.5b, with the main focus on resources (about 50% on fossil fuels and about 30% metals).

Cameroon's oil reserves will continue to attract investors over the next five years, although maturing oil fields may limit investments in the sector beyond that (barring new discoveries).

The country's relatively high levels of human capital and cheap labor force should also draw investors. In fact, in 2011, a large project worth almost US$2b was announced in the food and beverage sector. This investment, which should create 3,000 new jobs, is the first significant investment in this sector, and could mark a shift toward more diversified investment activity.

Overall though, Cameroon is expected to receive a relatively small amount of FDI over the next five years, averaging about US$1b p.a., with approximately 8,000 new jobs created as a result.

Democratic Republic of Congo (DRC)

The DRC's oil and mineral reserves will continue to be the main attraction for foreign investors, as demand in the developed world rise and capacity constraints are met in other producers.

However, low human capital, high bureaucracy and an unstable political situation, with the possibility of renewed conflict in the eastern provinces, is likely to limit FDI to non-resource sectors of the economy.

FDI inflows to the DRC are forecast to average US$1.1b p.a. over the next five years, with approximately 13,000 new jobs created as a result.

Egypt

Political tensions have lowered the outlook for FDI in the short-term but once this uncertainty is resolved, the potential for structural reforms to improve the economy should provide a boost to growth and pay dividends in terms of higher FDI.

Recent government reforms to bureaucracy have improved the institutional environment but these reforms have faltered amid the political uncertainty.

Although oil output is expected to fall as reserves mature and run dry, the fossil fuels sector is still expected to attract investors over the next five years.

Positive factors for investors are Egypt's large, relatively well-educated population, sizeable domestic market and proximity to Europe.

FDI inflows to Egypt are forecast to average about US$4.6b p.a. over the next five years, with approximately 40,000 new jobs created as a result. However, the downside risks to this forecast will remain high in the near-term until there is greater political resolution.

Ethiopia

Ethiopia has the second largest population in Africa (and the 14th largest in the world), and has consistently been one of the fastest growing economies in the world for over a decade. Although the large majority of the population remain poor, the potential that exists in the market is attracting investor interest.

However, in the medium term, it is gold, recently found natural gas reserves, and the possibility of oil in the Rift basin that will attract the bulk of investment.

FDI inflows to Ethiopia are forecast to average about US$1.2b p.a. over the next five years, with approximately 11,000 new jobs created as a result.

Ghana

Relative to its African counterparts, Ghana has a sizable resource endowment; the country has plenty of mineral, gas and oil reserves. We expect continued investment in the oil and gas industries, contributing to the majority of FDI flows.

Increasing oil revenues should indirectly boost other sectors. This is particularly true of infrastructure, although if managed correctly, it could also help fund improvements in sectors such as healthcare and education.

Ghana benefits from a stable political environment, with democracy well established and adhered to.

However, Ghana needs to continue to invest in infrastructure, human capital and healthcare to attract more diversified FDI projects.

FDI inflows to Ghana are forecast to average about US$5b p.a. over the next five years, with approximately 45,000 new jobs created as a result.

▸ Kenya

Historically, Kenya lacks the natural resource base that makes many other African economies attractive, but the recent discovery of oil in the north-western Turkana region by Tullow may change that.

Kenya does have a relatively well educated labor market, a rapidly growing consumer base, and is a strategic trading hub in East Africa.

The diverse population of over 40 different tribes has resulted in a relatively unstable political system, although recent changes to the constitution should reduce the potential for civil unrest.

Although FDI flows into Kenya have been relatively low, much of the investment that is made has gone into labor-intensive industries such as the communications sector.

FDI inflows to Kenya are forecast to average about US$1.3b p.a. over the next five years (although significant oil discoveries will change this dramatically), with approximately 16,000 new jobs created as a result.

▸ Mauritius

Mauritius is politically stable, has a well-developed infrastructure network, a highly educated workforce, a comparatively high level of income, tax friendly policies and low levels of bureaucracy, all of which are attractive to investors.

Mauritius is also not only the highest ranked African country on the World Bank's Doing Business rankings, but is also ahead of the likes of Switzerland, Belgium, France, the Netherlands and Austria.

On the downside, Mauritius is an island nation, with limited natural resources and a small population of about 1.3 million. FDI during the 2003–11 period has therefore only amounted to US$4.4b; not insignificant, particularly given the market size, but not one of the major players in this sense in Africa.

Looking forward over the next five years, Mauritius is expected to receive only modest amounts of FDI. Larger opportunities elsewhere, in particular in countries with high natural resource endowments will be more attractive to investors.

FDI inflows to Mauritius are forecast to average about US$290m p.a. over the next five years, with approximately 4,300 new jobs created as a result (the relatively high proportion of new jobs being because of the focus on the service sector).

▸ Morocco

Morocco's oil reserves provide some pull for investors, but it's well educated, relatively cheap labor force is arguably its best resource.

Coupled with this the country's proximity to Europe and recently-signed trade agreements with the EU make it an attractive location for multinationals looking to service the EU market.

These attractions are underpinned by good governance and sound macroeconomic policies, and good progress has been made in improving the environment for doing business.

Since 2003, investment into Morocco has been relatively diverse, with the main sectors for FDI being real estate, oil and gas, and tourism (together accounting for 64% of the total).

FDI inflows to Morocco are forecast to average about US$5b p.a. over the next five years, with approximately 75,000 new jobs created as a result.

Mozambique

After emerging from two decade of civil war, Mozambique has consistently been one of the fastest growing economies in the world for longer than ten years. Significant improvements are being made to the education system and the country's infrastructure, albeit from a low base.

Mozambique's key attraction for investors is resources such as coal, iron ore, and, in particular, natural gas, reserves of which already stand at over 127b cubic meters. From 2003-11, more than 2/3rds of FDI went into extractive activities.

FDI inflows to Mozambique are forecast to average about US$1.4b p.a. over the next five years, with approximately 8,000 new jobs created as a result.

Nigeria

Nigeria has been the largest recipient of FDI in Africa over the last decade, with announcements totaling almost USUS$116b in 2003-11 (around 9.0% of GDP). 80% of that FDI has been in the oil and gas sector. Nigeria's substantial oil reserves will continue to attract funds over the medium term, and we expect the bulk of FDI to be concentrated here.

However, the large domestic market and diversifying economy is creating opportunities for FDI in other sectors such as communications, financial services, real estate and tourism will provide plenty of opportunities. There is also a large and relatively cheap labor force to draw on.

Nigeria has made significant improvements to its secondary school enrolment but there is still potential to do more. Weak infrastructure and relatively high corruption will limit some of its growth potential.

In addition, political risk factors relating to recent terrorist activity and the potential for civil unrest between the Muslim north and Christian south, will serve as an impediment to some investors.

However, Nigeria is making great strides in many areas, with notable reform initiatives undertaken, in the financial sector for example, and tight fiscal and monetary management of the economy.

FDI inflows to Nigeria are forecast to average about US$23b p.a. over the next five years, with approximately 95,000 new jobs created as a result.

Rwanda

Relative to many of its African counterparts, Rwanda's resource endowment is poor; the country has no significant natural resource endowment, and its labor force is small and relatively poorly educated.

However, offsetting these negatives is Rwanda's institutional environment. The government has actively tackled corruption in recent years, and the business environment is extremely friendly. Rwanda has been among the fastest reforming countries in the world, and is not only the 3rd highest ranked African country on the World Bank Doing Business rankings, but is also in the top quartile of countries globally.

FDI inflows to Rwanda are forecast to average about US$450m p.a. over the next five years, with approximately 1,300 new jobs created as a result.

Senegal

Relative to many of its African counterparts, Senegal has a sizable resource endowment. We expect continued investment in mineral extraction to form the bulk of Senegal's FDI flows.

Senegal also benefits from a robust democratic system of government, as witnessed in the recent peaceful transfer of presidential power. A range of economic reforms have also fostered a stable macroeconomic climate.

Further improvements could be made in terms of healthcare, education and the business environment.

FDI inflows to Senegal are forecast to average about US$1.4b p.a. over the next five years, with approximately 15,000 new jobs created as a result.

South Africa

South Africa (SA) is Africa's largest economy, it has a sizable domestic market with growing levels of disposable income, a comparatively well-educated labor force, and an institutional environment that is conducive toward business.

SA's substantial resource endowment has meant that South Africa has been a popular destination for FDI for a number of decades. This trend has continued over the period 2003-11, although FDI capital inflows have been lower than those going into oil rich countries like Nigeria and Angola.

This trend partly reflects SA's own wealth and capital investing capacity, but also the changing and increasingly diversified nature of the SA economy, with the service sectors now contributing more than 65% to GDP.

This diversification is reflected in the makeup of FDI flows, much of which is now directed toward (generally less capital intensive) manufacturing and services. As a result, SA is the leading FDI destination in Africa in terms of project numbers.

FDI inflows to South Africa are forecast to average about US$10b p.a. over the next five years, with approximately 125,000 new jobs created as a result.

Tanzania

Tanzania is forecast to be one of the fastest growing economies in the world over the next five years, has a relatively well educated labor force, and is politically stable. As a result it is attracting increasing investor attention.

Over the period 2003-2011, Tanzania has attracted US$13.2b of FDI, with the bulk going into resources (Tanzania has fairly sizable gold reserves), but with communications and alternative/renewable energy also attracting substantial FDI.

FDI inflows to Tanzania over the next five years are forecast to average about US$2.2b p.a., with approximately 28,000 new jobs created as a result.

Tunisia

Until the eruption of political instability at the end of 2010, Tunisia had experienced political and economic stability over the past 20 years, building one of the largest middle class populations in the region and successfully diversifying the economy away from over-reliance on agriculture. Foreign investment has been substantial, amounting to US$63.3b between 2003-11.

Although Tunisia's oil reserves are modest around 308m barrels), global capacity constraints mean they will continue to attract investors. Since 2003, however, the bulk of FDI focus has been in the real estate sector, accounting for almost 60% of total capital investment.

A potentially attractive resource at the country's disposal is its highly skilled labor, especially when it is coupled with Tunisia's proximity to the EU market. And although the domestic market is small, the country's well-established infrastructure network, good economic governance and business environment conducive to business make it an attractive location for multinationals.

The uncertain political situation is likely to dampen inflows in the short term, and it will take time for investment levels to recover. FDI inflows to Tunisia are forecast to average US$1.9b p.a. over the next five years, with approximately 17,000 new jobs being created as a result. This forecast is however highly dependent upon a path of continued economic and social reform by the new government.

Uganda

FDI announcements for Uganda totaled US$17.4b in capital investment between 2003 and 2011.

Looking forward, Uganda's substantial mineral resources and the recent discovery of oil will attract significant amounts of investment over the medium term. And the country's relatively well-educated labor force, low levels of bureaucracy and diversified economy will attract funds into service sectors like communications and financial services as well.

Some challenges for FDI are the relatively weak infrastructure network, the country's small domestic market and the possibility of rising political tensions.

FDI inflows to Uganda are forecast to average about US$1.7b p.a. over the next five years, with approximately 11,000 new jobs created as a result.

Zambia

Zambia is another African economy forecast to be one of the fastest growing in the world over the next five years. It has a robust democracy (with a peaceful transfer of power in last year's election) and also offers one of the more business friendly environments in Africa (ranking ahead of all the BRIC economies too on the World Bank's Doing Business rankings).

Investment into Zambia is still dominated by copper, and the copper mines will continue to attract investors over the next five years, with global demand expected to keep prices high for the foreseeable future.

Outside of the minerals sector prospects for FDI are more limited, although given the positives mentioned above, multinationals are already being attracted into other parts of the economy.

FDI inflows to Zambia over the next five years are forecast to average about US$1.9b p.a., with approximately 27,000 new jobs created as a result.

Top5 country investors of new FDI projects (2003-11)	Top 5 country investors of new projects by job created (2003-11)	Top5 sectors of new FDI projects (2003-11)	Relative % sector contribution to project total
Angola			
Portugal	**United States**	**Financial services**	42,6%
United States	**Portugal**	**Coal, oil and natural gas**	8,9%
UK	**Germany**	**Business services**	6,0%
Spain	**China**	**Beverages**	6,0%
South Africa	**UK**	**Transportation**	5,0%
Cameroon			
United States	**United States**	**Metals**	28,6%
South Korea	**Canada**	**Coal, oil and natural gas**	25,0%
France	**Australia**	**Communications**	7,1%
UK	**India**	**Building & Construction Materials**	7,1%
Nigeria	**France**	**Financial services**	7,1%
DRC			
Australia	**Canada**	**Metals**	44,3%
Canada	**Australia**	**Financial services**	14,3%
UK	**United States**	**Coal, oil and natural gas**	5,7%
South Africa	**UAE**	**Minerals**	5,7%
Nigeria	**UK**	**Beverages**	4,3%
Egypt			
United States	**UAE**	**Financial services**	15,3%
UAE	**Kuwait**	**Coal, oil and natural gas**	9,8%
France	**United States**	**Software and IT services**	7,3%
UK	**Saudi Arabia**	**Textiles**	6,7%
India	**India**	**Food and tobacco**	6,4%
Ethiopia			
India	**UAE**	**Financial services**	12,7%
China	**China**	**Food and tobacco**	12,7%
United States	**Turkey**	**Textiles**	11,1%
UAE	**India**	**Automotive OEM**	9,5%
Malaysia	**Germany**	**Beverages**	6,3%
Ghana			
United States	**United States**	**Financial services**	21,9%
Nigeria	**UK**	**Metals**	16,3%
UK	**India**	**Communications**	10,1%
South Africa	**Canada**	**Business services**	9,0%
India	**Australia**	**Food and tobacco**	6,7%
Kenya			
United States	**India**	**Communications**	16,9%
India	**UK**	**Financial services**	15,0%
UK	**United States**	**Software and IT services**	8,7%
South Africa	**China**	**Business services**	5,8%
Japan	**Spain**	**Consumer Electronics**	5,8%
Mauritius			
India	**United States**	**Financial services**	19,6%
France	**India**	**Business services**	16,1%
United States	**France**	**Software and IT services**	12,5%
UK	**South Africa**	**Hotels and tourism**	10,7%
South Africa	**UK**	**Real Estate**	5,4%
Morocco			
France	**France**	**Business services**	12,1%
Spain	**Spain**	**Hotels and tourism**	10,6%
United States	**UAE**	**Textiles**	7,6%
UAE	**United States**	**Software and IT services**	7,4%
UK	**Japan**	**Real Estate**	7,3%

Top5 country investors of new FDI projects (2003-11)	Top 5 country investors of new projects by job created (2003-11)	Top5 sectors of new FDI projects (2003-11)	Relative % sector contribution to project total
Mozambique			
South Africa	**Portugal**	**Coal, oil and natural gas**	22,9%
Portugal	**India**	**Metals**	11,5%
UK	**United States**	**Food and tobacco**	11,5%
India	**South Africa**	**Building & Construction Materials**	6,3%
Brazil	**UK**	**Financial services**	6,3%
Nigeria			
United States	**United States**	**Coal, oil and natural gas**	18,2%
UK	**Malaysia**	**Financial services**	9,4%
South Africa	**India**	**Communications**	9,1%
India	**UK**	**Business services**	8,5%
France	**South Africa**	**Food and tobacco**	6,8%
Rwanda			
Kenya	**Kenya**	**Financial services**	44,9%
Nigeria	**UAE**	**Communications**	11,6%
Uganda	**Mauritius**	**Hotels and tourism**	5,8%
United States	**India**	**Software and IT services**	4,3%
India	**United States**	**Coal, oil and natural gas**	4,3%
Senegal			
France	**UAE**	**Software and IT services**	15,1%
United States	**Luxembourg**	**Automotive OEM**	9,4%
UAE	**South Africa**	**Metals**	9,4%
UK	**Iran**	**Business services**	7,5%
Luxembourg	**China**	**Hotels and tourism**	7,5%
South Africa			
United States	**UK**	**Software and IT services**	12,3%
UK	**United States**	**Financial services**	10,2%
Germany	**Germany**	**Business services**	8,3%
India	**Australia**	**Automotive OEM**	7,3%
Australia	**Switzerland**	**Metals**	7,0%
Tanzania			
UK	**Canada**	**Financial services**	28,1%
India	**UK**	**Metals**	10,2%
Kenya	**Australia**	**Communications**	9,4%
South Africa	**South Africa**	**Beverages**	6,3%
Canada	**India**	**Coal, oil and natural gas**	5,5%
Tunisia			
France	**France**	**Software and IT services**	9,8%
Italy	**UAE**	**Textiles**	8,5%
Germany	**Japan**	**Business services**	8,2%
United States	**Italy**	**Coal, oil and natural gas**	7,9%
UAE	**Bahrain**	**Electronic Components**	7,9%
Uganda			
Kenya	**UK**	**Financial services**	29,1%
UK	**Kenya**	**Communications**	13,4%
South Africa	**South Africa**	**Food and tobacco**	10,4%
India	**United States**	**Coal, oil and natural gas**	9,7%
UAE	**Germany**	**Business services**	5,2%
Zambia			
South Africa	**Canada**	**Metals**	35,3%
China	**China**	**Financial services**	15,1%
India	**UK**	**Communications**	5,9%
Canada	**South Africa**	**Chemicals**	5,9%
UK	**India**	**Food and tobacco**	5,9%

Conclusion

Why we are positive about Africa's future

We are excited and confident about Africa. There are no doubt those that will accuse us of unbridled optimism; pointing to the very real challenges that still remain. Yes, we are optimists, but we are realistic optimists — our perspective is deliberately a half full glass rather than a half empty one. This is partly a response to the Afro-pessimism that has been dominant for too long, but mainly because we believe that it takes a positive mindset to succeed in Africa. If you set out expecting difficulty and risk, you will find it.

However, ours is not a point of view informed by anecdotes and wishful thinking — the facts speak for themselves:

1. Levels of FDI, a critical driver of growth and development, are increasing.

The number of FDI projects into Africa has grown at a compound rate of almost 20% since 2007 and increased 153% in absolute terms since 2003. Between 2010 and 2011, the year-on-year growth was 27%, and FDI project numbers are now almost back to the peak experienced in 2008, just prior to the global financial crisis.

2. Although a perception gap remains, there is a compelling growth story to tell.

The story of Africa since the end of the Cold War is one of sustained and sustainable economic growth. The continent's overall economic output will have grown more than fourfold between 2000 and 2015, with the majority of the fastest growing economies in the world over that period being African.

3. Africans are taking ownership of their own future.

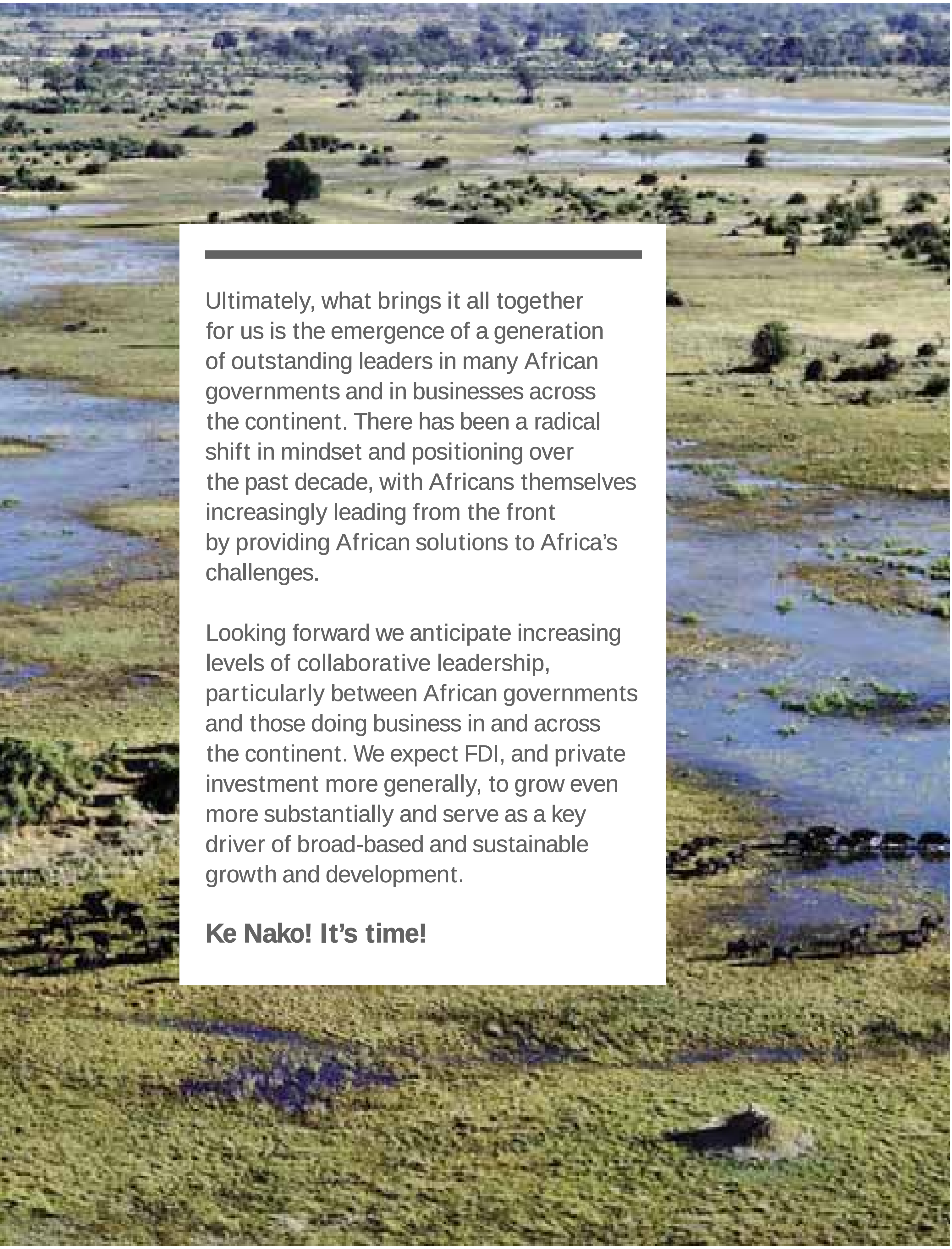
African leadership is illustrated not only by the perception survey we conducted, which reflects ever increasing confidence and optimism among Africans, but also by the rapidly increasing levels of intra-African investment. In the period between 2003 and 2011, there has been 23% compound growth in intra-African investment into new FDI projects (437% growth in absolute terms), with the compound growth rate accelerating at 42% since 2007.

4. The regional integration agenda is being prioritized.

While we would like to see even greater urgency and acceleration, there is no doubt that the regional integration is being pushed hard by the AU and that several of the RECs are making good progress. The tripartite FTA represents a potential paradigm shift for Africa, and has the potential to create a market with the potential to rival the BRIC economies.

5. Substantial investment is already being made in infrastructure.

While the infrastructure deficit remains a very real challenge, investment into key projects across the continent has accelerated significantly over the past few years. In 2010, there was an estimated US$85b in funding for infrastructure, close to the US$90b required to bridge the infrastructure gap. This year the South African government alone announced an infrastructure program in excess of US$400b.



Ultimately, what brings it all together for us is the emergence of a generation of outstanding leaders in many African governments and in businesses across the continent. There has been a radical shift in mindset and positioning over the past decade, with Africans themselves increasingly leading from the front by providing African solutions to Africa's challenges.

Looking forward we anticipate increasing levels of collaborative leadership, particularly between African governments and those doing business in and across the continent. We expect FDI, and private investment more generally, to grow even more substantially and serve as a key driver of broad-based and sustainable growth and development.

Ke Nako! It's time!

Methodology

1 The attractiveness of Africa for foreign investors

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

While general FDI data is widely available, many analysts are more interested in evaluating the number of projects in physical assets, such as plant and equipment, in a foreign country. These figures, rarely recorded by institutional sources, provide invaluable insights as to how inward investment projects are undertaken, in which activities, by whom and, of course, where. To map these real investments carried out in Africa, Ernst & Young used data from fDi Markets. This is the only online database tracking cross-border greenfield investments covering all sectors and countries worldwide. It provides real-time monitoring of investment projects and jobs creation with powerful tools to track and profile companies investing overseas.

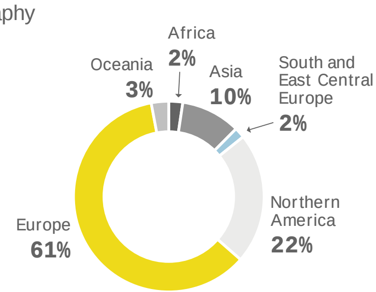
2 The perceptions and outlook of Africa and its competitors by foreign investors

We define the attractiveness of a location as a combination of image, investors' confidence and the perception of a country or area's ability to provide the most competitive benefits for FDI.

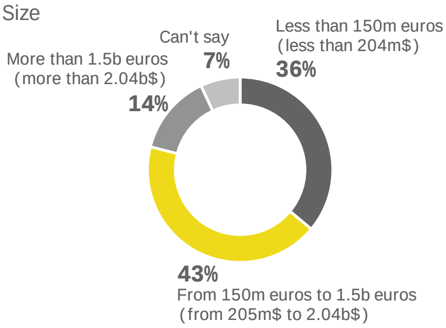
The field research was conducted by CSA Institute in January 2012, via telephone interviews, based on a representative panel of 505 international decision-makers. The companies with international development were identified based on Duns & Bradstreet company tree which is one of the world's leading and longest-established business information company. Finally, this information has been verified through individual company websites.

Profile of companies surveyed

Geography



Size



Profile of companies surveyed: job title

Profile of companies surveyed: sector respondents

Sector	Respondents
Private and business services	22%
Retail and consumer products	18%
Real estate and construction	7%
High-tech and telecommunication	11%
Raw material	11%
Transportation and automotive	10%
Life science	8%
Energy and heavy industry	7%
Agriculture	2%
Cleantech	1%
Private equity	1%
Total	**100%**

Ernst & Young in Africa

Our footprint

Although the risks in investing in Africa may appear high, risk can be managed, and the rewards can be great. That is why we are investing in growing our integrated Africa presence and capacity to serve our clients who are also investing in and across the continent. We now enjoy an integrated representation in 32 countries across Africa, described in the media as "one of the biggest changes in the accounting profession in more than 100 years."

Today, we are able to navigate successfully through the complexity that our clients are experiencing across the geographies and the diversity of market sizes and sophistication. We do this through our Africa Business Center™: its sole purpose is to assist clients in making their investment and expansion decisions in Africa.

Our Africa integration benefits our clients through:

- Consistent quality standards everywhere
- A "single point of contact" service
- The best Ernst & Young resource irrespective of country location

Africa Business Center™

Helping companies navigate the opportunities and challenges of doing business across the African continent.

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

To further support our activity on the continent and in strategy co-development with businesses, **the Growing Beyond Borders™ software** is an Ernst & Young developed and owned software that visually maps data through the lens of the world's geography, in a highly intuitive manner. It helps to navigate the challenges and opportunities in doing business accross the globe.

Publicly available data, as well as our own surveys are depicted in heat maps, competitive footprint views and comparison tables across the map, to help companies make business decisions and grow beyond their current borders.

▸ **http://www.ey.com/ZA/en/Issues/Business-environment/Africa_Business_Center_2011**

Strategic Growth Forum — Africa

Ernst & Young's first Strategic Growth Forum (SGF) in Africa, held in March this year, attracted more than 300 attendees including CEOs, leading entrepreneurs, investors and government officials all with a passion for unlocking value in Africa to ensure she achieves her potential.

A clear theme and strong message running throughout the forum was that there is a new story emerging about Africa; a story of growth, progress, potential and profitability.

We heard that 7 of the 10 fastest growing economies in the world over the next 5 years will be African; we heard of the successes and optimism of a range of business leaders from Ecobank, Diageo, DHL, Standard Bank, Tullow Oil, Ford, Chevron, BAT, Equity Bank, Engen, Notore, Educomp, IBM, Transnet, among various others; we heard from leaders in government about concrete steps being taken to create environments conducive to investment and doing business.

▸ **Read more: http://www.ey.com/ZA/en/Services/Strategic-Growth-Markets/Strategic-Growth-Forum---Unlocking-value-to-grow-beyond-the-possible**

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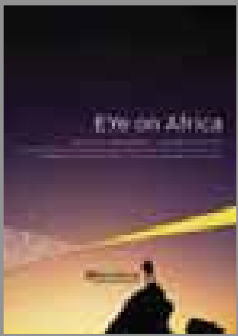
Publications

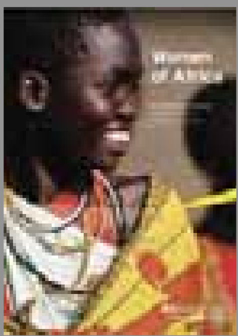


Eye on Africa

Issued quarterly focusing on issues relating to doing business across the continent, taxation, investment climate and people.

Africa mining investment environment survey

This report compares 13 mining African countries in terms of their growth potential and investment environment.

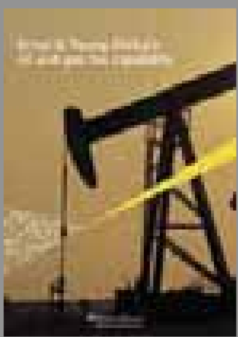


Women of Africa

Women make up just over 50% of Africa's growing population and their under-representation in social, political and economic spheres must be addressed if Africa is to leverage fully its promise and potential. We need to harness the power of Africa's women to drive economic growth and social development in Africa.

Private equity roundup – Africa

PE roundup is a series focusing on private equity activity in emerging markets.



Africa Oil & Gas: A continent on the move

Africa oil and gas: a continent on the move. Oil and natural gas development will continue to play a vital role in Africa as many African economies are resource dependent.

Ernst & Young's Rapid-Growth Markets Forecast

2012 makes clear that a new global economic order is emerging

Spring edition, April 2012

As emerging markets produce a vast new consumer class and manufacturing moves to new production centers, the patterns of global trade are being redrawn. Africa is well placed to benefit from this transformation. FDI can be a catalyst for accelerated growth and development, but Africa is currently only attracting 5% of global FDI projects. By convincing skeptical investors, integrating its economy and developing its infrastructure, Africa can close the gap between potential and reality.

Ernst & Young

Assurance | Tax | Transactions | Advisory

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This report has been produced in collaboration with Oxford Economics, one of the world's leading providers of economic analysis, advice and models.

Growing Beyond

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