How can bold action become everyday action?

EY Attractiveness Program Africa

September 2019

The better the question. The better the answer.
The better the world works.

EY
Building a better working world

Contents

Glossary

AfCFTA	African Continental Free Trade Agreement
BRICS	Brazil, Russia, India, China, South Africa
CFO	French franc currency
CPR	Consumer products and retail
ECO	Common currency - West African Monetary Zone
ENR	Energy and natural resources
EU	European Union
FDI	Foreign direct investment
FS	Financial services
GDP	Gross domestic product
GPS	Government and public sector
IP	Industrial Products
RHC	Real estate, hospitality and Construction
SACCI	South African Chamber of Commerce and Industry
SME	Small-and medium-sized enterprises
SSA	Sub-Saharan Africa
TMT	Telecoms, media and technology

EY attractiveness reports and surveys are widely recognised by our clients, the media and major public stakeholders as a key source of insight on foreign direct investment (FDI). Examining the attractiveness of a particular region or country as an investment destination; the surveys, reports and analysis are designed to help business to make investment decisions and governments to remove barriers to future growth.

For further information, please visit:
www.ey.com/attractiveness

Follow us on Twitter:
@EY_ Africa

How can bold action become everyday action?

We are excited to present our ninth edition of the Africa Attractiveness report which signals a return to the growth trajectory of Foreign Direct Investment (FDI) to the continent.

In 2018 we saw a number of government leadership changes that signalled economic reform opportunities that could be harnessed to facilitate increased FDI flows.

Elections in Zimbabwe and the appointment of a new President promised a more business friendly environment. Anticipated economic reforms in South Africa are yet to materialise and the challenges of under-performing State Owned Companies, such as Eskom, have negatively impacted economic growth. Nigeria saw the return of the incumbent President but the six months delay in appointing a cabinet has stalled the progress of the economic agenda. The above examples illustrate challenges experienced across the continent in key FDI destinations.

Despite these challenges, there is positive news.

In 2019 we have seen a further spread of political reform and adoption of continent-wide trade agreements, that create an enabling environment for economic growth and attraction of FDI. These developments provide a good foundation for economic growth and increased FDI flows.

The recently ratified African Continental Free Trade Area Agreement (AfCFTA) could prove to be a major growth stimulus.

Bold action will be required to take advantage of this foundation. We therefore ask the question: How can bold action become everyday action?

Ajen Sita
EY Africa, CEO

Sandile Hlophe
EY Africa Government and Public Sector Leader

Executive Summary

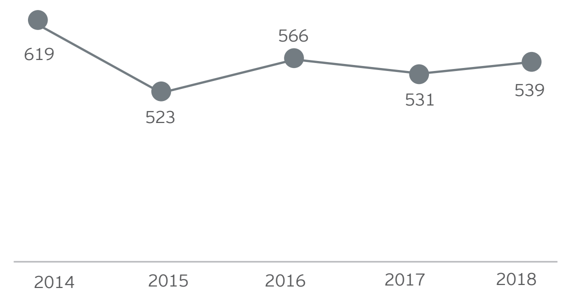
FDI in Africa remains largely steady.

710 projects in 2018 creating

170 000

jobs and attracting **$75.5bn** in capital.

5 year FDI trend



Based on project numbers, jobs ('000) and capital investment (US$100m)

The US and France remain Africa's single largest investors.

Although emerging market investors account for only 34% of FDI projects, they make up over half of all jobs created and capital invested.

Egypt, South Africa and Morocco lead as FDI recipients.

44.8 Egypt | **41.7** South Africa | **30.0** Morocco

(Score methodology unpacked on page 19.)

Services remains the dominant FDI focus, making up 66% of the total

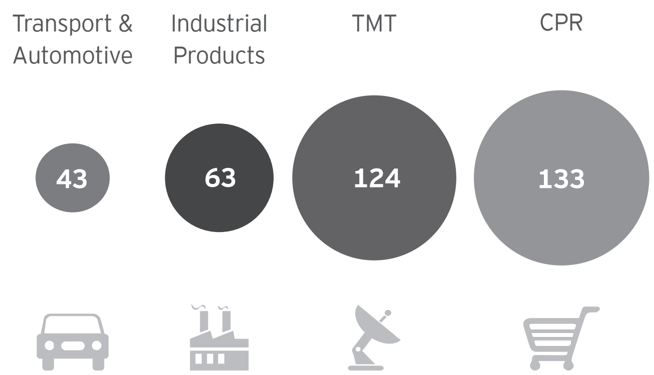
Industry makes up

23%

with the balance into Extractives

11%

Number of FDI projects: 2018



Africa's growth remains uneven.

East Africa growth averages

7.0%

with Southern Africa lagging at

2.6% mostly due to South Africa's weak economy.

West Africa grew at

3.2% led by Ghana.

North Africa grew

4.1% with Egypt at the helm.

Funding infrastructure must be sustainable and profitable

With an increasingly uncertain geopolitical outlook, Africa can shape its own future through the African Continental Free Trade Agreement.

Score: GDP Growth 2018. Oxford Economics

1

Economic Review

> East Africa's growth remains world leading. Kenya, along with neighbouring Tanzania, Uganda, Rwanda and Ethiopia are all growing well above 5% per annum.

Political reform and policy needs

2018 proved to be another challenging year for the continent. Whilst political stability returned to Ethiopia, Angola and Kenya, two major economies – namely Nigeria and South Africa - struggled to return to pre-recession growth levels, as they both grappled with implementing policy reforms and awaiting the outcome of elections held in 2019. As a result, 2018 was another low-growth year for both markets, with the expectation that unless the resolve is found to address reforms, 2019 may also prove to be another year of sub-par growth for both of them.

Africa's growth remains uneven, with the East out-pacing the rest of the continent.

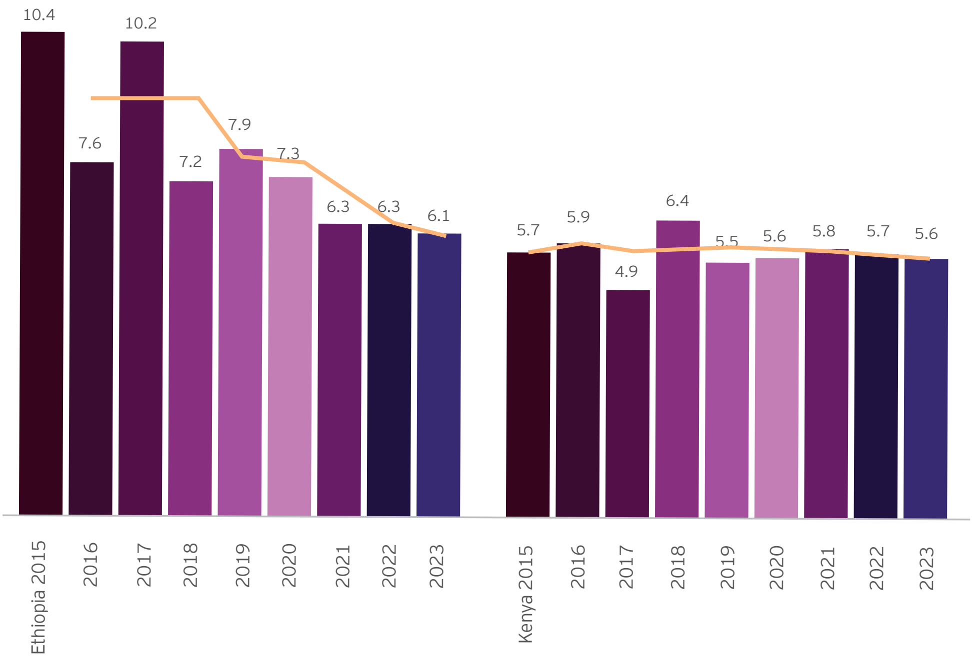
Major economies' recoveries remain limp (South Africa, Nigeria and Angola)

The continent of Africa grew $830bn in 2018, with Sub-Saharan Africa rising somewhat slower, at 2.6%, SSA's slower growth is largely due to three of its largest economies all facing continued challenges. The three collectively account for over half of the region's total GDP ($800bn). Angola remained in recession, contracting another 1.7% during the year; South Africa's growth was barely positive (+0.8%); while Nigeria's growth was moderately stronger, at 1.8%. (Source: Oxford Economics August 2019). Nigeria and Angola's fortunes remain overly reliant on oil prices, and although (as of the time of writing) oil prices have trended higher than they traded in the first half of 2018, the diversification efforts of both countries are too premature to offset any significant downturn just yet. This is problematic at a time of rising trade war tensions, with escalating strife between the USA, under President Donald Trump, and China likely to weaken global growth prospects and result in much slower trade between Africa and its major markets. In addition, recent indicators suggest that the USA itself faces a rising risk of moving into recession, with a survey of economists polled believing there is a growing probability of recession.

East Africa's growth remains world-beating

Kenya has long benefited from consistently strong growth rates and continues to do so. In addition, it is part of the fastest growing region in Africa -- with neighbouring Tanzania, Uganda, Rwanda and Ethiopia all growing well above 5% per annum. Three of its economies are amongst the top 10 fastest growing economies globally. Rwanda, Ethiopia and Uganda were ranked 1st, 4th and 5th respectively in terms of GDP growth rates. Rwanda grew 8.6%, while Ethiopia and Uganda both rose 7.7%. (source: Oxford Economics August 2019). Kenya is forecast to continue growing at these rates over the next five years, supported by a more stable political climate, and a focused approach on agriculture and horticulture exports. Simultaneously, it continues its focus on raising attractiveness in the innovation and technology space, vying to become one of Africa's major tech-hubs.

GDP growth: East Africa; selected economies



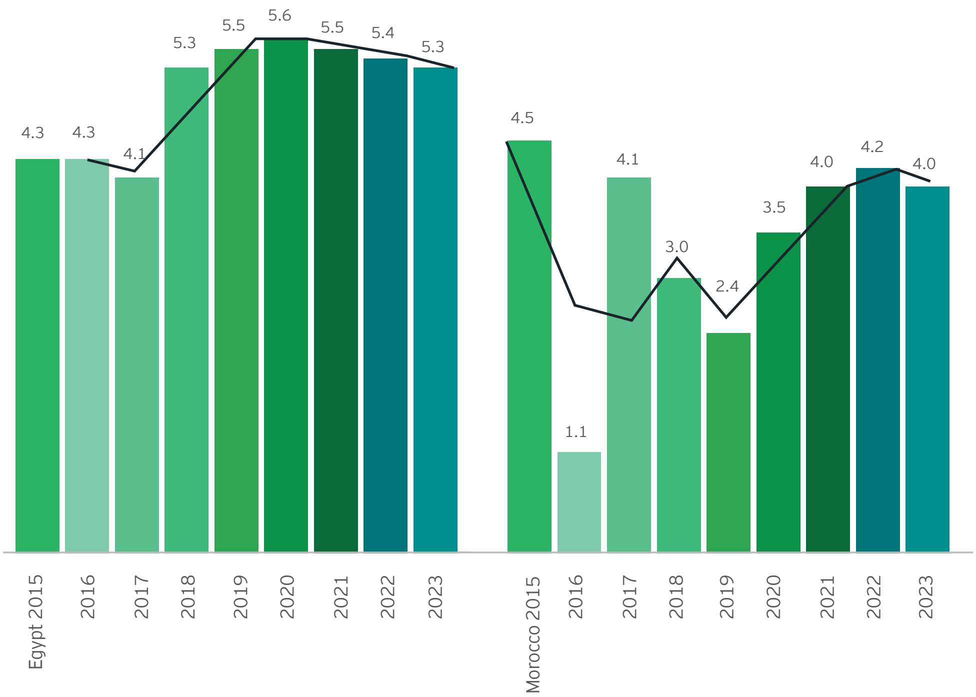
Source: FDI Intelligence, EY analysis

North Africa regains ground

Egypt and Morocco the major destinations for foreign investment. Egypt has already seen growth resume to 5%+ levels (5.3% in 2018), and this is forecast to remain strong over the next five years. This follows stimulation efforts, having devalued its currency, absorbing the shock in the short to medium term, and attracting strong inflows of foreign direct investment. The country has a strong focus on rebuilding its tourism sector, and major interest from the UAE in developing coastal resorts.

By contrast Morocco will see slower growth during the current year, but recovering to average 4% through to 2023. The country has become a major FDI hub attracting vast flows of funds from Europe, particularly France. Government has taken a very sector focused approach, and is encouraging the growth of a strong auto sector as a prominent example.

GDP growth: North Africa; selected economies



Source: FDI Intelligence, EY analysis

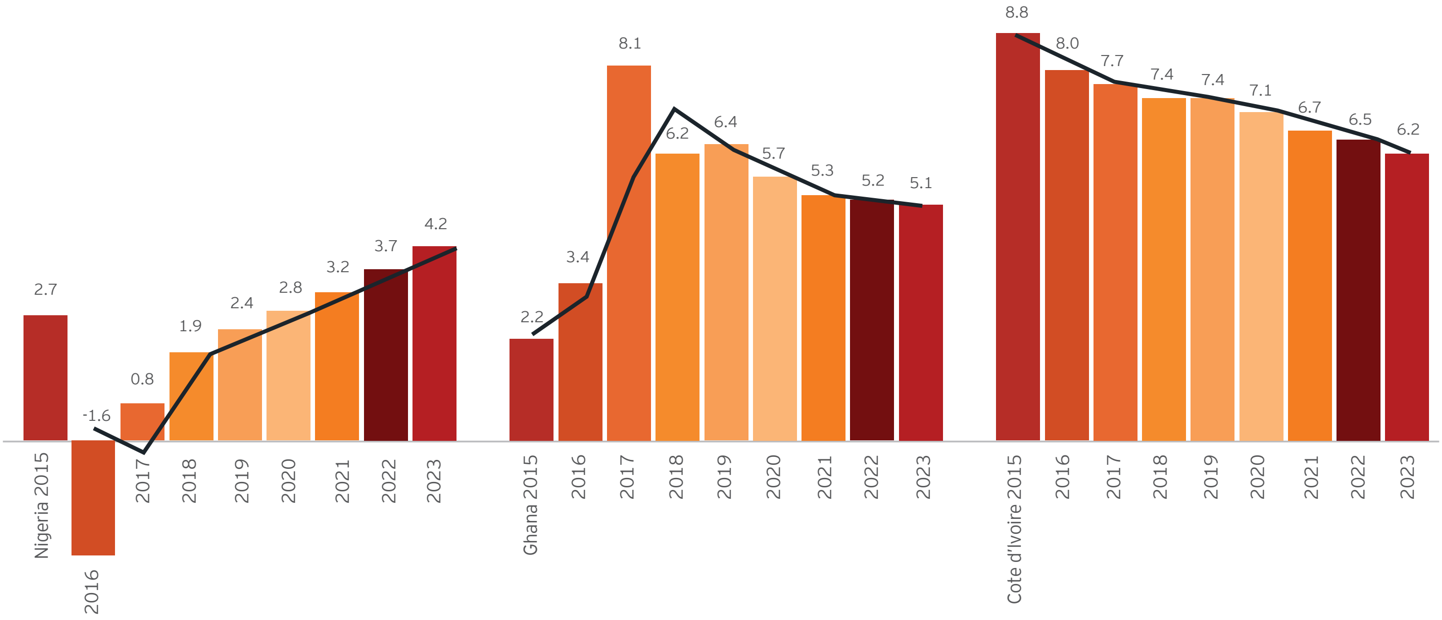
West Africa remains a high-growth region despite its largest economy lagging

Despite its dominance and influence across the western region, Nigeria, is only gradually recovering from the recession it faced in 2015. This recovery has proved to be haphazard, and below its long term growth potential. This is likely to continue through the next five years, with the country struggling to return to the 5%+ growth recorded prior to 2015. Growth is impacted by continued insurgency across the northern parts of the country, along with its over-reliance on oil exports to generate government revenue. Its diversification efforts require time before the benefits begin to kick in, with a major new oil refinery and agriculture production (the country's staple rice crop), likely to start driving growth.

Ghana continues to rank as one of the world's fastest growing countries, despite growth falling somewhat from 8.1% in 2017 to an expected 6.2% in 2017 to 6.3% in 2018. It is benefiting from new oil revenues, and has recently become the continent's single largest gold exporter, overtaking South Africa, which historically held the title.

Cote d'Ivoire remains the single fastest growing economy in the region, and continues to rank amongst the fastest growing economies globally. Although the country still remains heavily dependent on cocoa exports, it is slowly diversifying its economy, and building infrastructure to gear the country up for an increasingly urbanized population. One key risk will be its management of a new currency, having replaced the (French-backed) CFA with a new locally managed currency ECO, to be adopted across eight countries that previously used the CFA.

GDP growth: West Africa; selected economies



Source: FDI Intelligence, EY analysis

South Africa's growth remains below potential

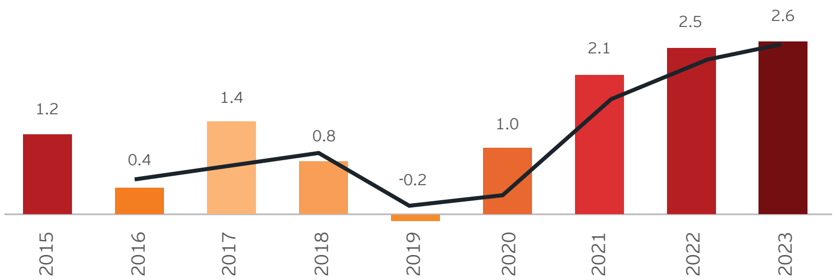
In the 2018 report, we highlighted how South Africa's growth remains well below most other regions across the continent, but that new political leadership provided renewed hope and an increased commitment to action. This has not yet resulted in a strong rebound in growth for the country, which remains challenging (and negative in the first quarter of 2019). As a result of lacking economic reforms, growth in South Africa continues to under-perform population growth. Each year that means more and more people entering the workforce than there are jobs for. This was recently seen in the latest unemployment statistics, hitting a 16 year high of 29%.

Critically lacking is confidence, both at the consumer and business level, and the private sector holding off on new capital spend until more certainty on the country's future direction emerges. South African Reserve Bank data indicates that 'real private gross fixed capital formation' declined for a sixth consecutive quarter in the first quarter of 2019. This means South Africa's corporate sector investment has continuously contracted for at least the last year and a half. (Source: *South African Reserve Bank Quarterly Bulletin June 2019*). Meanwhile business confidence remains well below its long-term average, with the latest SACCI business confidence index reaching 92 in July 2019. This is considerably below the 20 year average of 109. (Source: *SACCI Business Confidence index*).

Government urgently needs to articulate policy direction, address a number of failing state-owned-companies, and resolve the ongoing land reform issue, while simultaneously making itself a more business-friendly destination; South Africa has slipped 50 notches on the World Bank's annual Ease of Doing Business rankings over the last 10 years. Its ranking is at an all-time low (82 in 2018), from 32 in 2008. The country's reforms need to urgently address the power challenge. State power utility Eskom is over-indebted and has not to date communicated a plan to address its financial or operational shortfalls.

All of these factors combined are threatening South Africa's investment grade status. Already two of the three major global credit ratings agencies have rated the country as non-investment grade, and Moody's has South Africa's status on 'negative outlook', meaning that it could also downgrade South Africa later in 2019. This would have immediate consequences in funding government debt, as well as the banking sector's pricing as the cost of capital raises.

GDP growth: South Africa



Source: FDI Intelligence, EY analysis

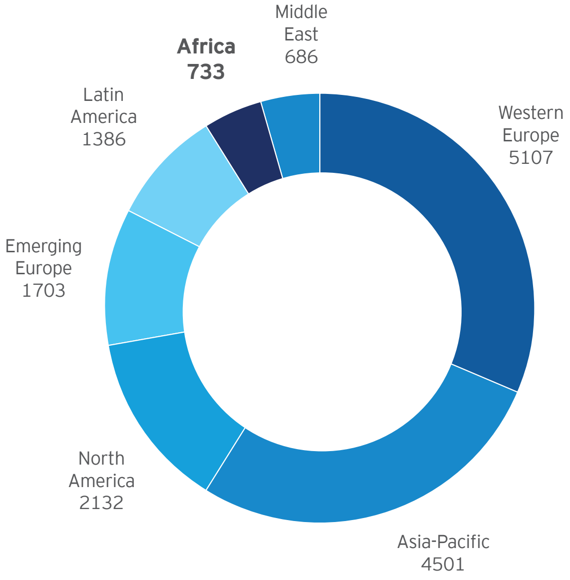
2

FDI Highlights

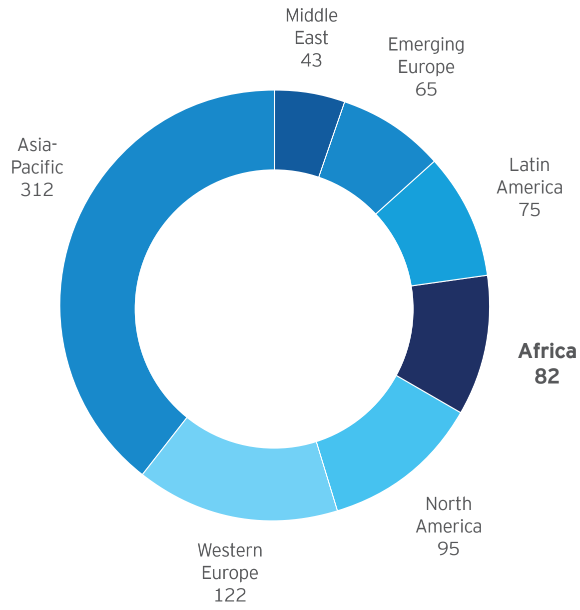
Job creation from FDI hits a five year high.

FDI into Africa remains small by global standards, but prominent in relation to GDP

FDI: Average projects per year 2014 - 2018

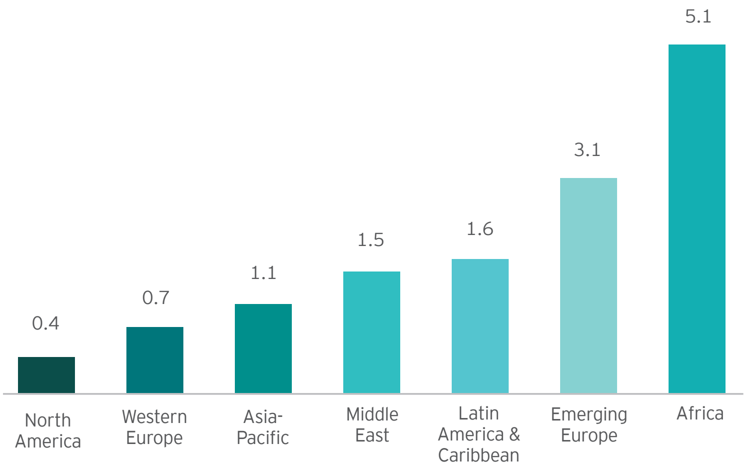


Average FDI per annum US$bn 2014 - 2018



Source: FDI Intelligence, EY analysis

FDI to GDP (US$bn, based on 2018 GDP data)

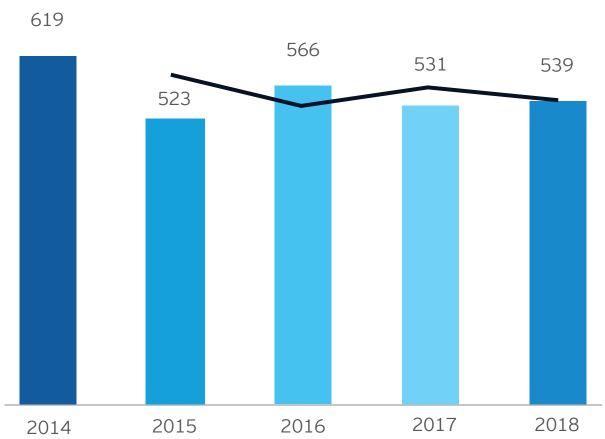


Source: FDI Intelligence, EY analysis

Historical trends

FDI remains largely steady (on a score based on projects, jobs and capital)

5 year FDI trend



FDI based on simple average of three criteria: projects, jobs and capital investments.

Source: FDI Intelligence, EY analysis

The continent has not yet managed to recover from 2014 highs, and remains below the five-year average. On the plus side, job creation from FDI hit a five year high, at 170 000 new jobs created.

	Projects	Jobs 000	Capital US$bn	weighted criteria score*
2014	790	168	91.7	619
2015	793	140	65.1	523
2016	676	124	91.5	566
2017	655	132	82.1	531
2018	710	170	75.5	539
Average	**705**	**147**	**81.2**	**549**

*Criteria is the average equally weighted score for all three variables (projects, jobs, and capital)

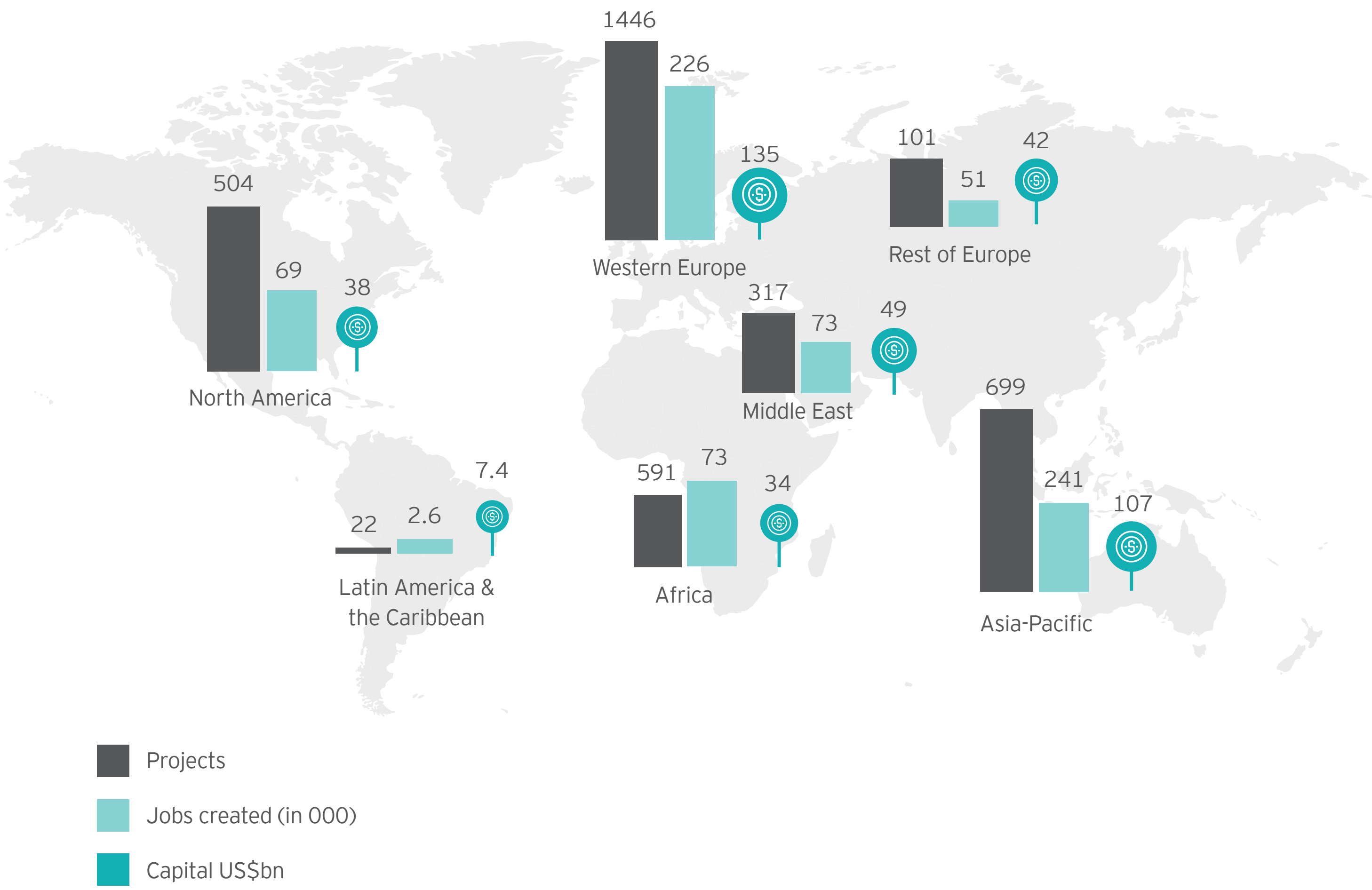

UNDERSRANDING CONSUMER EXPANSION
PRINT MEDIA
PUBLIC RELATIONS
SOCIAL MEDIA
55%
22%
16%
9%

3

FDI by source, by region and by country

> “The USA and France remain Africa’s single largest investors.

Key investors by region FDI 2014 - 2018



Source: FDI Intelligence, EY analysis

The USA and France remain Africa's single largest investors, with the US and UK resting – especially into SA and other English-speaking markets. We have commented before on the strong historical relationships, often based on language and historical ties. France remains the key investor into French speaking Africa, whilst Portugal and Brazil invest primarily into Portuguese speaking Angola and Mozambique (although on a small scale in absolute terms).

In addition, the role and influence of Africa investing increasingly in its own back yard continues to grow. In this regard, South Africa remains by the far the most extensive investor into the rest of the continent, as it has the widest geographical spread, across the most sectors, among African nations. Having said that, both Kenya and Nigeria remain influential within the East and West respectively, whilst Egypt and Morocco are influential across the North region.

Last year saw South African investors place a record 10 projects in Nigeria, totalling $375m. This was by far its greatest FDI commitment over the last five years. Kenya also saw a sharp rise in South African inward bound investment during 2018, attracting $190m in capital spread across six projects. On the other hand, South Africa's FDI into both Ghana and Mozambique slowed last year, although from a relatively high base.

FDI 2014-2018 by source: 10 largest investors

Country	Projects	Jobs created	Capital US$m
USA	463	62 004	30 855
France	329	57 970	34 172
UK	286	40 949	17 768
China	259	137 028	72 235
South Africa	199	21 486	10 185
UAE	189	39 479	25 278
Germany	180	31 562	6 887
Switzerland	143	13 363	6 432
India	134	30 334	5 403
Spain	119	13 837	4 389

Source: FDI Intelligence, EY analysis

Split between Mature and Emerging Markets investors (%)
Emerging market investors initiate fewer FDI projects but provide more capital

	Projects	Jobs created	Capital
Emerging	34	51	53
Mature	66	49	47
Total	**100**	**100**	**100**

Source: FDI Intelligence, EY analysis

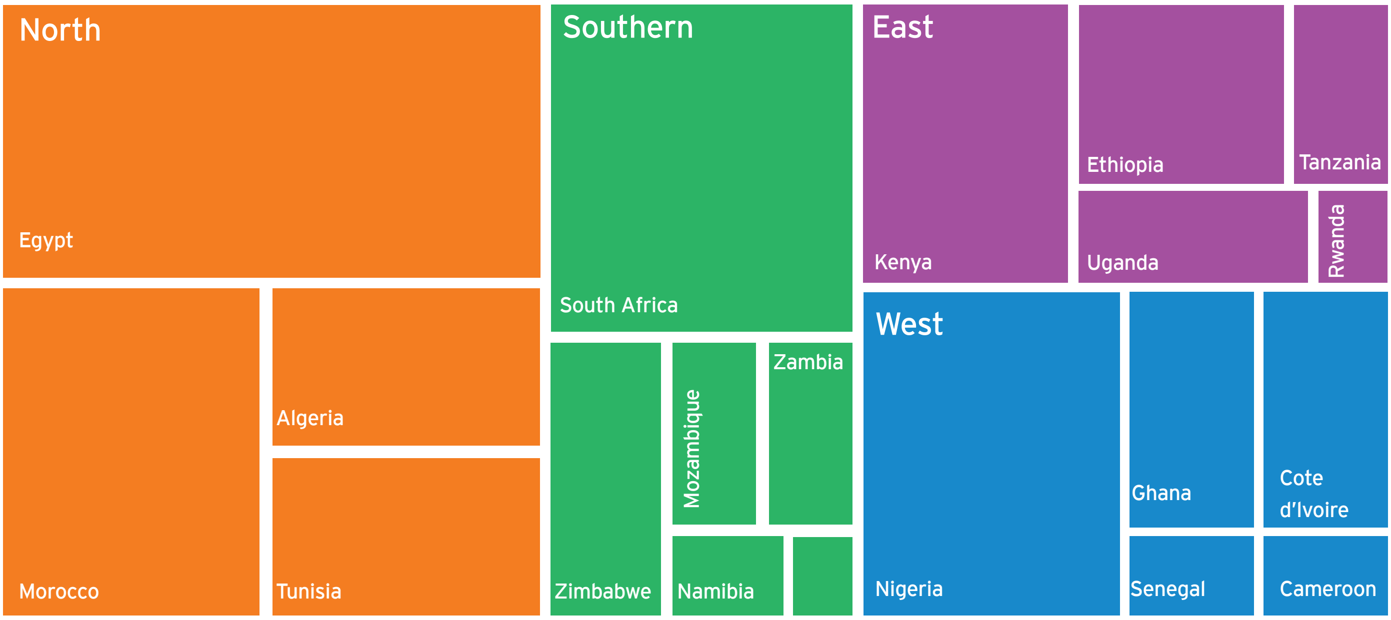
China is increasingly becoming a force to be reckoned with, but overall the BRICS grouping remain small relative to investors overall (with both China and India more present, while Russia and Brazil have been less engaged in Africa).

Emerging Market investors are becoming more prominent, accounting for only 34% of total projects, but for more than half of both jobs created and capital investments. Mature investors, on the other hand, dominate in terms of number of projects, but generally commit less capital and create fewer jobs than their emerging market peers.

Key regions attracting FDI

For the first time, we have analysed FDI trends based on three criteria to determine the largest regions (and markets). In the past we largely focused on project numbers as being the most critical variable but have changed that approach to reflect more poignantly the contribution that all three elements provide. For the first time, we have included a weighted average, incorporating **project numbers, jobs created, and investment** (measured in US$m) to determine overall FDI.

Regional FDI based on 3 criteria (projects, jobs and capital)



Based on average weighted score of three FDI criteria – jobs, capital and projects

Source: FDI Intelligence, EY analysis

Using this scoring mechanism provides a more comprehensive assessment of FDI. Understandably, it yields differing results to previous years and indicates that North Africa leads as an FDI destination. Egypt exceeds South Africa in FDI activity, with Morocco placed third. While South Africa attracts more projects than Egypt, the latter attracts more than double the capital and also creates nearly three times more jobs than South Africa. North Africa led in FDI in 2018, with two key markets attracting the bulk of FDI – namely Egypt and Morocco. Already in 2017, Morocco shared joint first spot with South Africa as the primary FDI destination in Africa (based only on project numbers). Morocco (now joined by Egypt) are redefining the FDI landscape, as they focus on pragmatic market-led policies in attracting a greater share of foreign investment. These efforts appear to be yielding positive results, making the North region the biggest beneficiary of FDI in Africa last year.

This is followed by Southern Africa, East Africa and West Africa, with South Africa the major contributor to the Southern region's dominance, its diverse economy offsetting slow growth and weak investor appetite. South Africa's ability to remain a forceful FDI destination will depend on the country resolving its political instability in the ruling party, providing leadership, and building a vision that it can unite behind. Failing that, it may find its prominent FDI position may further wane.

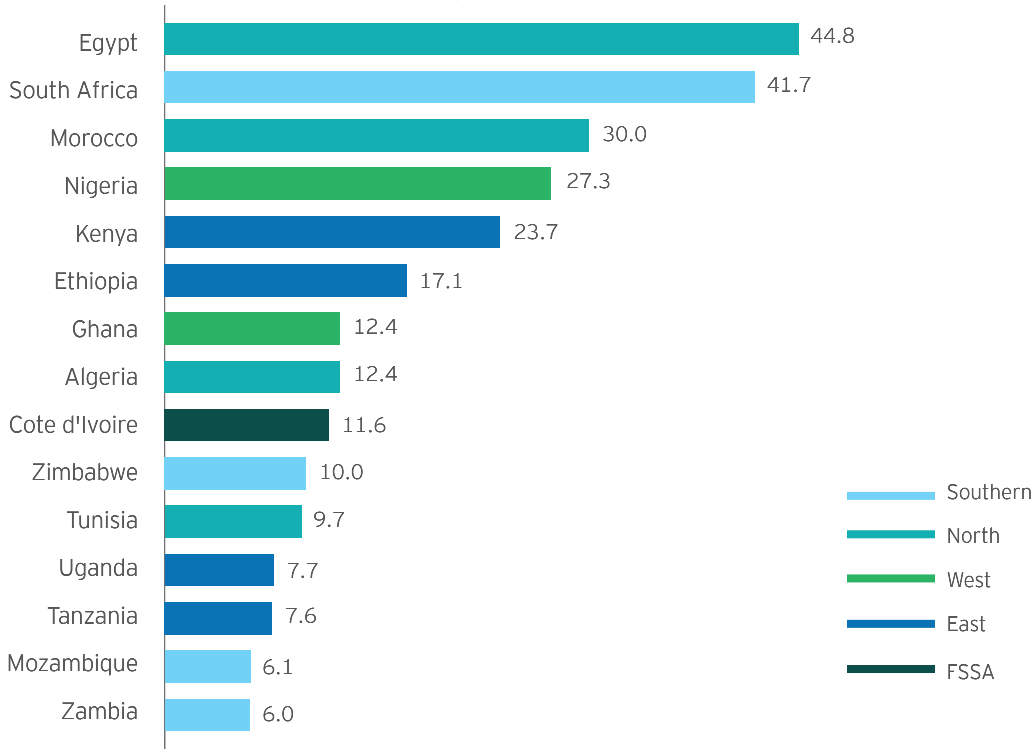
East Africa is the third largest region, outpacing West Africa (despite the sheer size of Nigeria's economy) due to its consistent strong growth, which has exceeded 5% for all of the KURT countries (Kenya, Uganda, Rwanda and Tanzania), as well as neighbouring Ethiopia. As a collective hub, these five countries enjoy an economy worth $265bn, led by Kenya ($88bn), Ethiopia ($79bn), Tanzania ($58bn), Uganda ($29bn) and Rwanda ($10bn). This makes them somewhat smaller than either Nigeria ($372bn) or South Africa ($370bn), but with annual compound growth rates that will see the region becoming more economically influential over the next decade, as its stronger growth gives the region greater clout.

West Africa, led by Nigeria, remains a key FDI hub. It attracts major TMT FDI, in line with its rising Technology hub focus. Despite Nigeria's economy remaining hamstrung by restrictions on foreign exchange and a small concentrated tax-base, it saw a rise in FDI in 2018, following two slower prior years. Similar to South Africa's position, Nigeria's ability to attract greater FDI will depend on its willingness to adopt much needed policy reform, and to unite behind a vision that builds on its successes to date. Neighbouring Ghana and Cote d'Ivoire are also increasingly important FDI destinations, both growing in excess of 5% and attracting investor interest as a result.

Key markets (countries) Egypt leads in FDI, followed by South Africa

Per our regional analysis highlighted above, we have used a similar approach to measuring FDI at the country level. The results yield some interesting take-aways, including Egypt's leading position in 2018. This is closely followed by South Africa, with the results indicating that FDI largely follows a number of critical forces, namely, economic growth; policy reform; diversification and GDP size. South Africa's consistent (although waning) dominance in FDI is at least partially due to its diverse economy providing more investment opportunities to take advantage of. Single commodity dependent economies (Angola and the DRC provide evidence) have far fewer investment opportunities, and hence feature less prominently in overall FDI. Lastly, policy and consistency in applying policies are also desirable to attracting foreign investment. Rwanda provides strong evidence that economic reform and business driven policies attract greater investor interest. Rwanda's economy is relatively small (even by African standards), yet it exceeds many larger economies in its ability to attract FDI. (NB It ranks at 17th on FDI score, slightly below Zambia and Mozambique, despite having no extractive opportunities, and a small population of 12m citizens).

FDI by weighted criteria: 2018
15 largest FDI recipients



Source: FDI Intelligence, EY analysis

South Africa leads in FDI projects, with Egypt taking a clear lead in capital investments and jobs

FDI:15 largest recipients

Country	Jobs 000	Capital US$bn	Projects
Egypt	32	12	91
South Africa	12	5	110
Morocco	15	5	71
Nigeria	10	8	65
Kenya	6	2	64
Ethiopia	16	7	29
Ghana	7	1	30
Algeria	10	9	18
Cote d'Ivoire	4	2	30
Zimbabwe	6	6	18
Tunisia	10	1	19
Uganda	6	0	17
Tanzania	3	1	19
Mozambique	1	2	15
Zambia	2	1	15

Source: FDI Intelligence, EY analysis

“

Rwanda provides strong evidence that economic reform and business driven policies attract greater investor interest.

4

FDI by sector

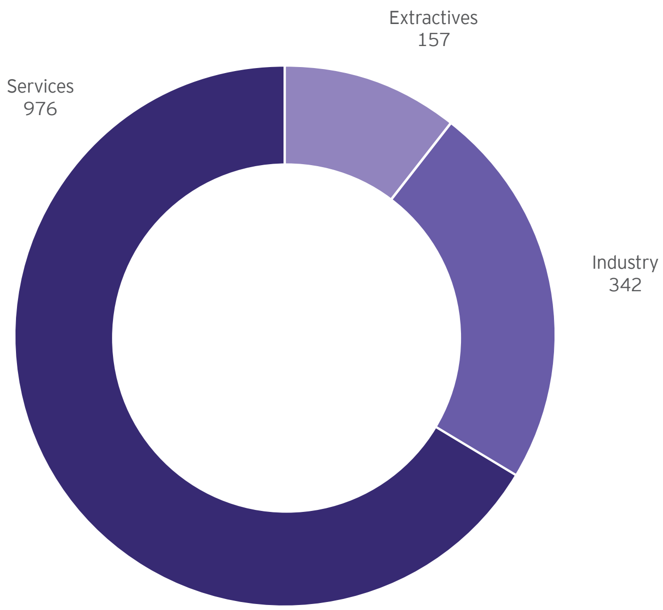
> Whilst Africa is somewhat behind the curve in terms of tech maturity, there is a strong focus on building tech capability to enable the rising urban populations

Key sectors

The shift away from Extractives FDI continues, although commodity price recovery saw stronger Extractives FDI in 2018. Even though Extractives continue accounting for a considerable portion of inbound capital (36%), in terms of project numbers and job creation, extractives rank low in comparison to both Services and Industry. That is due to its relatively low number of projects (7% of the total), and the low share of jobs created (11%).

Although Services receives the least capital ($92bn over five years) of the three industry groupings, it creates the most jobs (2.5m between 2014 and 2018), and accounts for 77% of the projects coming into Africa.

FDI score by Industry segment 2014-2018



FDI score based on 2014-2018 data (projects, jobs created and capital invested)

Source: FDI Intelligence, EY analysis

Services remain the major focus (encompassing Retail, Financial Services, Telecoms, Media and Technology, Business Service and Leisure)

Within Services, Technology dominates

This is no different to FDI in other regions across the globe. Europe also continues to see stronger Technology FDI, as the increasing pace of digital transformation drives this inward investment. Whilst Africa is somewhat behind the curve in terms of tech maturity, there is nevertheless a strong focus on building cloud computing to facilitate demand for rising urban populations. Business Services also continues to see stronger levels of inward investment, as urbanizing populations and rising consumer demand stimulates corporate activity.

Shift to 'new-age' sectors

Telecoms, Media and Technology (TMT) accounts for a rising share of FDI. Indeed, it was the single largest sector attracting inbound investment in 2018. Within TMT, there has been a shift from Telecoms as the major area of investment to a broader spread of investment with Technology playing a key role. That is not to suggest that Telecoms is of less interest to investors. The need to enhance existing networks to accommodate 49 and 59 across Africa remains urgent. It is probably more critical in Africa than any other region in the world, given Africa's infrastructure deficit, and the means it provides to connecting people, thereby providing them a means to earning a living. With voice maturity in the telecoms sector having grown more rapidly in the last ten years than anywhere else in the world, the next area of focus for telecoms operators will undoubtedly lie in data rollout. In Africa this inevitably comes at greater cost than most other regions, given the lack of suitable infrastructure in many instances, adding to the costs of importing and moving the needed equipment to the right locations.

But FDI into Financial Services is declining over the longer term; that is due to a combination of factors, including slower GDP growth cited above, and the fact that substantial historical investments have already been made in this space; leaving less new investment potential, at least for the moment, and until GDP growth resumes to pre-2015 levels.

Accompanying this intensified focus on data, there is a similar move afoot by global technology companies to build a continental presence. The demand for cloud computing across Africa is rising, driven by increasing urbanization and corporate demand. This rise in demand for technology is spurring on tech hubs. In our 2017 report, *'Connectivity Redefined'*, we pointed out that Africa already hosts a number of tech hubs. Since then, tech hubs are rising in prominence. To a large extent, the hubs are located where a suitable enabling environment can be found. Cape Town and Lagos lead the tech-hub race, with more tech-hub locations, where governments provide incentives and the necessary infrastructure (most importantly, a suitably educated skills base). Forbes magazine cites South Africa, Nigeria and Egypt as being the most established tech hubs, and adds that growth exceeded 40% in the first half of 2019, with over 600 hubs now established across the continent.

Source:
https://www.forbes.com/sites/tobyshapshak/2019/07/11/africas-booming-tech-hubs-are-backbone-of-tech-ecosystem-having-grown-40-this-year/#5451cecd24c2

Consumer Products & Retail investment remains strong, albeit weaker than 2017 levels. It is the sector that creates the most jobs, accounting for just under 80% of all FDI services related job creation over the last five years.

Microsoft to spend $100 million on Kenya, Nigeria tech development hub

Microsoft Corp will invest $100 million to open an Africa technology development center with sites in Kenya and Nigeria over the next five years. Global tech giants, including Alphabet Inc and Facebook, have been increasing investment on the continent in recent years to take advantage of growing economies with rising access rates to the internet by a youthful population.

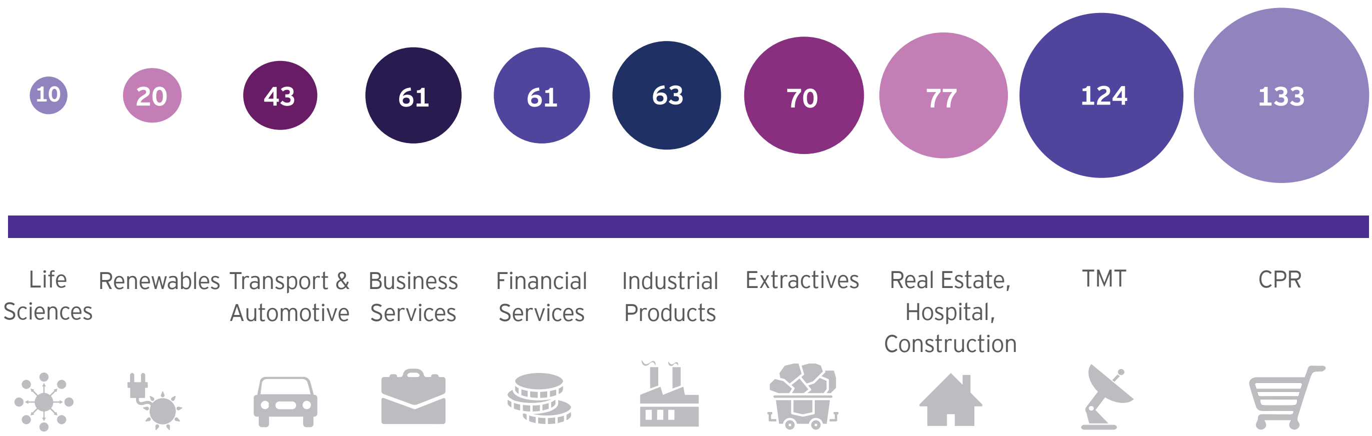
Microsoft will hire more than 100 local engineers by the end of the first year to work in the new Africa facility in both countries to customize its applications for the African market and to develop new ones for the continent and beyond. Microsoft expects to hire 500 engineers by the end of 2023.

Microsoft said this investment in Africa Development Centre infrastructure and employment of qualified local engineers is expected to be worth $100 million in the first five years. This follows the March launch of its first Azure data centers on the continent, in Cape Town and Johannesburg, in South Africa.

Source: https://www.africanews.com/2019/05/14/microsoft-to-spend-100-million-on-kenyanigeria-tech-development-hub//14 May 2019

Prominent sectors

FDI projects by sector: 2018 Total projects 710

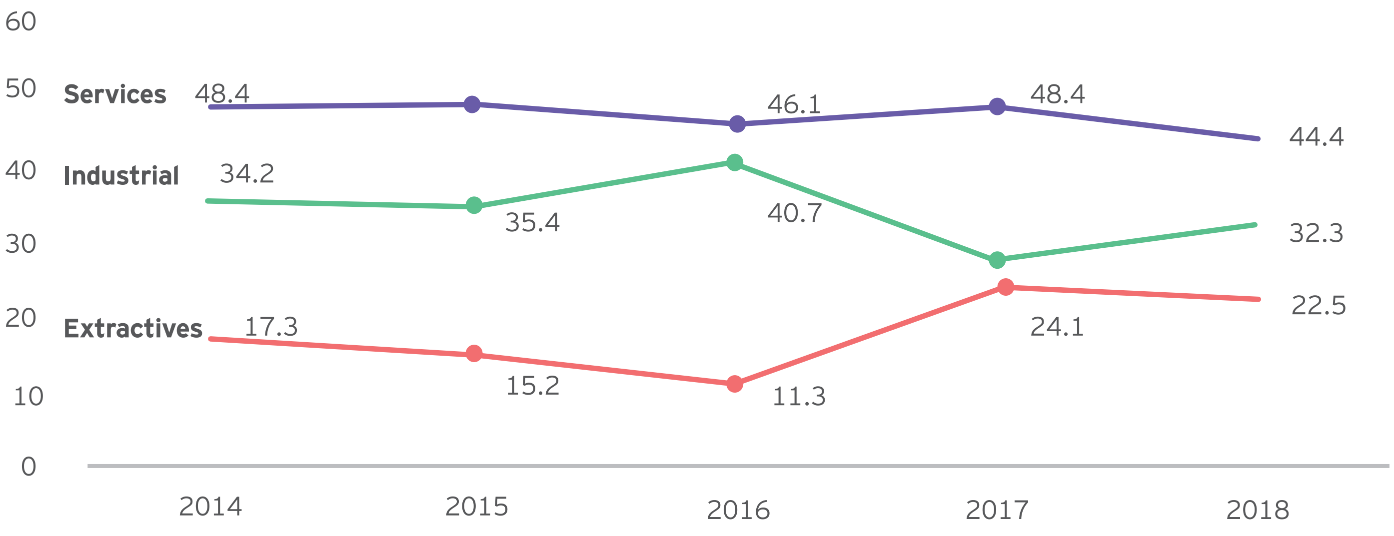


Source: FDI Intelligence, EY analysis

The consumer sector remains prominent and over five years accounts for: 17% of the total Services projects; 27% of jobs created in Services; and 21% of the inflowing capital into Services across Africa. Recently it has overtaken Financial Services (as the latter has seen fewer investment opportunities), and its share of the overall Services industry segment will likely continue to grow relatively faster. FDI into the Consumer segment is driven by the need for feeding and clothing rapidly urbanizing populations, and in tandem with this rising income levels (although the last few years have seen a slowing in this trend in the major economies).

The automotive sector is concentrated in a few key hubs, with South Africa's long- established automotive sector seeing continued brownfields investments. Morocco has become increasingly active, and continues to encourage investment, particularly from French auto-makers. The country is making use of its geographic proximity to Europe, and its relatively lower paid working force to build its capacity in this space.

Industry share of total FDI (%)



Services share of total FDI (%) based on average of projects, jobs and capital

Year	Life Sciences & Healthcare	Financial Services	Telecoms, Media, Technology	Business Services	Consumer	Transport & Logistics	Services
2014	1,3	7,8	11,3	4,7	18,3	5,0	48,4
2015	3,5	6,5	9,9	9,0	14,6	4,9	48,4
2016	1,4	4,3	10,2	6,5	12,5	11,2	46,1
2017	1,4	4,6	10,3	3,9	23,1	5,1	48,4
2018	0,9	3,6	11,9	4,3	18,1	5,6	44,4

Industrial share of total FDI (%) based on average of projects, jobs and capital

Year	Manufacture	Renewables	Construction & Real Estate	Automotive	Industrial
2014	7,1	4,9	17,1	5,1	34,2
2015	8,2	7,9	11,6	8,7	36,4
2016	6,3	5,8	21,6	9,0	42,7
2017	9,5	3,0	10,1	5,7	28,3
2018	10,0	2,5	12,6	8,1	33,2

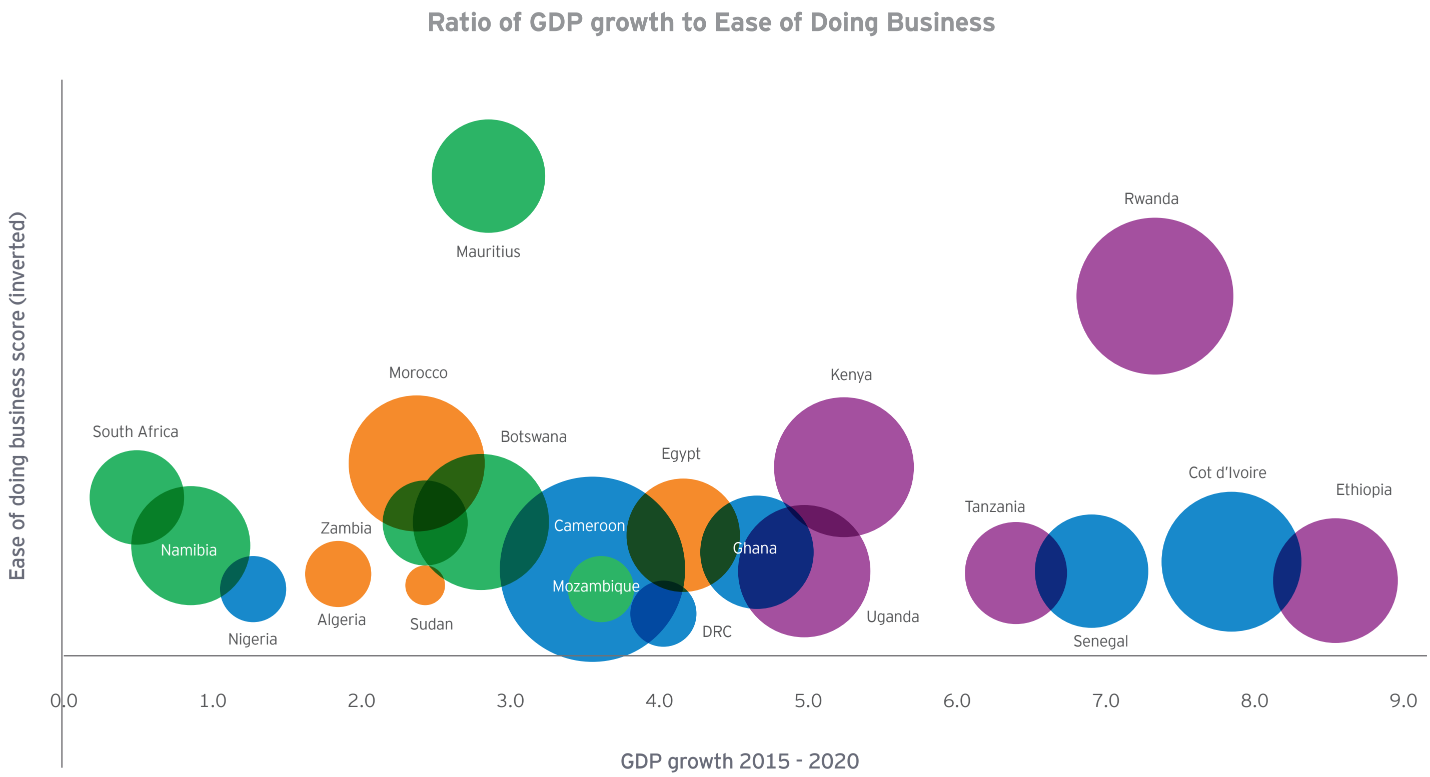
5

Assessing FDI leaders and laggards

In last year's report we assessed which countries could be considered more successful in the competition to attract foreign investment. While South Africa and Morocco were deemed to receive the most FDI in absolute terms when measured relative to the size of their economies, they were outpaced by the likes of Rwanda, Kenya and Ethiopia, and we attempted to assess what the drivers behind that might be. We concluded that those countries adopting business friendly approaches and easing bureaucratic processes tended to fare better, while those regressing on these fronts, tended to fare less well. We revisit that framework this year to understand how robust that theory is.

In order to build our hypothesis, we compare the FDI/GDP ratio to the annual World Bank Ease of Doing Business (EoDB) score.

Most African countries score weakly in the EoDB rankings



Size of bubble indicates FDI score to GDP

Source: Oxford Economics, FDI Intelligence, EY analysis

Mozambique, Rwanda, Cote d'Ivoire, Uganda, Kenya and Morocco stand out as receiving the highest proportion of FDI (relative to their GDP size).

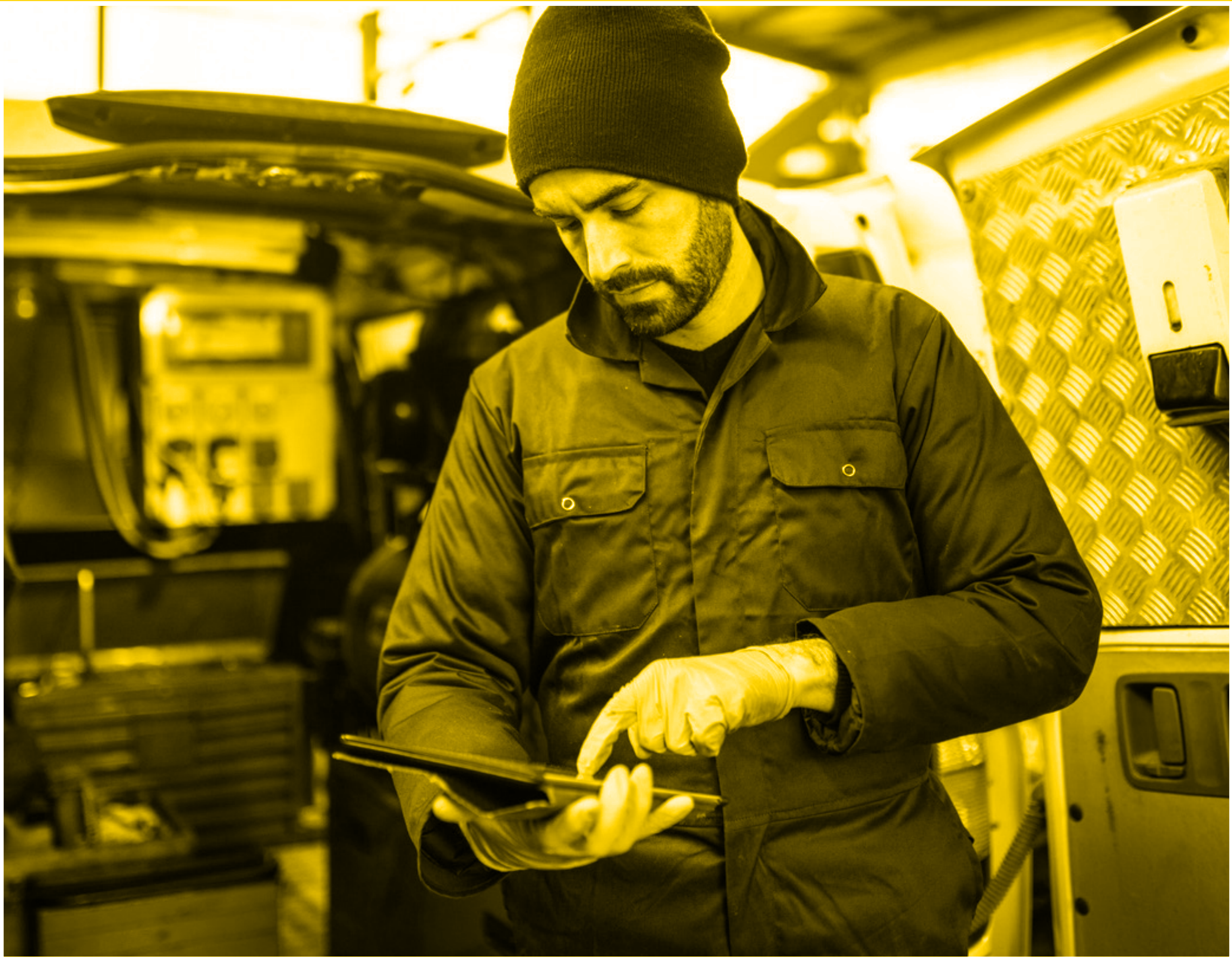
On the other end of the scale, Sudan, Angola, Tanzania and Nigeria receive proportionally much less FDI (and in line with very unattractive scores on the World Bank's annual scale).

All of the major economies (South Africa, Nigeria, Egypt, Angola and Egypt) lag in terms of FDI/GDP. Angola and Nigeria come in for particular mention, as both are heavily dependent on oil export revenues and score very weakly in the EoDB rankings, illustrating the need to open the economy through diversification and tap into foreign investment as a means to kick-starting growth (which has largely stalled over the last few years).

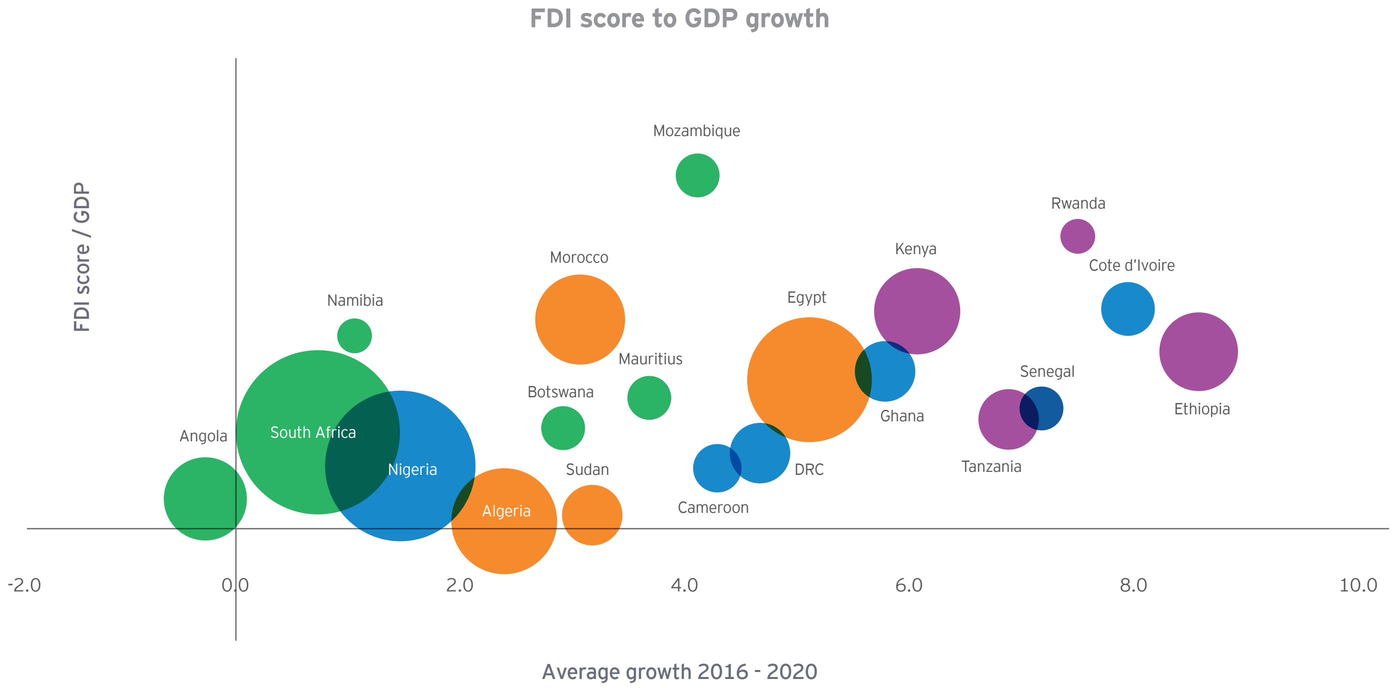
Only two African economies make it into the first quartile of Ease of Doing Business rankings, namely Mauritius and Rwanda. The latter strongly enjoys the benefits of its efforts, scoring 0.35 per $1bn of GDP, using our FDI scoring methodology explained above, nearly double the continent's average. This is the third consecutive year that Rwanda has exceeded its peer group (by a substantial margin) in attracting disproportionally more FDI than its economic size seems to warrant.

This illustrates the need for African leaders to continue along the path of economic reform. For the most part, the largest economies attract FDI on the basis of market size and projected growth rates (although, as mentioned above, in some cases this is limited to only one or few key sectors in the extractive space). The prevalence of countries operating in the bottom left quadrant of the above chart indicates that nations that are considered investment-unfriendly are under-performing in their ability to attract foreign investment.

This is compounded when growth rates are either already lagging the peer group or are expected to lag the peer group. South Africa comes in for special mention, having lagged Africa's growth considerably since 2011, and with the expectation that this will continue for the foreseeable future. Adding to our analysis, we also correlate GDP growth with FDI, which gives a perspective on how significant growth is as an attractor of FDI.



There is a relatively strong link between FDI and growth



Growth is based on Oxford Economics 5 year growth 2015 – 2020 (2019 and 2020 being growth forecasts)

Size of bubble indicates GDP in US$bn

Source: FDI Intelligence, EY analysis

The graphic illustrates that there is a strong association between FDI inflows and growth. The large economies with lagging growth (South Africa, Angola and Nigeria) all have much lower FDI scores than the larger economies with stronger growth outlooks enjoy (Egypt, Morocco). And the mid-sized economies with strong growth prospects also exceed others in terms of attracting FDI (Ethiopia, Kenya and Cote d'Ivoire).

We conclude this section by flagging the countries that score highly on both criteria (business friendliness and high growth). Rwanda stands as a clear outlier, gaining a greater share of FDI than its peers on both measures.

Countries with strong growth but that are complex for business continue to attract investment largely in a few key sectors (and still therefore attract large extractive projects). The DRC is a case-in-point. Its growth is still largely determined by commodities and the complexity of governing a vast geography with little social harmony tends to keep investors away. Mozambique also remains heavily dependent on commodities for growth, but it has a wider array of projects across extractive sectors, thus exceeding its peers in terms of attracting FDI.

6

Looking ahead

> “The digital age is allowing governments to connect and serve their citizens more affordably and rapidly than before.

How can Africa stimulate greater FDI?

Set a policy framework that is focused, business-friendly and builds competitive advantage.

Many of Africa's economies lack sufficient economic diversity, being over-dependent on one or two key commodities. This typically leads to regular macro-shocks, which are difficult to recover from, and delaying the objective of reducing poverty and enhancing incomes. Diversification must concentrate on industries that have natural advantages (agri-processing is one clear example.) Identifying comparative advantage industries, and driving policy towards stimulating those industries is essential. In addition, monetary and fiscal policy also need to support these initiatives. (Nigeria and Angola are struggling to diversify due to a lack of foreign exchange, and central banks that finance exchange rates, preventing them from meeting their long-term ambitions).

This must be supported by using technology, allowing leapfrogging of infrastructure wherever possible. The digital age is allowing governments to connect and service their citizens more rapidly and cost effectively than ever before. From identification to licensing, the age of big data allows for enhanced service delivery by government to its citizens. This will continue to rise in importance as Africa continues to urbanize, overcoming the legacy problem of remote populations. It will also become more critical for Africa's political leaders to provide enhanced services, as political freedom becomes more commonplace (as has been the trend for the last 25 years).

Critical to achieving its overall vision is the issue of trust. Francis Fukuyama points out that nations with large trust deficits face a steep uphill battle to achieve results for the greater benefit of the population. Building trust in turn, requires agreement amongst all the stakeholder groups on an agreed vision, and buy-in to play a role in its rollout. (Source: Identity-Contemporary Identity Politics and the Struggle for Recognition, Francis Fukuyama. November 2018. Profile Books Ltd - 978-1-78125-980-1)

Rwanda stands out as a country that has built a common vision aimed at raising income levels by identifying selected key industries and / or comparative advantages it can compete in. The country is positioning itself as a regional headquarters for global companies, (competing with Kenya in the process), building up transport links to facilitate easier travel into and out of the country. This is reflected in its rising Ease of Doing Business score, and its ability to attract FDI well ahead of other countries (referred to in the chapter titled FDI by Country above). More countries could enhance their investment attractiveness by building a common sense of purpose and driving the necessary actions to achieve those goals.

Resolve political disputes and building a compelling vision is critical

Last year, we pointed out that a new realm of leadership and election cycles could lead to a new era in continental growth. This was apt of the three largest Sub-Saharan economies, as well as a few other prominent countries.

- A change in President in Angola set the stage for a new era in governance and a commitment to rooting out corruption.
- In Nigeria, elections held in February saw the incumbent remain in office, despite what was a tightly held election.
- In South Africa, a new President also brought the hope of a new bold vision based on enhanced governance and prioritizing economic growth.
- In Ethiopia a newly appointed 'outsider' President with a reformist agenda also brought the promise of a new, fairer dispensation.

In Zimbabwe, the new President won his first election race, promising to implement a new business focused agenda.

Thus far there is little evidence to suggest that sweeping political changes have brought about tangible benefits. Angola remains stuck in recession, with little appetite for opening the economy more broadly to foreign investors. It is an extremely difficult place to conduct business, and requires major structural economic reform before it can expect to entice investors.

In South Africa, the ruling President continues facing internal challenges and setbacks to his authority making it difficult to implement the critical policy reforms that are needed to kick-start desperately needed growth.

Across the border in Zimbabwe, initial promising signs of a new dawn quickly subsided after government relaunched a local currency, and set in motion the grounds for a return of hyper-inflation.

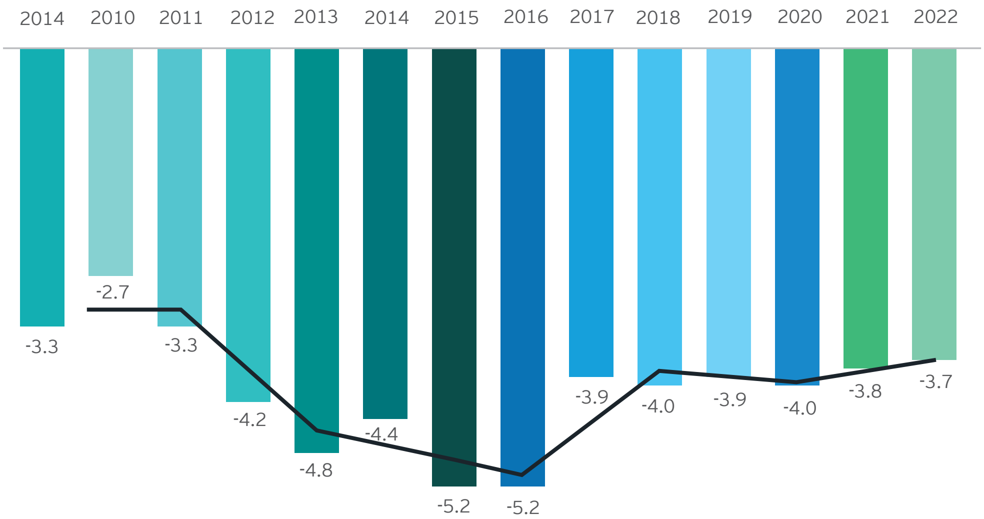
Nigeria's reappointment of President Buhari has seen continued lethargy on the part of government to prioritize and drive a reform agenda.

Only in Ethiopia are there encouraging signs that reform (both political and economic) are being driven in the quest for sustainable inclusive growth. Ethiopia has committed to liberalizing foreign entrants into key sectors (including Financial Services and Telecoms), and is partnering with outside investors (particularly China) to build a low cost manufacturing hub.

Managing public debt at sustainable levels

Africa is currently running budget deficits (as a percentage of GDP) above the recommended norm of 3%, and has been doing so since 2011. This peaked in 2015 and 2016, and should subside from current levels, but is still not expected to meet the recommended norm within the next five years.

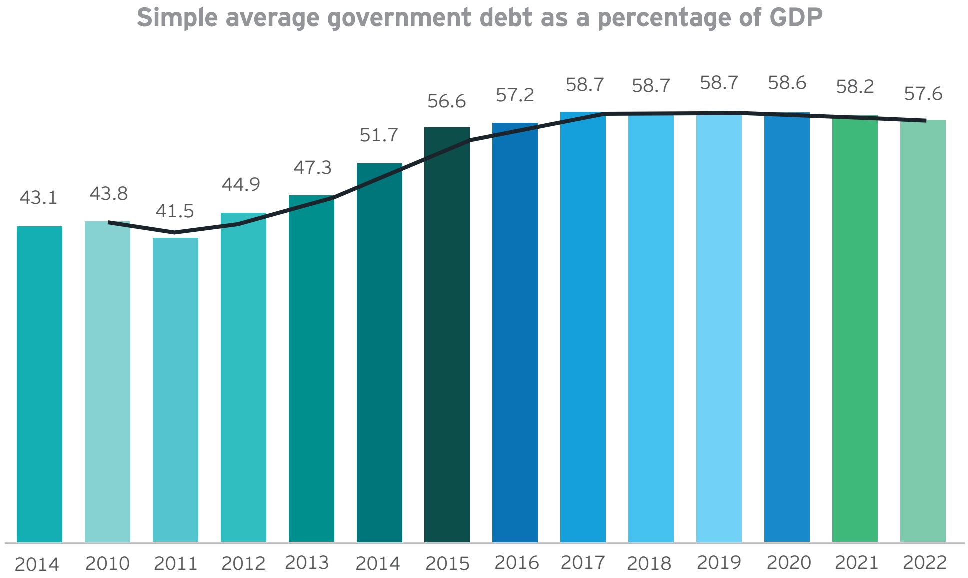
Simple average budget deficit as a percentage of GDP



Countries included in the study are Egypt, Morocco, Angola, DRC, South Africa, Kenya, Nigeria, Ghana, Ethiopia and Cote d'Ivoire.

Source: Oxford Economics, EY analysis

Overall debt levels peak between 2018 and 2020, reducing only gradually



Countries included in the study are Egypt, Morocco, Angola, DRC, South Africa, Kenya, Nigeria, Ghana, Ethiopia and Cote d'Ivoire.

Source: Oxford Economics, EY analysis

Although the overall debt-to-gdp ratio for the selected countries is well within mature market norms (which often exceed 100%), sentiment towards Emerging Markets is far more volatile and impacts on the cost of servicing debt far more dramatically than what it does in the case of mature economies. This can be seen in the currency volatility that have impacted certain markets over the last few years. Turkey, Argentina and South Africa get special mention, as all three have faced bouts of severe currency depreciation over the last two years or more. All of the three countries have a large portion of government debt dominated in external currency, meaning higher investment risk.

The next five years will see the major African economies needing to manage debt levels, as the impact of slower growth, coupled with rising demands on the fiscus keeps national finances tightly constrained. The bulk of the increase in national debt levels occurred between 2014 and 2016, when weak commodity prices pushed Angola and Nigeria into running national budget deficits. Meanwhile, South Africa struggled with internal political dynamics which not only kept growth stagnant, but simultaneously saw considerable irregular expenditure across various strata of government lead to a substantial rise in debt levels.

Egypt too grappled with the need to stimulate the economy whilst undergoing vast economic policy reforms, thus leading to substantially higher debt levels. Indeed, Egypt has the single highest debt ratio of any African nation, followed by Angola and Morocco. (Source: Oxford Economics)

Angola provides evidence of just how rapidly public finances can deteriorate unless carefully managed. In the space of just eight years, its debt levels have more than doubled. South Africa also saw its debt levels nearly double during the time period, and major efforts on the part of National Treasuries will need to be garnered to manage the situation going forwards.

Prudent macro policy is a critical requirement for providing stability and an enabling environment for business to operate in and create employment opportunities for the millions joining the workforce each year. Debt management is a key pillar of providing this stability, as a debt build-up can quickly lead to loss of confidence, a run on the currency and spiralling inflation as a result. Ghana felt the impact of this weak sentiment early in the decade, and has subsequently given more credence to managing sound public finances.

Funding infrastructure must be sustainable and profitable

Leaders must identify infrastructure projects that will create maximum impact. Most of SSA lacks sufficient power, the single biggest constraint to growth. Although new technology allows for rapid deployment of new power sources, the enabling environment needs to be suitably supportive. Wind and solar both have tremendous potential to enhance the continent's power supplies, and needs to be accompanied by suitable enabling legislation. Outdated national state entities are no longer fit for purpose, as demonstrated in much of the mature world, and the private sector has already demonstrated its ability to provide services across a range of services where government has largely not been able to. This includes Telecoms, Financial Services and more recently the Energy sector.

Private sector involvement provides good evidence of how public-sector finances can be used for more pressing social expenditure concerns (health, income support and education).

Policy frameworks must be robust and growth-enabling. Without growth, the continent will struggle to make a dent in the number of people living in poverty.

Trade can become a key growth enabler in the near future.

The African Continental Free Trade Agreement (AfCFTA) trade pact was signed in March 2018 and effectively ratified in May 2019. This was recently boosted by Nigeria's signing up to the accord. The act forms a continent wide free-trade area which aims to stimulate more inter-continental trade, scheduled to take effect in July 2020. Whilst many issues remain to be resolved, the pact could just provide the means to facilitating efficient, cheaper trade, thus providing a stimulus to the continent's growth. The intention is to drive Africa intra-regional trade from its current 18% (of total trade) to at least 60%. This helps facilitate quicker, more efficient and cheaper trade, which in turn drives down consumer prices, and has a stimulating effect on economic activity.

One challenge is the fear faced by less developed frontier markets that the larger markets with more established industrial capacity could leverage the pact to their advantage, keeping lesser developed markets more likely to remain under-developed. Another key hurdle that needs to be negotiated is the local-content criterion. Products that are largely manufactured abroad but then sent to Africa for the last stage of the production process (packaging, labelling etc), where little additional value is added to the end-product could see disputes arising, and a clear rules-based system will need to be worked through.

Tariff free trade could incentivize more foreign investment, as manufacturing hubs open up to exploit local-content free-trade agreements across borders, creating access to larger consumer markets, with less need to transport finished products on completion. Those countries that exploit the opportunity to stimulate their manufacturing sectors stand to gain the greater most benefits, and at least some leaders are expecting to gain from the accord by boosting their manufacturing industries.

Another key obstacle is the cost (in absolute and time terms) of transporting goods across borders. In order for the pact to have maximum impact it will require a determination to reduce border delays, to ensure that goods can move quickly and seamlessly between borders, and then further afield. This forms part of the need for infrastructure to be enhanced. "African leaders may have celebrated their agreement in Niger, but it's the concrete political steps they take that will show whether the AfCFTA is truly historic." Claus Stacker DW.com (Deutsche Welle)

Methodology

Our evaluation of the reality of FDI in Africa is based on the analysis of the FDI Markets database, FDI Intelligence 2019

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

All FDI numbers are sourced from FDI Intelligence. All macroeconomic numbers are sourced from Oxford Economics

About EY

EY in Africa has over 6,000 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.

EY is committed to doing its part in building a better working world. We understand the changing world and the challenges this can present, but more so, we see an opportunity to help the world work better. We realise we won't achieve our purpose alone, but by better understanding your world, we are most effectively able to tailor our insights and investments to meet your needs. Then, we will be best-positioned to focus on the shared agenda and how we can move forward together, toward a brighter future.

EY Contacts

Sub-Saharan Africa

Country	Name	Email
Botswana	Bakani Ndwapi	bakani.ndwapi@za.ey.com
Ghana	Ferdinand Gunn	ferdinand.gunn@gh.ey.com
Kenya	Nancy Muhoya	nancy muhoya@ke.ey.com
Madagascar	Yann Rasamoely	yann.rasamoely@mu.ey.com
Malawi	Shiraz Yusuf	shiraz.yusuf@mw.ey.com
Mauritius	Gerald Lincoln	gerald.lincoln@mu.ey.com
Mozambique	Paulo Reis	paulo.reis@mz.ey.com
Namibia	Cameron Kotze	cameron.kotze@za.ey.com
Nigeria	Henry Egbiki	henry.egbiki@ng.ey.com
Rwanda	Allan Gichuhi	allan.gichuhi@rw.ey.com
Seychelles	Gerald Lincoln	gerald.lincoln@mu.ey.com
South Africa	Ajen Sita	ajen.sita@za.ey.com
South Sudan	Nancy Muhoya	nancy muhoya@ke.ey.com
Tanzania	Joseph Sheffu	joseph.sheffu@tz.ey.com
Uganda	Geoffrey Byamugisha	geoffrey.byamugisha@ug.ey.com
Zambia	Patrick Mawire	patrick.mawire@zm.ey.com
Zimbabwe	Walter Mupanguri	walter.mupanguri@zw.ey.com

Africa CEO	Ajen Sita	ajen.sita@za.ey.com
Africa Markets Leader	Roderick Wolfenden	roderick.wolfenden@za.ey.com

Service line		Email
Assurance	Lance Tomlinson	lance.tomlinson@za.ey.com
Advisory	Hennie Human	hennie.human@za.ey.com
Tax	Larry Eyinla	larry.eyinla@za.ey.com
Transaction Advisory Services	Quinton Hobbs	quinton.hobbs@za.ey.com

Francophone Sub-Saharan Africa

Country	Name	Email
Cameroon	Joseph Pagop	joseph.pagop.noupoue@cm.ey.com
Chad	Joseph Pagop	joseph.pagop.noupoue@cm.ey.com
Congo	Ludovic Ngatse	ludovic.ngatse@cg.ey.com
Cote d'Ivoire	Marita Maier	marita.maier1@ci.ey.com
DRC	Cyprien Bongulumata Lokele	cyprien.bongulumata@cd.ey.com
Equatorial Guinea	Erik Watremez	erik.watremez@ga.ey.com
Gabon	Erik Watremez	erik.watremez@ga.ey.com
Guinea Conakry	Rene-Marie Kadouno	rene-marie.kadouno@gn.ey.com
Senegal	Makha Sy	makha.sy@sn.ey.com

Industry	Name	Email
Financial Services	Jane Fitton	jane.fitton@za.ey.com
Government and Public Sector	Sandile Hlophe	sandile.e.hlophe@za.ey.com
Energy and Natural Resources	Wickus Botha	wickus.botha@za.ey.com
Consumer Industries	Abhishek Kapur	abhishek.kapur@za.ey.com

EY | Assurance | Tax | Transactions | Advisory

About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

Creative Services ref. 5106. Artwork by Gumede.

ey.com

Sandile Hlophe
EY Africa Government and Public Sector Leader
Email: sandile.e.hlophe@za.ey.com

Sam Crous
EY Africa Communications
Email: samantha.m.crous@za.ey.com

Sarah Custers
EY Africa Brand, Marketing and Communications
Email: sarah.custers@za.ey.com