

Turning tides

EY Attractiveness
Program

Africa

October 2018



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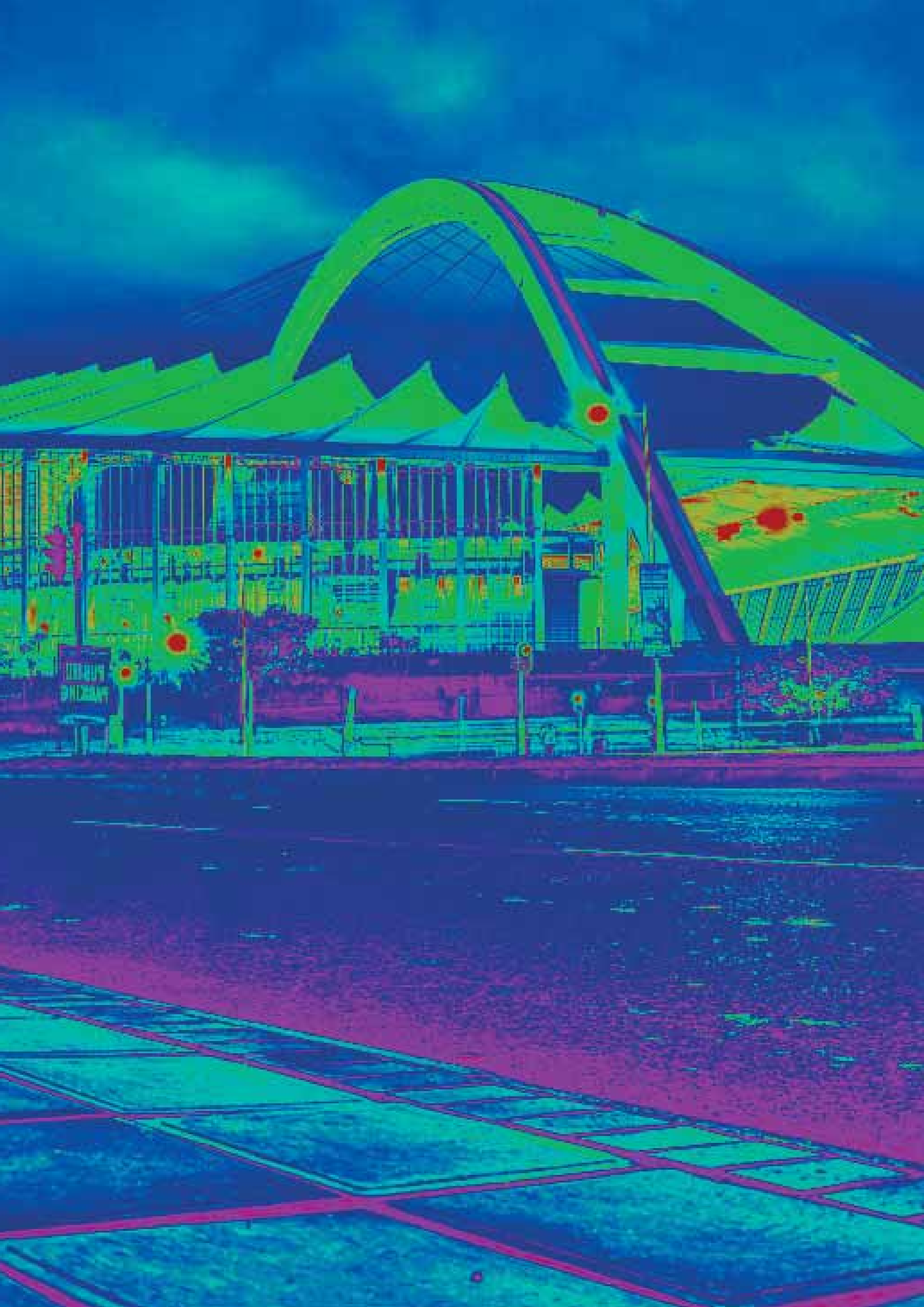
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Turning tides

Ajen Sita

EY Africa
Chief Executive Officer



Welcome to the eighth edition of the annual *Africa Attractiveness* report. Undoubtedly, 2017 was another challenging year for the African continent, but at the same time, it also proved to be one of renewed prospects.

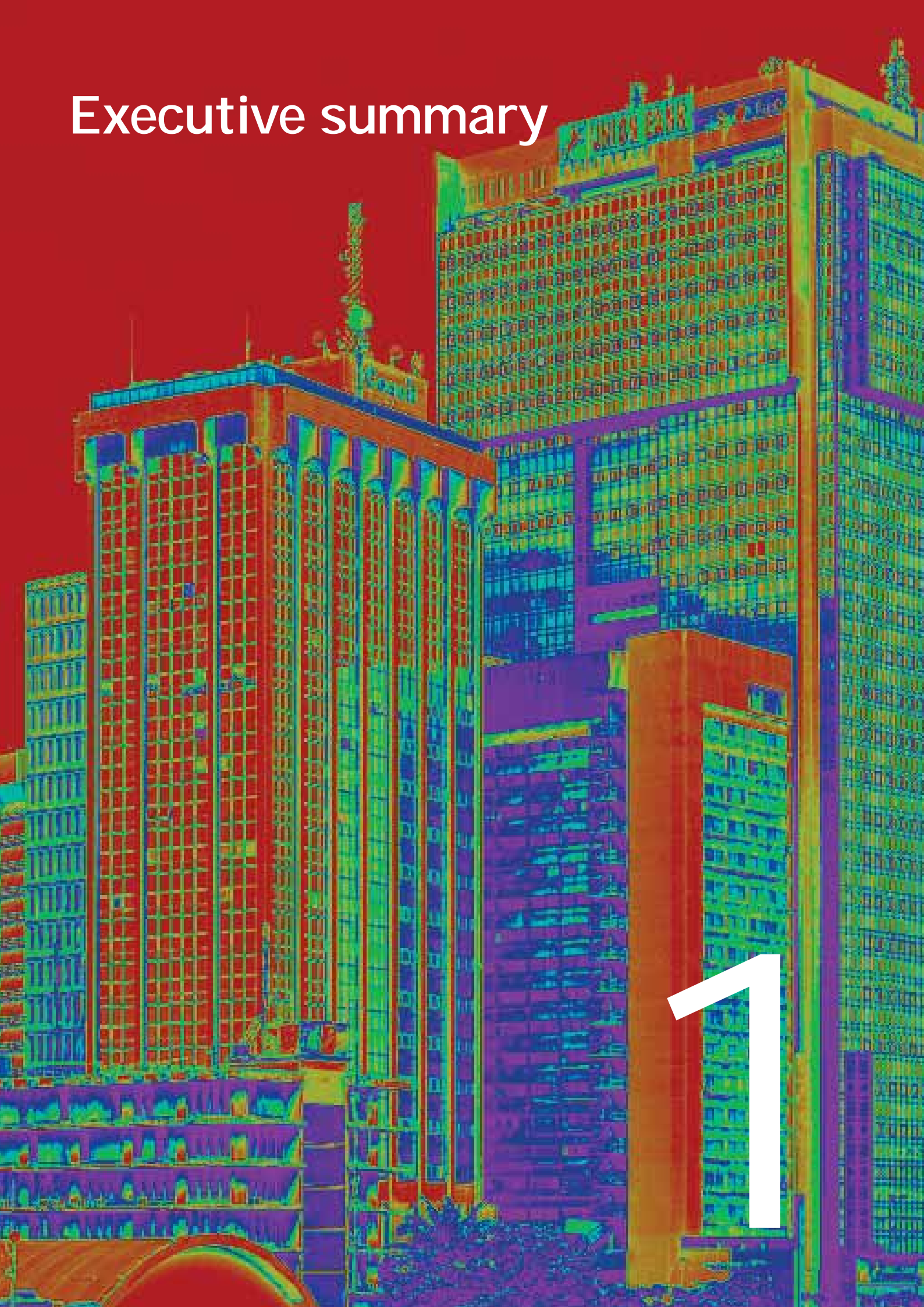
The year was characterized by leadership changes across the continent. From Angola to Zimbabwe, and from South Africa to the Gambia, hopes for improved economic prospects follow these leadership changes, with the overall mood becoming far more optimistic. However, there are challenges to overcome. As has been custom, elections can lead to fundamental policy changes. The two largest Sub-Saharan economies, South Africa and Nigeria face elections in 2019. In a number of countries, social media is being controlled to restrict freedom of expression. But despite the challenges, there have been positive outcomes too. Kenya emerged more stable following a protracted election cycle, while neighboring Ethiopia stands well placed to benefit from initiating both political and economic reforms.

All of this brings us to the question of policy. More than ever before, investors are seeking certainty and clarity around the rules by which they engage with Africa. Pending land reform in South Africa and Namibia, and more broadly across the continent, tax policy and profits repatriation all need to be clearly articulated and practised. Charging tax penalties may yield short-term gains to the government treasury, but in the long run, they discourage investors and offset the long term benefits of inbound investment.

Business in turn, needs to partner with all stakeholders, including government, and play its part in accelerating social development through creation of employment opportunities. It needs to build local supply chains, which help in growing shared partnerships and up-skilling the local workforce.

Increasingly, there are encouraging signs of closer liaison among government, business and society. Newly elected leaders in Africa face the urgent need to reform their economies, as they seek to encourage investors that bring with them much-needed capital, which remains scarce across the continent. As these changes occur, stronger momentum provides the opportunity for reviving growth prospects in the continent. We call this "Turning tides."

Executive summary

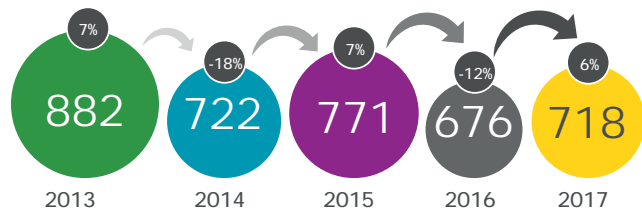


African FDI recovers – in line with stronger economic growth

After facing its lowest economic growth in over 20 years, Sub-Saharan Africa (SSA) posted a slow recovery in 2017.

After facing its lowest economic growth in over 20 years, Sub-Saharan Africa (SSA) posted a slow recovery in 2017. The International Monetary Fund (IMF) forecasts a modest rise in the region's GDP growth from 2.8% in 2017 to 3.4% this year.¹ FDI projects into Africa also rebounded from their lowest level in a decade. Last year, Africa registered 6.2% growth in inward investment projects compared with 2016.

FDI projects in Africa



● Year-on-year change in FDI projects

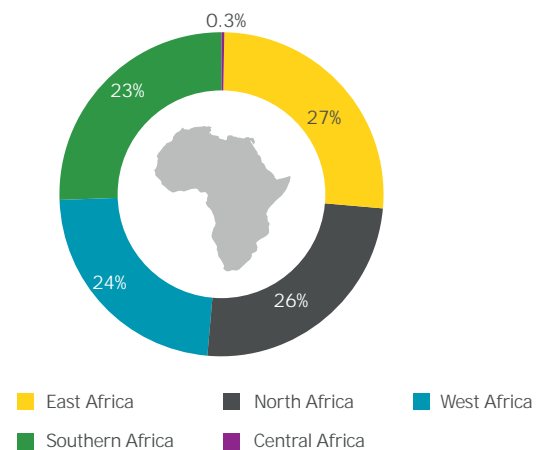
Source: Analysis based on IBM database, 2017; fDi Markets, IMF, EY analysis.

A more competitive geographic landscape emerges.

Africa's FDI is more evenly spread than ever before. For the first time since we began tracking FDI in Africa, four of the five regions (East, West, North and Southern Africa) hold an almost equal share of the continent's FDI projects.

We are also seeing investment shifting between countries for the first time. South Africa, once the clear leader in attracting FDI, now shares the top rank with Morocco (refer to pg 17 for year-on-year change). This is the first time that South Africa has been challenged in terms of being the most preferred investment destination (measured by FDI project numbers). Ethiopia jumped seven places to become the fifth-largest FDI recipient, its highest ranking yet. These shifting FDI dynamics illustrate a broader trend. As growth across the rest of the continent accelerates, so do those markets take a greater share of inbound investment.

FDI projects by region (share in %)



Source: Analysis based on IBM database, 2017; fDi Markets.

¹ World Economic Outlook Update: Less Even Expansion, Rising Trade Tensions, IMF, July 2018.

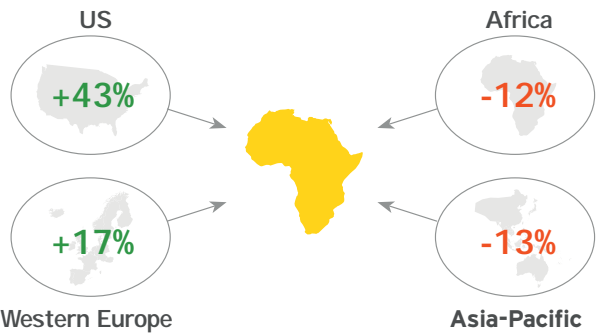
Historical investors remain influential.

Mature market investors continue building on their deep-seated ties to Africa. In 2017, the US remained the largest investor in the continent, with a noticeable 43% growth in FDI projects. Western Europe, another well-established investor, also built on its already strong investments into Africa, up by 17%. However, emerging-market investments fell, with both intra-regional and Asia-Pacific investment declining by 12% and 13%, respectively.

This is, in part, attributable to volatile emerging markets and weak commodity prices.

FDI projects by source

Change in FDI projects vs. 2017



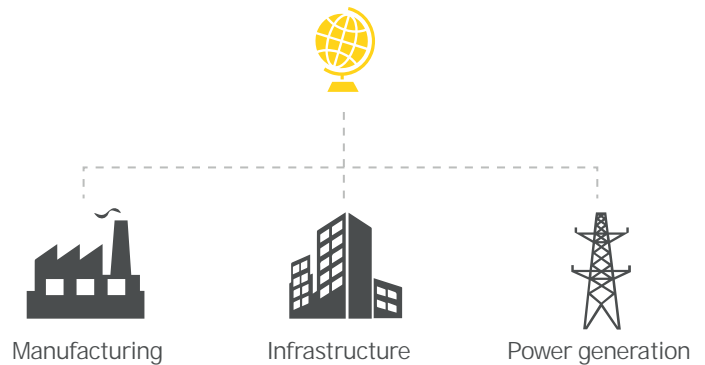
Source: Analysis based on IBM database, 2017; FDI Markets.

Next generation sectors gain momentum.

Over the past decade, we have discussed a shift from extractive to “consumer-facing” sectors, thanks to Africa’s growing consumer market. Mining and metals, along with coal, oil and gas, previously the major beneficiaries of FDI flows, have slowed, while consumer products and retail (CPR), financial services, and technology, media and telecommunications (TMT) have risen.

In 2017, FDI shifted somewhat, with consumer-facing sector investments slowing, in line with challenging operating conditions. The focus changed instead to manufacturing, infrastructure and power generation.

Investors sharpen focus on next generation sectors



Five priorities for inclusive and sustainable growth.

For the first time, we have provided an analytical framework for understanding which countries fare better and worse at attracting FDI (refer to pg 24). The study reveals major variances between countries. Rwanda, which is intensely focused on improving its business environment, has performed better than its peers. A number of countries that have not focused on enhancing the business environment are Angola, the DRC and Gabon.

Faced with a changing political landscape and a dynamic global investment environment, Africa needs policy reform and resolve to drive the structural transformation necessary to achieve the goals of inclusive and sustainable growth. As part of this, we have re-introduced the five priorities for action for achieving inclusive and sustainable growth in the continent.





Economic overview

An aerial photograph of a large ship's deck, showing a complex network of masts, rigging, and ropes. The ship is moving through a body of water, with a city skyline visible in the background under a clear blue sky. The deck is filled with various pieces of equipment, including cranes and containers. The overall scene is one of industrial activity and maritime transport.

2

Growth recovers, but remains vulnerable to rising global geopolitical tensions

SSA is expected to grow more rapidly in 2018 than it did in 2017, which was the slowest growth rate since the turn of the millennium. It is forecast that growth across the sub-continent will recover to 3.4% this year, from 2.8% in 2017. This still lags behind Asia-Pacific considerably, and over the medium term, Africa will find it difficult to reach beyond the 5%+ growth levels it achieved prior to the global financial crisis in 2008. Structural reform and election uncertainties across the continent remain key challenges for this.

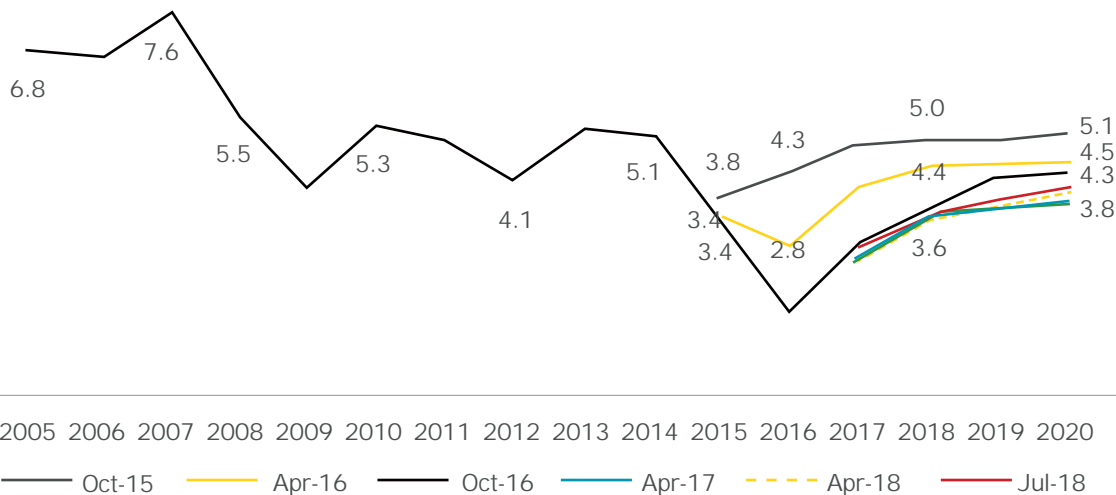
Multi-speed regional growth continues, led by East Africa

Once again, we see a divergence between slow-growth markets (South Africa, Zimbabwe and Namibia) and rapid-growth ones (Cote d'Ivoire, Ghana, Mozambique and the whole eastern region) led by countries forming part of the East Africa community. Major oil producers, namely Nigeria and Angola, lie somewhere between the two extremes. Though these economies are recovering well because of significantly stronger oil prices, their growth might be challenged again should oil prices begin falling.

Underpinning the continent's growth recovery is an urgent need for economic reform. The largest and third largest SSA economies, namely Nigeria and Angola, having suffered severe recessions through 2016 and into 2017, acknowledge the need for diversification. This entails need to adopt pragmatic policies, which encourage both local and foreign direct investment and trade development to stimulate economic growth. However, it is worth noting that until recently, both countries have been reluctant to allow exchange rates to float freely, as a result of which, they faced prolonged recessions.

In the longer term, the growth outlook is improving. In the short term, however, weak macroeconomic fundamentals continue to have a knock-on effect on exchange rates and inflation.

SSA's long-term growth outlook improves, averaging 0.1 percentage points higher p.a. until 2020



Source: IMF, EY analysis.

In the short term, rising government debt and weaker currencies are priority concerns

SSA: 10 largest economies

	Government	Current account	Exchange rate	Inflation	GDP Growth
Angola	○	●	○	●	○
Cote d'Ivoire	○	○	○	○	○
DRC	●	○	○	○	○
Ethiopia	●	○	●	●	○
Ghana	○	○	○	●	○
Kenya	○	○	○	●	○
Nigeria	●	○	●	○	○
South Africa	○	●	●	○	○
Tanzania	●	○	○	○	○
Zambia	●	○	●	○	○

● Deteriorating ● Stable ● Improving □ Longer term outlook ○ Current situation

Source: EY analysis.

Rising trade tensions cloud the outlook

US President Donald Trump's recent tariff impositions and their main trading partners retaliatory measures have resulted in an escalating risk of slower global growth in 2018 than what was initially forecast. While mature markets will feel the impact to some extent, it is the emerging markets that would likely absorb more of the shock. China, being a direct target of the US higher tariffs, is at risk of seeing its growth rate slowing. This, in turn, has indirect effects on most of SSA, given the growing trade ties between the two regions driven strongly by demand for African commodities.

The effects on inflation and currency pressure (two sides of the same coin) could significantly impact initiatives to provide employment and housing for Africa's increasingly urbanizing population. Given China's central role in the US administration's tariff measures, and Africa's considerable reliance on China as a trading partner, any slowdown in the latter's imports will have a knock-on impact on Africa's medium-term growth prospects.

In this environment, economic reform becomes even more critical. Many African countries have started to prioritize growth and initiate reforms to achieve it. One notable example is Ethiopia, which recently committed to measures to open up its economy, aiming to sustain its already-high growth rates. Neighboring Rwanda also provides evidence of the benefits of adopting business-friendly policies as a means of stimulating growth.

While mature markets will feel some impact from trade wars, emerging markets are likely to absorb proportionally more shock



FDI: a regional view



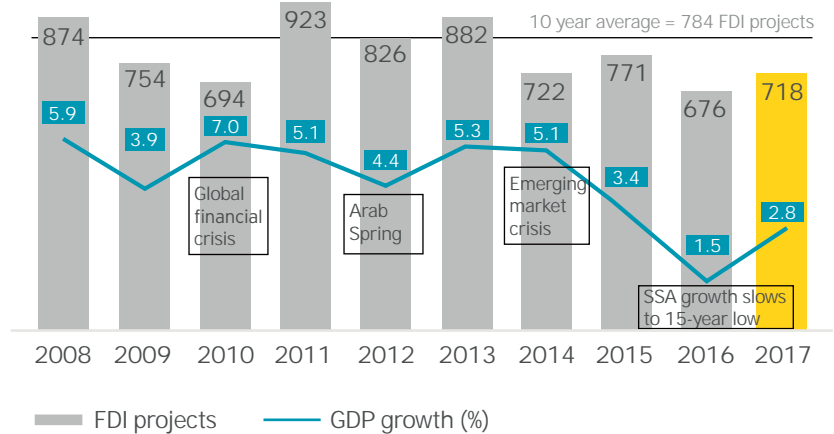
Despite weak growth, FDI project numbers in Africa increased by 6% in 2017

Foreign investors committed to 718 FDI projects in Africa in 2017, a 6% increase from 2016. This brings us back to 2014 levels of FDI projects, but considerably below the 10 year average. Given the continent's economic recovery during the year, this was in line with expectations of FDI recovering in tandem with higher growth. The increase in FDI was aided by a continuing shift from extractive to sustainable investment. In addition, investors in Africa often take a long-term view to investment. They recognize that low growth rates are not permanent. Moreover, given the more positive growth outlook until 2020, investors may be willing to invest more.

Another factor that may have played a role in boosting FDI numbers in 2017 was that companies sought to benefit from the sluggish growth environment by investing while currencies are weak and thus, gaining a cost advantage.

FDI project numbers recover, but remain 8% below the 10-year average

FDI projects in Africa



Source: IBM database, 2017; fDi Markets, IMF, EY analysis.



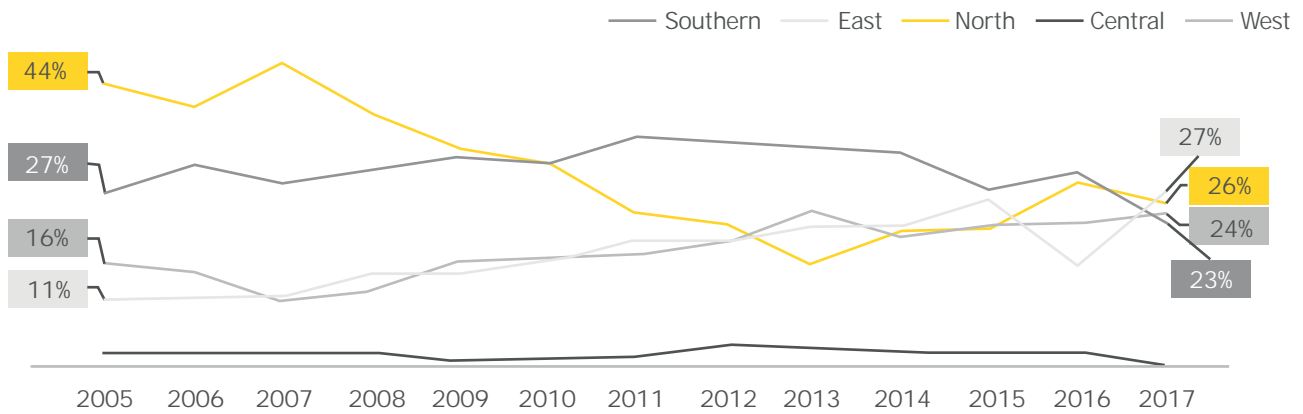
Africa's investments are more evenly spread across the regions

Investment interest in Africa is shifting, with four out of the five sub-regions jostling to become the primary FDI destination. In 2017, East, West, Southern and North Africa attracted around a quarter of FDI projects each, with the Central region accounting for only a marginal share. This is in stark contrast to the situation twelve years back, when North Africa accounted for just under half of total investments, and with East and West Africa attracting considerably less FDI.

This shifting investment landscape is a function of numerous factors, including multi-speed growth, investment friendly economic policies and, to some extent, regional integration initiatives, particularly in the east of the continent where the East African community made up of Burundi, Kenya, Rwanda, South Sudan, Tanzania and Uganda has been successful in increasing economic growth since its formation.

Competition for FDI intensifies between Africa's regions

FDI projects by destination sub-region, 2005-17 (% share)



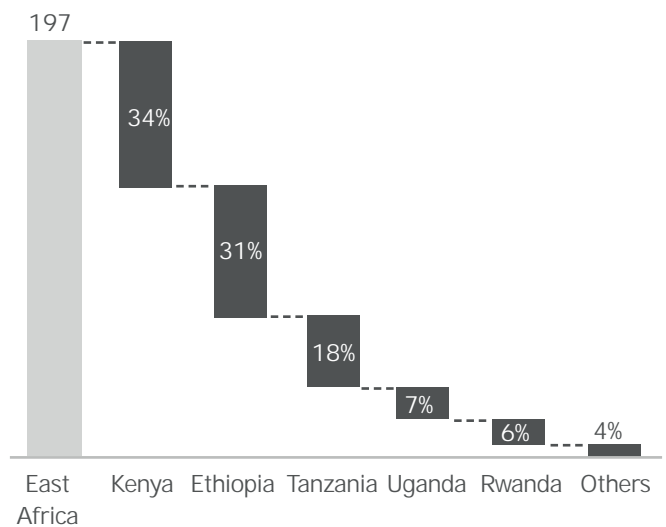
Source: IBM database, 2017; fDi Markets.

East Africa becomes the biggest regional beneficiary of FDI, with Kenya leading the way

East Africa continued to register notable GDP growth in 2017, performing stronger than all other regions across the continent. For various reasons, other regions recorded slower growth, with some facing recession. East Africa's growth saw the region registering a notable 82% increase in the number of FDI projects compared with 2016.
















This evident rise is from a rather low base in 2016, when the region's share of FDI projects fell sharply. The FDI numbers in 2017 not only recovered from the prior year, but also made the region Africa's major FDI hub for the first time.

East Africa: Share of FDI projects by country 2017



Source: Analysis based on IBM database, 2017; fDi Markets.

Top 15 countries by FDI projects (2017)

	2016	2017	Change in Rank vs. 2016	Share (2017)	% Change	Jobs share
 South Africa	139	96	-	13%	-31%	3%
 Morocco	81	96	+1	13%	19%	21%
 Kenya	40	67	+3	9%	68%	4%
 Nigeria	51	64	+1	9%	25%	12%
 Ethiopia	16	62	+7	9%	288%	16%
 Egypt	79	56	-2	8%	-29%	6%
 Ghana	28	43	+1	6%	54%	4%
 Tanzania	22	35	+1	5%	59%	3%
 Algeria	17	24	+2	3%	41%	12%
 Cote d'Ivoire	34	23	-3	3%	-32%	1%
 Uganda	9	14	+6	2%	56%	2%
 Zimbabwe	7	13	+7	2%	86%	1%
 Rwanda	11	12	+2	2%	9%	0%
 Mozambique	15	11	-1	2%	-27%	3%
 Zambia	13	11	-	2%	-15%	1%
Others	114	91	-	13%	-20%	13%
Total	676	718		100%	6%	100%

Source: Analysis based on IBM database, 2017; fDi Markets.

Kenya, East Africa's leading economy, reported a 68% increase in inward investment projects in 2017. This rebound was recorded despite political uncertainty in the second half of the year, following a prolonged election cycle. British investors were particularly active, with 10 project commitments, followed by Dutch companies. The country's fast-growing technology sector, nicknamed "Silicon Savannah," continued to draw foreign investor interest. TMT FDI projects in Kenya increased by 44% compared with 2016. This was largely because of a conducive environment, including a pool of well-resourced IT developers and a high smartphone penetration rate.² In addition, the Kenyan government has been active in making the country a viable and competitive technology hub, formulating policies to drive this initiative.

Ethiopia was Africa's second-fastest growing economy in 2017, and the fifth-largest recipient of FDI projects, up by a striking 288% on the previous year. Consumer Products and Retail (primarily textiles) and real estate, hospitality and construction (RHC) were collectively responsible for three-quarters of this surge. This is in line with the government's ambitions to turn the country into a manufacturing hub over the long term, benefiting from China's rapidly increasing cost of labor. An example is the Chinese-funded, textile-focused Hawassa Industrial Park that has already drawn investment from international clothing brands, such as PVH.³ Looking ahead, the recent opening up of the telecoms, shipping, power generation and aviation sectors to foreign investment will prove to be a further boost to investor interest.⁴

² "In Silicon Savannah, apps cut out the middlemen," *Financial Times website*, <https://www.ft.com/content/10522994-658b-11e8-bdd1-cc0534df682c>, accessed 1 July 2018.

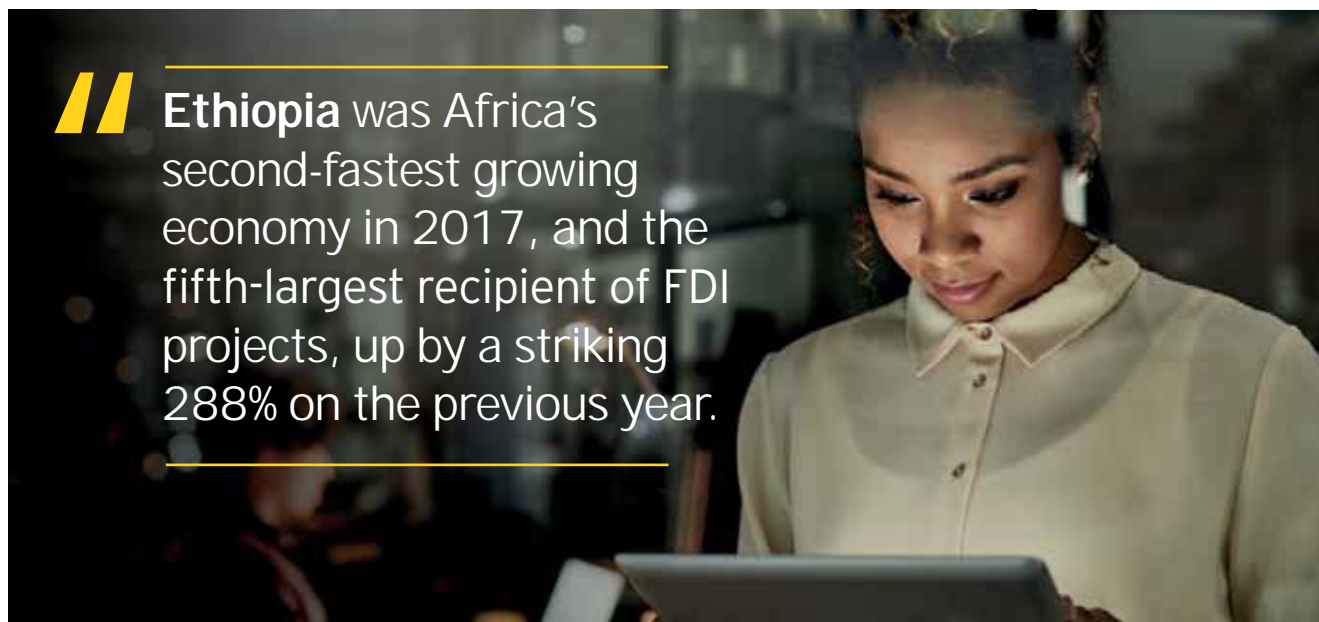
³ "China Is Turning Ethiopia Into a Giant Fast-Fashion Factory," *Bloomberg website*, <https://www.bloomberg.com/news/features/2018-03-02/china-is-turning-ethiopia-into-a-giant-fast-fashion-factory>, accessed 5 July 2018.

⁴ "RPT-UPDATE 3-Ethiopia opens up telecoms, airline to private, foreign investors," *Reuters website*, <https://www.reuters.com/article/ethiopia-privatisation/rpt-update-3-ethiopia-opens-up-telecoms-airline-to-private-foreign-investors-idUSL5N1T8OUQ>, accessed 17 July 2018.

Tanzania also posted a sharp rise in FDI projects, up by 59% from 2016. With nine projects, RHC attracted most of the capital, benefitting from government investment in infrastructure, as well as private investment in the development of a regional hydrocarbons sector.

Major oil discoveries have also put **Uganda** on the investment map, with the country attracting 14 FDI projects in 2017, up from 9 in the previous year.

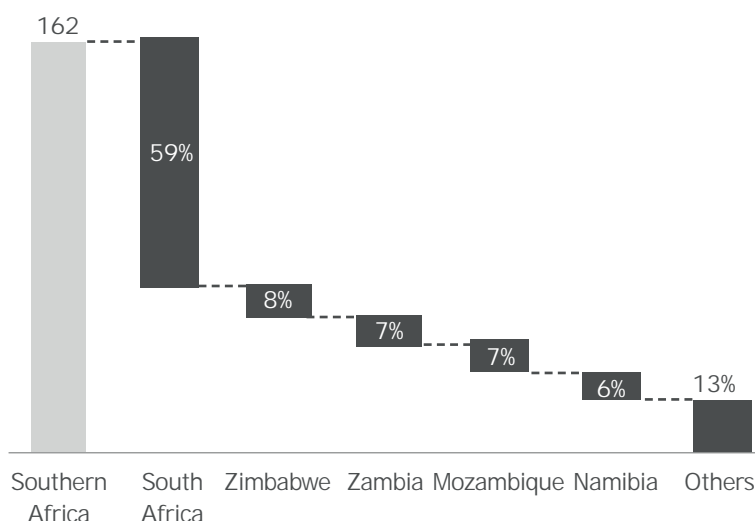
Lastly, **Rwanda** cannot go unmentioned. Although it is a small economy in terms of annual GDP (less than US\$10 billion) and FDI projects, the country remains a major beneficiary of inward-bound investment. As we will discuss later, it attracts more than its fair share of FDI, when measured as a percentage of GDP. This is because it has pursued a long-term economic reform agenda over the years and hence, continues to outperform other countries in attracting foreign direct investment.



Southern Africa loses ground

With a 21% dip in FDI projects, Southern Africa lost its place as the leading FDI destination in 2017. This is mainly due to **South Africa** by 31% to reach its lowest level in a decade. Beset by political and policy uncertainty as well as weak commodity prices, South Africa's GDP growth rate remained weak, at 1.3% in 2017.⁵ Waning consumer confidence levels put further pressure on the economy, and this was also reflected in a steep decline in CPR FDI projects, from 41 in 2016 to 9 in 2017. While it initially appeared that South Africa's economy was headed for stronger growth in 2018 on the back of political leadership changes, the first half of the year proved to be as challenging as 2017. The country moved into recession, which deepened in the second quarter. This has slowed domestic investment sharply, with the business climate waiting for clarity on key reforms and policies. Examples include the recently announced mining charter, and the ongoing land reform initiative.

Southern Africa: Share of FDI projects by country (2017)



Source: IBM database, 2017; fDi Markets.

⁵ World Economic Outlook Update: Less Even Expansion, Rising Trade Tensions, IMF, July 2018.

Banking on its “open-for-business” status after a change in the country’s leadership in November 2017, **Zimbabwe** nearly doubled its FDI projects in 2017 to 13, from 7 in 2016. The new president has committed to prioritizing the agriculture and mining sectors and has amended foreign ownership laws to reflect this change in sentiment as well as to encourage investment to develop both of these priority sectors.⁷

Contrary to Zimbabwe, investment projects declined slightly in both **Mozambique** and **Zambia**. Both countries typically attract above-average levels of FDI, as does **Namibia**, whose FDI levels held steady despite facing recessionary conditions last year.

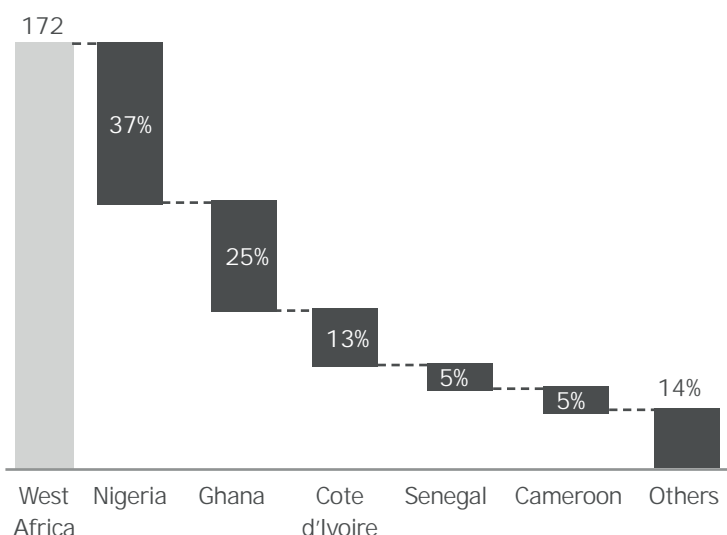


West Africa regains momentum, led by Nigeria and Ghana

In West Africa, FDI project announcements rose by 12% from 2016 levels. In line with its recovery from recession in 2017, **Nigeria** garnered 25% more FDI projects. According to the World Bank, **Nigeria** was among 10 economies globally with the strongest improvement in their business environment last year. The country jumped 24 places on the *Ease of Doing Business* index, thanks to concerted government efforts to tackle red tape, mismanagement and corruption.⁸ US companies were particularly confident about Nigeria in 2017, launching 22 projects versus 10 in the previous year. South African, Chinese and UK investors also increased their FDI activity into Nigeria.

Ghana secured about 1.5 times more FDI projects in 2017 than it did the previous year (28 projects 2016 to 43 projects in 2017). FDI activity rose across P&U, CPR and RHC. The country’s FDI performance was in line with its impressive economic growth in 2017. Ghana emerged as Africa’s third fastest-growing economy after a difficult 2016, supported by rising oil output and crude prices and an improving trade balance.

West Africa: Share of the FDI projects by country (2017)



Source: IBM database, 2017; fDi Markets.

⁷ “New President Plans Zimbabwe Revival by Restoring Economy, Democracy,” *Bloomberg website*, <https://www.bloomberg.com/news/articles/2018-01-18/zimbabwe-s-mnangagwa-plans-billions-in-compensation-bond-sale>, accessed 7 July 2018.

⁸ “Nigeria among most improved countries in World Bank’s Ease of Doing Business list,” *Reuters website*, <https://www.reuters.com/article/us-nigeria-business/nigeria-among-most-improved-countries-in-world-banks-ease-of-doing-business-list-idUSKBN1D033K>, accessed 19 July 2018.

FDI investments in North Africa: a story of two parts

Egypt sees a noticeable decline in FDI projects...

FDI project numbers in North Africa declined by 5% in 2017. A large part of this was driven by lower projects into **Egypt** (56, from 79 in 2016). As a result, Egypt also slipped to the sixth spot in Africa overall. TMT, CPR, and Natural Resources all experienced declines in investment activity. Nevertheless, Egypt's prospects remain positive, owing to strengthening tourism and a number of wide-ranging economic reforms.

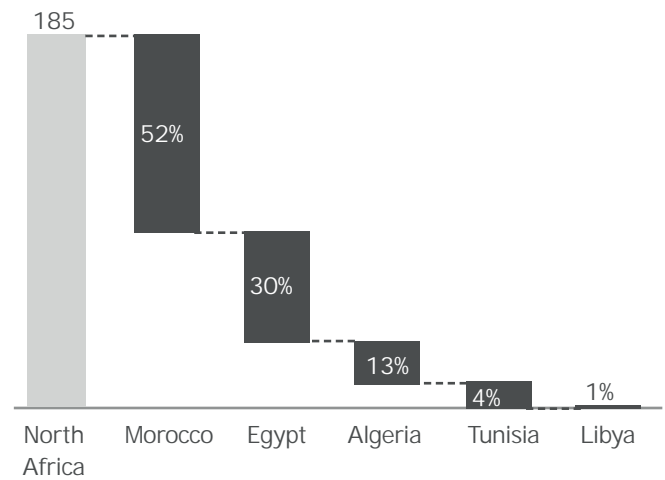
Tunisia also recorded a decline in investment activity, with FDI projects down by more than 50% compared to/with 2016.

...while Morocco shares the top spot with South Africa

Morocco remained a key attraction in North Africa, drawing 19% more projects over 2016 levels. Its consistent growth in FDI saw it become the single biggest FDI destination in Africa last year sharing the top rank with South Africa. The automotive sector continues luring investors to Morocco with the country aiming to build its position as an international automotive hub.

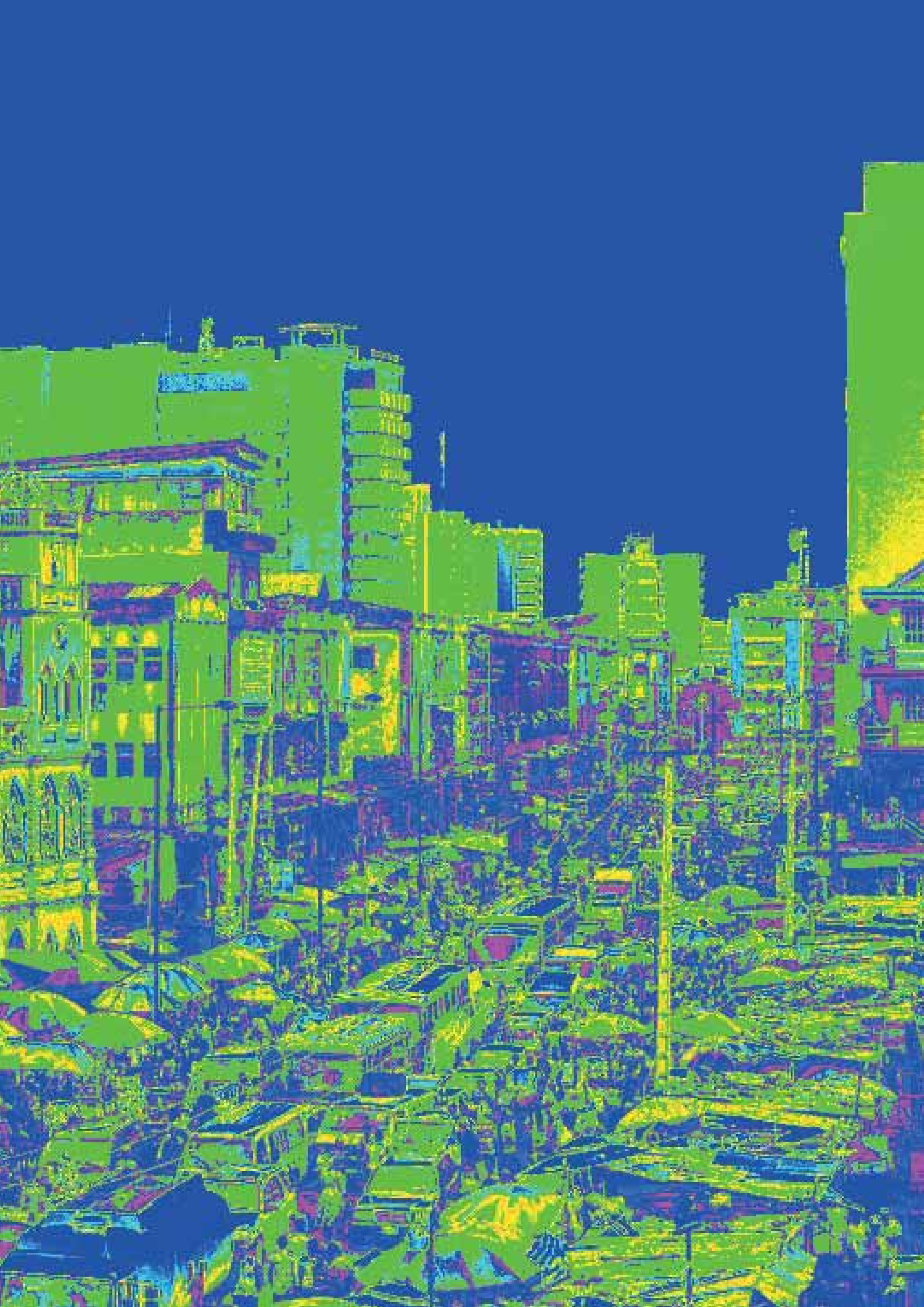
In December 2017 the Moroccan Government announced that it had signed deals for 26 auto industry projects worth US\$1.45 billion, including six agreements with French automaker Renault. Chinese company BYD has also signed a Memorandum of Understanding to construct an electric car plant near Tangier which will create 2,500 jobs.⁹

North Africa: Share of the FDI projects by country (2017)



Source: IBM database, 2017; fDi Markets.

⁹ "Morocco announces auto industry deals worth \$1.45 bln," *Reuters website*, <https://www.reuters.com/article/morocco-economy-autos/morocco-announces-auto-industry-deals-worth-1-45-bln-idUSL8N1OB691>, accessed 15 July 2018.



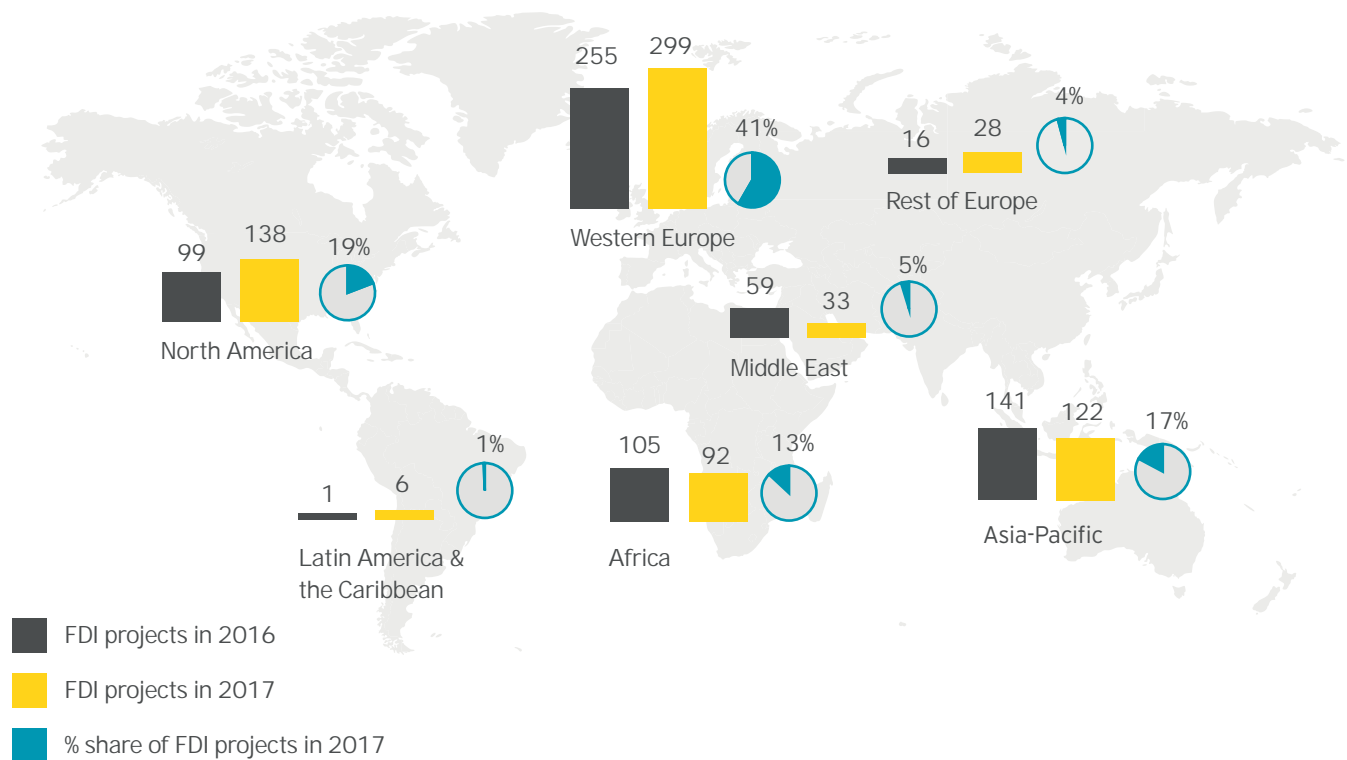
FDI by source, destination and sector

4

Traditional investors remain entrenched, with emerging market investors trailing

Western Europe maintains leadership, Asia-Pacific and Africa weaken

FDI projects by source region



Source: IBM database, 2017; fDi Markets.

US investment holds momentum

The US remains Africa's largest investor, reporting an expansion in FDI projects after two consecutive years of decline. US companies launched 130 projects in 2017, against 91 in 2016. RHC drove more than three quarters of this increase. In the past, US economic ties with Africa were driven by the African Growth and Opportunity Act (AGOA) – granting 40 African countries duty-free access to the US for approximately 6,400 products – and programs, such as Power Africa.¹⁰ While the US focus on Africa under President Donald Trump seems less of a priority, the US corporate sector, nevertheless, continues to express a keen interest in building a presence across the continent.

Western Europe continues to build on historical ties

Besides negotiating or finalizing Economic Partnership Agreements (EPAs) with more than 40 African countries, the European Union (EU) is tightening commercial ties with Africa on other fronts too. On the occasion of the fifth EU-Africa Summit in 2017, the EU pledged €44 billion of sustainable investment for Africa.¹¹ In terms of FDI, Western Europe initiated 17% more projects in 2017, after a drop in 2016.

¹⁰ "Reassessing Africa's global partnerships: Approaches for engaging the new world order," *Brookings Institution website*, <https://www.brookings.edu/research/reassessing-africas-global-partnerships/>, accessed 15 July 2018.

¹¹ "The European Union's External Investment Plan: green light for the first five investment areas," European Commission press release, http://europa.eu/rapid/press-release_IP-17-4884_en.htm, 23 November 2017.

The UK led the FDI drive into Africa, committing to 72 projects in 2017, significantly increasing from the 41 projects in 2016. As a result the UK rose two notches to become Africa's second-largest investor in 2017. UK Prime Minister Theresa May announced a package of measures in July 2017 to support trade, investment and growth in Africa as part of efforts to forge greater ties with rapid growth markets once it exits the EU.¹²











Germany doubled its project count becoming the fifth-largest investor in Africa with industrial sectors such as diversified industrial products (DIP), automotive and chemicals as the primary targets. German endorsement of a "Marshall Plan with Africa" and the "G20 Compact with Africa" initiative – which aims to boost private investment and improve economic conditions in the continent using elevated partnership between G20 and African nations – underpins its growing business interests in the region.¹³

The Netherlands emerged as the fastest-growing investor. It reported nearly three times more FDI projects in 2017–22 in 2017 up from 8 projects in 2016.

The US remains Africa's largest investor reporting an expansion in FDI projects after two consecutive years of decline. US companies launched 130 projects in 2017 against 91 in 2016.

The US remains the single largest investor, with European countries close behind

FDI projects by source country (2017)

Country	FDI Projects				Jobs created from FDI	
	Change in Rank vs. 2016	2017	Proportionate share	Year-on-year change	Proportionate share	Jobs per project-'000S
 US	-	130	18%	43%	12%	105
 UK	+2	72	10%	76%	5%	76
 France	-1	61	9%	-25%	13%	244
 China	-1	54	8%	-18%	15%	309
 Germany	+5	39	5%	105%	5%	138
 Switzerland	+1	30	4%	11%	3%	111
 South Africa	-1	29	4%	0%	1%	54
 Netherlands	+8	22	3%	175%	2%	88
 UAE	-4	19	3%	-46%	1%	74
 Italy	-1	17	2%	-15%	2%	140

Source: IBM database, 2017; fDi Markets.

¹² "PM announces new measures to help Africa boost its prosperity and stability," Gov.UK press release, <https://www.gov.uk/government/news/pm-announces-new-measures-to-help-africa-boost-its-prosperity-and-stability>, accessed 8 July 2018.

¹³ "Germany's 'Marshall Plan with Africa'," *Devex website*, <https://www.devex.com/news/germany-s-marshall-plan-with-africa-90152>, accessed 05 June 2018; "G20 Compact with Africa to build co-operation with African countries," *Telegraph website*, <https://www.telegraph.co.uk/news/world/china-watch/politics/africa-compact-inclusive-growth/>, accessed 05 June 2018.

Intra-African investment slows, but remains prominent

With 92 FDI projects intra-African investment was down by 12% from 105 projects in 2016. Although South Africa (the largest intra-African investor) held investments steady at 29 projects, Morocco's FDI projects fell to only 3 from 17 in 2016. Kenya too invested in fewer investment projects. Still, the outlook for intra-regional cooperation looks bright. Adoption of the African Continental Free Trade Area (AfCFTA) is expected to provide the required impetus to intra-regional trade, investment and integration. AfCFTA aims to create a single continental market for goods and services across Africa. Currently, 49 of the 55 member countries have committed to the agreement.¹⁴

Investment from Asia-Pacific weakens

In 2017, Asia-Pacific investors launched 122 projects in Africa, down by 13% from 2016. The focus was on RHC, with FDI projects increasing more than threefold from 2016 levels. But a sharp decline across TMT and business services (down by 87% collectively) led to slower overall investment from the region.

The decline was led by **China**, with Chinese companies accounting for 18% fewer projects in 2017. This was impacted by slower economic growth in China's home market which saw capital controls imposed to stabilize the currency. Investment from **Japan** also contracted – more than halving from 27 projects in 2016 – to 14 projects in 2017.

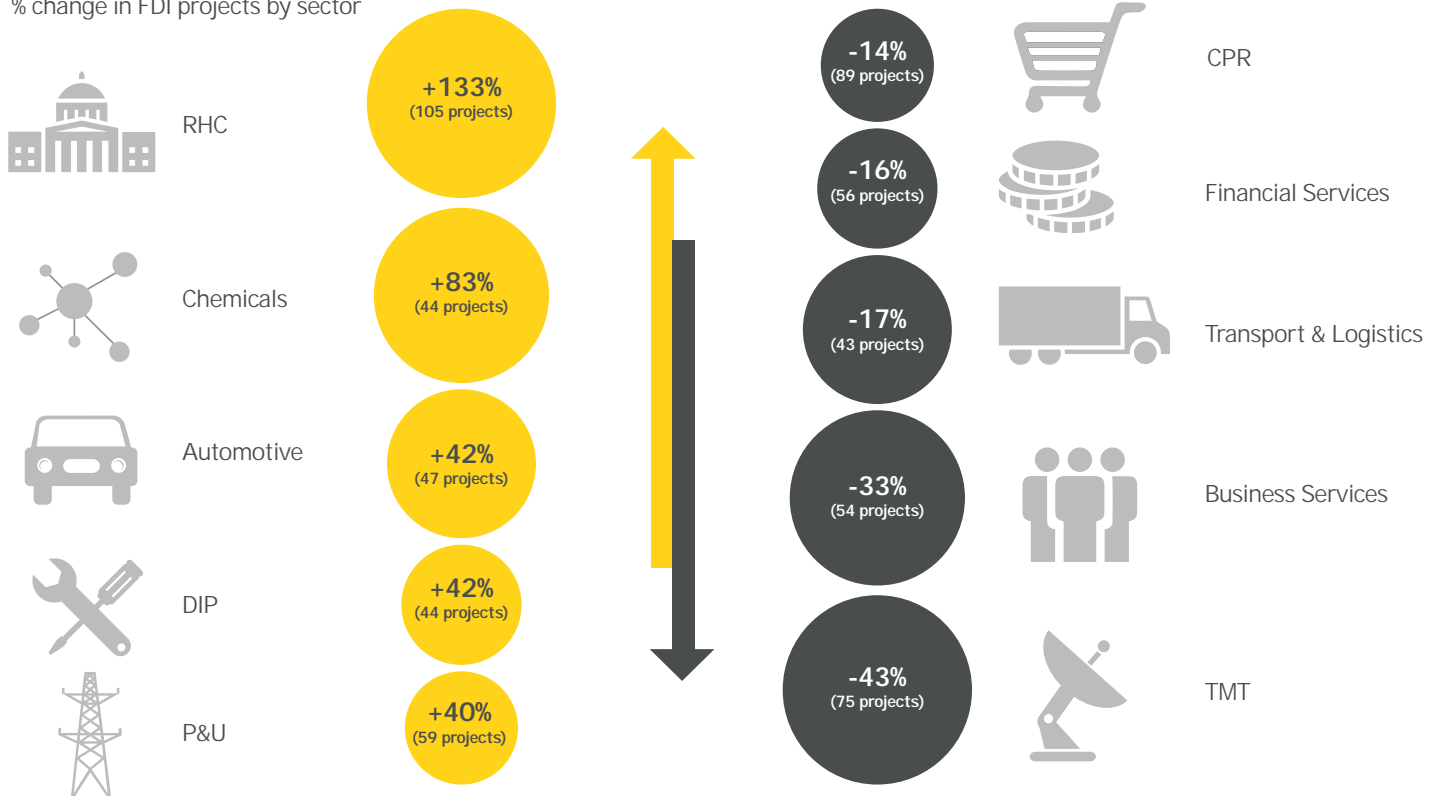


¹⁴ "49 AU members have signed free trade pact: AU chairperson," *Xinhua Net website*, http://www.xinhuanet.com/english/2018-07/03/c_137297331.htm, accessed 20 July 2018.

Investors are shifting focus to infrastructure, manufacturing and renewables

Consumer-facing investments slip, overtaken by new generation ones

% change in FDI projects by sector



For many years now, we have been highlighting the power of Africa's emerging consumer market and how it has led to a shift of investment from extractive to consumer-facing sectors. In 2017, Africa's consumer story stalled. On the one hand, short-term considerations weighed on FDI in conventional consumer-facing sectors, i.e., TMT, CPR and financial services. On the other hand, growing consumer demand has accelerated industrial growth. Consequently, 2017 saw an increase in investment moving towards infrastructure, manufacturing and power generation. These are considered as next-generation sectors given their importance to stimulating Africa's structural transformation.

RHC becomes the largest focus

FDI investments into RHC more than doubled from 45 to 105 projects, making it the largest sector in 2017 and accounting for 15% of the total. US investors made a notable contribution to growth in this space with Swiss and French companies following. Egypt and Ethiopia were the most sought-after destinations in this sector.

Hotels account for a major portion of these projects, with international hospitality brands, including Hyatt and Hilton expanding their presence in the region to capitalize on the rapidly developing tourism industry.¹⁵ Also, with the implementation of the Single African Air Transport Market (SAATM), inter-continental travel is expected to grow because of reduced visa restrictions and enhanced connectivity.¹⁶

¹⁵ "Africa's hotel industry booms," *African Business website*, <https://africanbusinessmagazine.com/uncategorised/continental/africas-hotel-industry-booms/>, accessed 06 July 2018.

¹⁶ "African countries have taken the first major step towards cheaper continental flights," *Quartz website*, <https://qz.com/1191558/africa-union-launches-single-african-air-transport-market/>, accessed 06 July 2018.

P&U and chemicals investments peak, with automotive also growing

With 59 new projects, investment in the P&U sector reached an all-time high since data was collated since at least 2005. Nigeria and Ghana were the largest beneficiaries, with the US and the UK being the major investors. FDI into chemicals was solid, with 44 projects during 2017, the highest level of investment into the sector over the last decade.

The automotive sector attracted 42% higher investment in 2017 with 47 projects. Morocco became the biggest beneficiary on account of its thriving car manufacturing facilities, favorable policies, high domestic demand and an attractive export location. The country benefits from its historical ties with France with French companies being the major investors into Morocco.

Is this the dawn of manufacturing in Africa?

Economists often argue about the importance of the manufacturing sector for the sustainable growth of an economy. Manufacturing aids employment generation and skill development leading to inclusive growth and a higher standard of living. The same theory holds true for Africa, although some say Africa may benefit from recent technology breakthroughs which may allow it to bypass the manufacturing route. Africa's service sector progressed quite well buoyed by growing mobile and internet penetration, but missed the expansion of its manufacturing industry.

From an FDI perspective 2017 proved to be a landmark year for manufacturing in Africa with the highest number of projects received in the past decade. The number of projects grew by 62% to 224 from 138 in the previous year. Morocco, being one of the more diversified economies attracted almost one-fifth of these projects. Automotive is a budding industry in Morocco with the country expected to become the largest car manufacturer in Africa by 2020.

With 38 new investments Ethiopia has emerged as the new textile manufacturing hub. Apart from being a cotton producing nation it has also set up various industrial parks to attract foreign investors. International brands such as Calvin Klein and Tommy Hilfiger already have a manufacturing presence in Ethiopia. Chinese conglomerate Jiangsu Sunshine Group, textile supplier to Giorgio Armani and Hugo Boss, has also announced an investment of US\$1 billion into textile manufacturing.¹⁷

China is the most active in setting up factories in Africa with 35 FDI projects, up from 30 in 2016. Most of its investment headed to East Africa with Ethiopia and Kenya taking the lead. France also doubled its investment with a special focus on North Africa. Switzerland also increased its investment threefold to 14 projects primarily focused on RHC.

With an additional focus on domestic infrastructure, stable governance and a skilled labor force, Africa can certainly emerge as the next manufacturing hub, similar to China.

Can Africa emerge as the next global manufacturing hub?

TMT and CPR lose steam

TMT slipped to third-largest sector after being the largest sector for a straight five years. All major investors slowed investments, with the exception of the UK. The proportionate share of projects declined by 9 percentage points to 10%. Nevertheless, the digital industry remains a key driver of the continent's growth given the growing mobile and internet penetration rates coupled with the establishment of technology parks across numerous countries including Cape Verde, Angola, Kenya, Senegal and Rwanda.¹⁸ CPR projects also fell to 89 against 103 in 2016. However, it remains the second-largest sector attracting more than 12% of total projects in 2017.

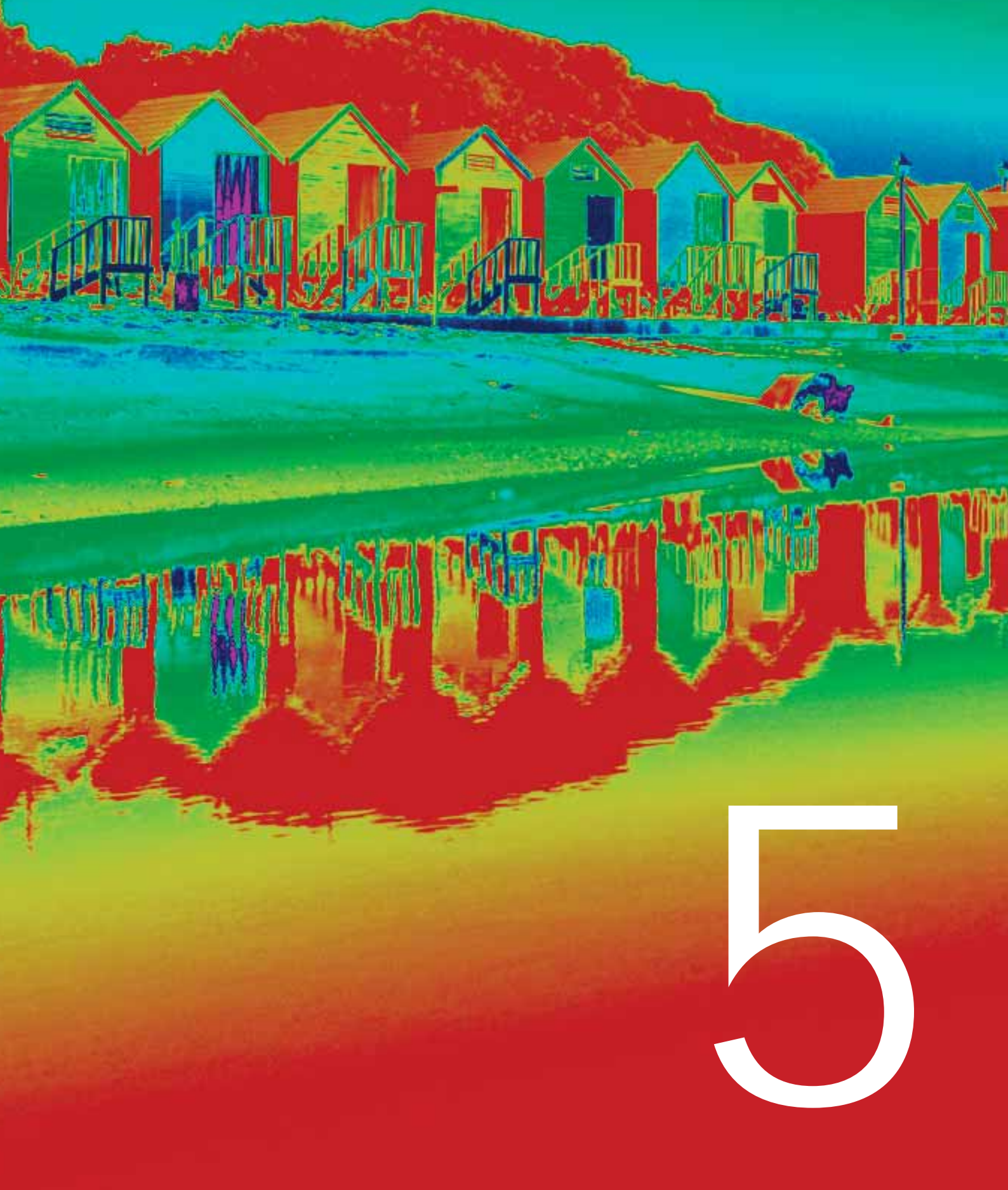
Slowdown continues for business and financial services

Total projects directed towards financial services in 2017 fell to 56 down by 16% from 2016 levels. Business services also followed a similar trend with 54 projects in 2017, from 80 in the previous year. France, Kenya and the UAE together contracted their investment in business services by three-quarters in 2017. They collectively invested in 6 projects against 28 in the previous year.

¹⁷ "Ethiopia bets on clothes to fashion industrial future," *Reuters website*, <https://af.reuters.com/article/africaTech/idAFKBN1DL1WH-OZATP>, accessed 06 July 2018.

¹⁸ "Investment Marketplace Coming To Africa," *Forbes Africa website*, <https://www.forbesafrica.com/focus/2018/06/05/investment-marketplace-coming-to-africa/>, accessed 06 July 2018.

Analysing FDI trends



Assessing how countries fair in attracting FDI

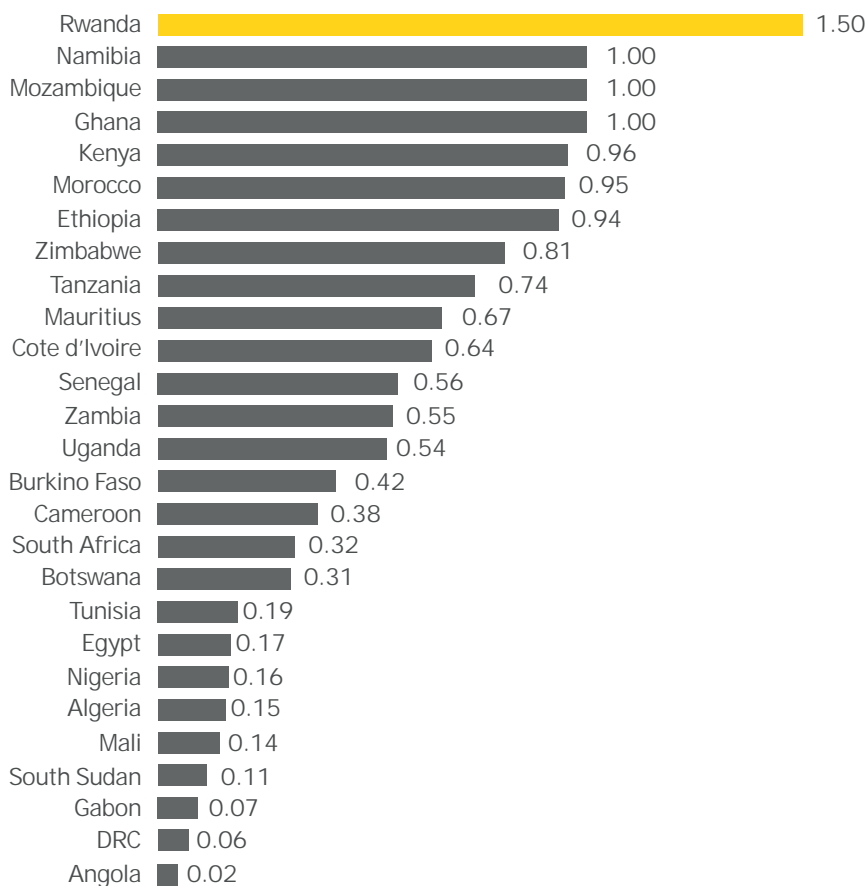
We have tracked FDI for a number of years and while we can easily assess trends in terms of shifts by sectors and geography, there is little analysis that contributes to understanding whether individual countries are under-or over-achieving in attracting FDI.

To build that analysis FDI projects have been tracked against the size of the economy, and its score on the annual World Bank *Ease of Doing Business* ranking. Through this analysis it appears that countries with strong growth rates and more business-friendly policies tend to perform better in attracting FDI than those without.

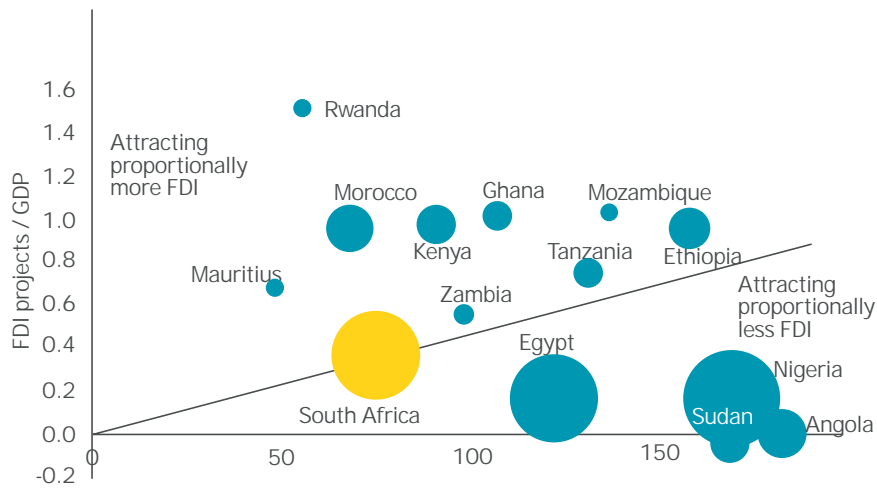
The graphs that follow illustrate the point:

Rwanda is by far Africa's most successful country in terms of attracting FDI. This is supported by the fact that Rwanda ranks as one of Africa's most business-friendly destinations. It is also consistently ranked as one of the continent's fastest growing economies. Rwanda receives 1.5 FDI projects for every US\$1 billion of GDP. Measured on the same criteria, South Africa receives only 0.32 projects, attracting a mere 20% of what Rwanda does, given its relative size. Major economies such as Nigeria and Angola trail by an even larger margin, receiving only 0.16 and 0.02 projects respectively. Both countries also rank low on the *Ease of Doing Business* rankings compared with their counterparts in the continent, even with signs of improvement. That, coupled with their recent low growth after plunging oil prices in 2016 and the same scenario persisting in 2017, would explain their low score according to this methodology.

Ratio FDI projects / GDP 2017



Source: EY analysis.



Source: World Bank Ease of Doing Business Report 2017 and EY Analysis.

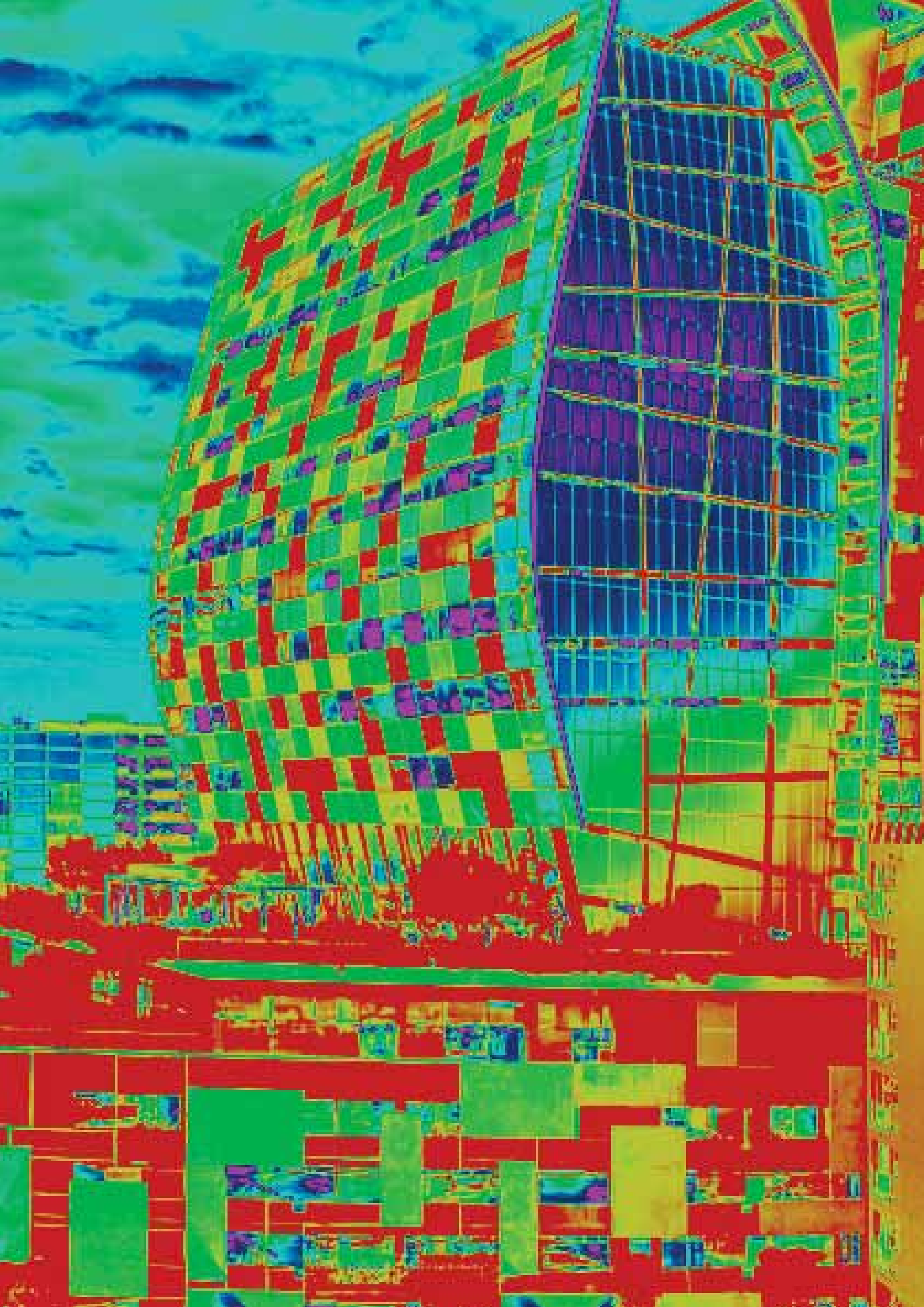


What does this tell us?

Although we need to proceed with caution in terms of relying on any single year's data points, the analysis reveals that high-growth countries, as well as those that are considered investor-friendly destinations, tend to fare better than their peers in attracting FDI. There does not seem to be a direct relationship between FDI projects and the absolute size of a country. This can be evidenced from Nigeria, Angola and Egypt, all of which attract little by way of FDI projects, despite them all being amongst the five largest African economies. In fact, Rwanda, with an economy only one-tenth the size of Angola's, receives more FDI projects than the latter, not only in relative terms, but even in absolute terms.

From the above, we can see that countries with business-friendly policies, along with countries reforming to become more business-friendly, are most successful in outperforming their peers in attracting foreign investment. This has implications for governments, which need to increasingly become more focused on policy reform and drive an agenda that stimulates and supports private sector economic activity.

Recent initiatives in Ethiopia, as well as gains by Kenya and Nigeria in the World Bank *Ease of Doing Business* scores, illustrate that more and more of Africa's leaders are starting to prioritize the need for reform. Along with that, the recent leadership changes in Angola, Ethiopia, South Africa and Zimbabwe will also stimulate policy change, as countries increasingly compete for foreign investment as a key driver for sustained growth.



Africa needs both policy reform and resolve



6

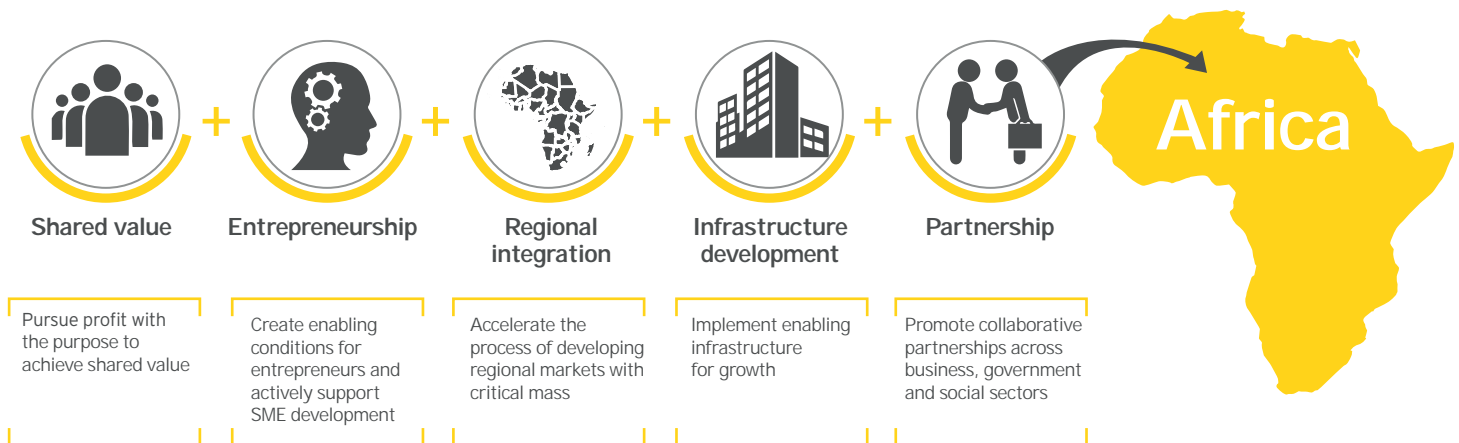
In 2017, we saw a noticeable change across Africa’s political landscape, and this has continued into 2018.

Leadership changes in Angola, Zimbabwe, the Gabon, and more recently in South Africa and Ethiopia, pave the way toward greater reform. We have already seen policy reforms implemented in some of these countries, allowing them to attract a rising share of investor interest and FDI.

While the global FDI landscape is becoming increasingly dynamic and competitive, it will also be shaped by the twin forces of geopolitical uncertainty and digitization. It is unclear how growing trade protectionism will impact global investment trends and which regions will be most affected.

Decisions made and actions taken now will determine which African economies can consolidate the gains made over the recent past, and allow them to build a platform for sustainable growth in coming decades. Otherwise, they face the risk of slipping back.

To attract a strong share of FDI and solidify its position on the global investment map requires considerable effort from many stakeholders. In our 2015 *Africa attractiveness survey*, we highlighted five priorities for action for a successful African future. While gains have been made across some of these areas, more commitment on the part of leaders in the public, private and social sectors is needed to help Africa realize its potential.



1 Promoting shared value

SSA has made significant progress in improving economic and social conditions over the last two decades. On average, real per capita incomes have risen 50%, while infant mortality rates have declined considerably.¹⁹ While these are worthwhile achievements, more efforts are needed to help the continent achieve sustained, strong and inclusive growth. Most African countries feature at the bottom end of the World Economic Forum's *Inclusive Development Index 2018*, which measures how countries perform across three pillars: growth and development, inclusion, and intergenerational equity (sustainable stewardship of natural and financial resources).²⁰ Much work remains to be done to make sure that skills transfer and building up local supply chains becomes common practice. Bureaucratic and cumbersome local requirements often work to the detriment of extending the benefits of shared value. Examples include difficulties in acquiring expatriate visas, allowing for greater skills transfer. Even when the legislation allows for some of these essentials to happen, the process of getting them approved can be burdensome. Governments and business need to find common ground on how to benefit more from cooperation thereby allowing all stakeholders to gain, including the workforce and society.

2 Creating a conducive environment for entrepreneurship

In most modern economies, entrepreneurs form one of the main engines of growth. Currently, more than one-fifth of Africa's working-age population is in the process of starting a new business – the highest rate globally. In SSA, small and medium-sized enterprises (SMEs) – those with less than 5 years in existence and fewer than 20 employees – are now the largest providers of formal sector jobs.²¹ But according to the *Global Entrepreneurship Monitor 2017/18 Global report*, Africa lags behind other regions in terms of a favorable entrepreneurship environment. Compared with other regions, Africa scores lower on several factors, including financing of entrepreneurial ventures, R&D transfer, school-level entrepreneurship education, regulations for entry or internal market burdens, and supportive government policies on bureaucracy and taxes.²² Concerted efforts are needed to enable entrepreneurs by improving their skills and access to funds, as well as supporting opportunities for SMEs.

Digitalization will play a more meaningful role in this space in future. Already, specialist lending institutions operating in the online environment have determined how to successfully assess the ability to repay a loan on the basis of algorithms and social media behavior. This is an area where banks have been interested, as they have strong collateral requirements before granting loans. Digitalization could play a pivotal role in plugging the gap in terms of access to funding for the SME sector.

3 Accelerating regional integration

Until recently, the responsibility of regional integration in Africa has been carried out through Regional Economic Communities (RECs). These RECs have seen varying degrees of success in driving the regional integration agenda. The Africa Regional Integration Index, developed by United Nations Economic Commission for Africa (UNECA) in collaboration with the African Development Bank (AfDB) and the African Union (AU), shows that although there are numerous RECs, not all have been successful. The East African Community (EAC) and the Economic Community of West African States (ECOWAS) have made the most progress so far.²³ But there is still a long way to go. In terms of intra-regional trade, Africa (at 18%) has the lowest percentage in the world, compared with 70% in Europe, 55% in North America, 45% in Asia, and 35% in Latin America. The AfCFTA, with its promise of a single continental market for goods and services, is expected to boost this intra-African trade by US\$35 billion – an increase of more than 50% from current levels.²⁴ Another positive step in the direction of regional integration is the implementation of a single market for aviation, which will enhance air connectivity across the continent.²⁵ While significant progress can be witnessed in policy-making for enhancing economic development, the actual impact of these initiatives will be assessed only in the years to come.

¹⁹ "The Pursuit of Inclusive Growth in Africa," *International Monetary Fund website*, <https://www.imf.org/en/News/Articles/2018/07/24/sp072418-the-pursuit-of-inclusive-growth-in-africa>, accessed 29 July 2018.

²⁰ *The Inclusive Development Index 2018 Summary and Data Highlights*, World Economic Forum, January 2018.

²¹ *Foresight Africa: Top priorities for the continent in 2018*, Brookings Institution, January 2018.

²² *Global Entrepreneurship Monitor 2017/18 Global Report*, Babson College, April 2018.

²³ *Foresight Africa: Top priorities for the continent in 2018*, Brookings Institution, January 2018.

²⁴ "How a single market would transform Africa's economy," *World Economic Forum website*, <https://www.weforum.org/agenda/2018/02/how-a-single-market-will-transform-africa-s-economy>, accessed 28 July 2018.

²⁵ "Sky's the limit as Africa makes major move towards aviation single market," *CNN website*, <https://edition.cnn.com/2018/01/31/africa/african-union-single-air-air-line/index.html>, accessed 20 July 2018.

4 Infrastructure development

The infrastructure development gap in Africa is well known, but is becoming more pressing than ever before. Only 34% of its people have road access and 620 million people lack access to electricity (in SSA).²⁶ Inadequate infrastructure networks continue to constrain cross-border flows of goods, services, information and people across the continent. While progress has been made, it is not happening rapidly enough to bridge the existing infrastructure gap by 2040. Financing for infrastructure continues to be a challenge. Though external financing has tripled during the period 2004–12, public investment dominates, while private investment is lagging.²⁷

The problem of insufficient infrastructure finance can be tackled by diversifying the sources, and developing innovative financing solutions. Apart from attracting foreign investment, Africa could aim at mobilizing domestic resources by establishing strategic partnerships. Besides financing, implementation of policy formulation targets is another area that requires attention. Policymakers need to ensure strict compliance.

The private sector is already playing a critical role in building infrastructure across Africa. For instance, Google has announced a US\$100 million investment for developing internet infrastructure by building links between undersea cables, internet service providers and mobile networks, under its Project Link initiative.²⁸ The focus is to establish seamless connectivity across the continent for flow of people, goods and services. However, taking the conventional or digital path still remains a matter of choice.

5 Partnership

Partnerships are key to building the continent's connectivity. Governments are already hard pressed to solely finance the much-needed infrastructure development. This is particularly true after the inadequate (though improving) growth in 2017. Many countries face rising fiscal and trade deficits, and finding additional funds in such an environment is not always viable. Hence, infrastructure is the one area in which partnerships can be used to boost outcomes. PPPs (public-private partnerships) are becoming more commonly used, as it allows each stakeholder to contribute their inputs and co-benefit from resulting returns.

There is also the need to build partnerships between states. Beyond regional trade agreements, countries are benefitting from cross-border initiatives, not only in trade, but also in infrastructure. This allows participating nations to share the costs, and places lesser cost burdens on individual countries, while allowing them to benefit from the development once the partnership takes effect.

In addition, stakeholders across society must partner more effectively. The need for labor, business and government to commit to a common vision is growing day by day, as the lack of participation by any one stakeholder can delay or negate a country's full potential from being achieved. All stakeholder groups stand to gain from the fruits of a commonly agreed objective and, therefore, are more likely to play a meaningful and committed role in the process.



²⁶ "The road ahead for fixing Africa's infrastructure deficit," *Brookings Institution website*, <https://www.brookings.edu/blog/africa-in-focus/2017/11/16/the-road-ahead-for-fixing-africas-infrastructure-deficit/>, accessed 27 July 2018.

²⁷ *Foresight Africa: Top priorities for the continent in 2018*, *Brookings Institution*, January 2018.

²⁸ "The intensifying battle for Africa's burgeoning tech landscape," *Tech Crunch website*, <https://techcrunch.com/2018/02/23/the-intensifying-battle-for-africas-burgeoning-tech-landscape-2/>, accessed 25 July 2018.



Methodology

Our evaluation of the reality of FDI in Africa is based on the analysis of the IBM Global Location Trends database, produced in collaboration between EY and IBM-Plant Location International (IBM-PLI).

This database tracks those FDI projects that have resulted in the creation of new facilities and new jobs. By excluding portfolio investments, and M&A, it shows the reality of investment in manufacturing and services by foreign companies across the continent.

An investment in a company is normally included in FDI data if the foreign investor acquires more than 10% of the company's equity. FDI includes equity capital, reinvested earnings and intra-company loans.

But our figures also include investments in physical assets, such as plant and equipment. And this data provides valuable insights into:

- How FDI activities are undertaken
- What activities are invested in
- Where projects are located
- Who is carrying out these projects

Global Location Trends is tracking cross-border investment projects across the world. This flagship business information tool was developed by IBM-PLI and, from 2017 onward, has been further maintained in collaboration with EY. It is widely recognized as the most representative source of data on cross-border investment projects and trends. Global Location Trends is frequently used by government bodies, private sector organizations and corporations looking to identify significant trends in employment, industry, business and investment.

The database focuses on investment announcements, the number of new jobs created and, where identifiable, the associated capital investment. Projects are identified through the daily monitoring of more than 10,000 news sources.

The following categories of investment projects are excluded from the Global Location Trends database:

- M&A and joint ventures (unless these result in expansions with new facilities or new jobs being created)
- Portfolio investments (pensions, insurance and financial funds)
- License agreements
- Partnerships for joint business activities without creation of a new business entity
- Real estate and infrastructure development, generating only temporary jobs
- Factory and other production replacement investments (e.g., replacing old machinery without creating new employment)
- Retail centers, restaurants and similar local market-serving operations (unless individual projects are announced to create 100 new jobs or more)
- Governmental organizations representing individual countries (embassies, consulates and other government bodies representing one single country) with the following exceptions: trade, tourism and investment promotion agencies (new offices of international governmental organizations (coordinated by the UN, EU, World Bank, etc.) are included).

About the Attractiveness Program

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

The program has a 17-year legacy and has produced in-depth studies for Europe, a large number of European countries, Africa, the Mediterranean region, India, Japan, South America, Turkey and Kazakhstan.

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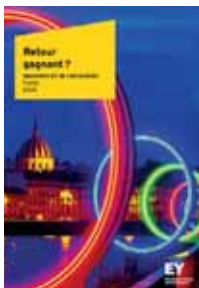
Europe



Belgium (in French)



Belgium (in Dutch)



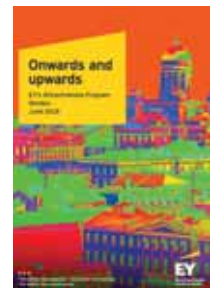
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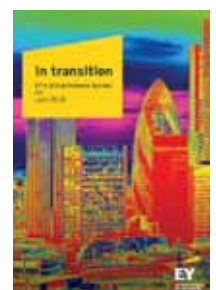
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Further reports to be launched in EMEIA later this year include Italy and Malta

EY in Africa has over 5,900 professionals based in 27 countries across the Sub-Saharan Africa region. EY provides audit, tax, advisory services and transaction advisory services to a range of industries, including power and utilities, industrial products, consumer products, media and entertainment, the public sector, oil and gas, manufacturing, real estate, technology, financial services, life sciences, health care, hospitality, retail, mining and metals, and telecommunications.

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