# Reset for growth: fast forward

EY Attractiveness Report

Africa

**November 2021**

EY

Building a better working world

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# Foreword

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We are excited to present our 11th edition of the Africa Attractiveness Report, the first since 2019. The world has changed since that report, and all the recent events and prospects for the immediate future must be viewed through the lens of the COVID-19 pandemic.

Like the rest of the world, Africa was plunged into a recession by the pandemic. Yet its health care systems and infrastructure proved more robust than expected, and economic contraction was not as deep as it was in the Eurozone and the Americas.

African economies, however, have seen a decline in fiscal metrics. Pandemic-driven fiscal stimuli have pushed many countries either into debt distress or close to it. The average debt to GDP ratio is projected to continue rising to levels that could increase the risk of downgrades or even defaults. It is vital that the cost of servicing this debt is stabilized or reduced in the short to medium term.

We anticipate a multi-speed economic recovery, with variances across countries and regional clusters. Factors that could contribute to economic recovery and growth include improvements in trade, rising commodity prices, and a rebound in tourism and agriculture.

Africa is still an attractive investment desitnation, with its young population and vast natural resources giving it the potential for enormous growth and innovation. But realizing this potential would require significant investment in education and skills development. It will also require rapid economic reform, good governance and a stable political landscape. There are promising signs of this in several countries, although others still lag behind.

One of the most promising developments is the African Continental Free Trade Area (AfCFTA), which came into effect on the first day of 2021. It has the potential to create the biggest free trade area in the world, cutting red tape and boosting trade throughout the continent. The treaty aims to address historical gaps in intra regional trade and investment. However, in the nine months since AfCFTA came into being, implementation has been patchy, with many members reluctant to cut tariffs and thus expose their local businesses.

The key to sustainable growth in Africa remains foreign direct investment (FDI). FDI peaked at an all-time high in 2019, but investment in resources has plummeted since 2020. Interestingly, there is a positive trend in FDI into new sectors such as manufacturing, business services, ICT, sales and marketing, which will enable sustainable job creation.

In these tumultuous times, the biggest threat to economic recovery in Africa remains the pandemic and the uncertainty associated with it. Governments and the private sector will have to cooperate to increase the funding and rollout of vaccines.

The pandemic has amplified the inequities prevalent in many communities. The lack of broadband has denied to many the virtual work and education lifelines enjoyed by others. But there are blueprints of how the world has responded to crises in the past. We need significant investment in infrastructure, especially the acceleration of broadband and 5G rollout, so that we can pull the poorest of the poor into the mainstream economy.

There is no shortage of ideas —what Africa really needs now is action. We need a new social compact between governments and business, to roll up their sleeves and partner in designing and implementing economic recovery plans.

# Executive summary

## 1 Africa is poised for a multi-speed recovery, with significant country and regional cluster variances

- The largest economies (Nigeria, South Africa and Egypt) all slowed drastically through 2020, and their ability to recover will be driven by a sustained recovery in commodity prices. Some countries, such as Côte d'Ivoire should see a strong rebound, driven by robust private consumption and investment levels, as confidence strengthens and exports increase.

## 2 Africa's FDI halved in 2020, making it the hardest-hit region globally.

It trailed all other emerging markets, as well as the key mature regions – Europe (-23%) and North America (-19%). Only Asia-Pacific's decline was close (-43%). This can primarily be ascribes to its large resource-export dependent economies, which felt the impact of commodity price declines and rapidly decreasing demand, causing them to fall into recession.

## 3 While FDI fell sharply in 2020, this is only half of the story.

Rising investment into sectors outside the traditional extractive industries is creating more sustainable long-term growth.

- The share of FDI in to the service sectors (including business services, telecoms, media and technology, financial services, and consumer) is rising rapidly, supporting sustainable job creation over time.

## 4 Africa's demographic dividend looks promising but needs rapid economic transformation for the benefits to flow.

- Harnessing this is crucial to Africa's success story. The continent needs to improve governance, continue with political reforms, enhance transparency, diversify its economy, invest in infrastructure, and proactively seek inbound investment to create more employment opportunities for its people.

## 5 Africa is, for the most part, reforming to attract greater investment.

- Nigeria is a good example of a country that has made efforts to improve the ease with which business can operate, as indicated by the World Bank's Doing Business report. Overall, 25% of reforms recorded by the 2020 report were in sub-Saharan Africa. However, most of the continent still sits below the 50% percentile mark, and therefore have among the lowest ease of doing business scores globally, indicating that significant work is still required.

## 6 Picking up the pace of vaccination rollouts across the continent is critical to growth.

To return to the growth levels required to meet social progress targets, especially with the strong likelihood of successive waves looming, vaccination rollouts will need to be prioritized and accelerated indicating that significant work is still required.

## 7 High national deficits are likely to moderate in the medium term

with economies recovering and growth hopefully returning to pre-COVID-19 levels. But national deficits will remain high over the next few years. To achieve lower national budget deficits, strong fiscal measures are needed.

## 8 The launch of AfCFTA brings a new window of opportunity

for Africa to harness regional trade links, and enable economies to innovate and grow together by removing trade barriers.

> "The African political environment has stabilized over the last few years, and favorable demographics could be lucrative. Sound economic and investment policies coupled with ongoing economic diversification can enhance Africa's attractiveness to investors. African policymakers will have a crucial role to play.

**FDI in Africa was hit significantly by the pandemic, but the shift from extractives brings new opportunities**

In 2020, there were **516** projects creating **69,566** jobs attracting **US$28.5b** in capital

**Five-year FDI by project numbers**

**France** was the largest African investor in 2020, followed by **the US** – based on FDI project numbers.

Between 2016 and 2020, **emerging markets**

| made up | but created | and provided |
|---|---|---|
| 38% | 50% | 53% |
| of FDI by project numbers, | of the jobs | of the capital. |

The southern and north regions remain the key favored FDI destinations, while the west region outpaced the east.

| Southern Africa | North Africa | West Africa |
|---|---|---|
| 45.4 | 36.7 | 32.6 |

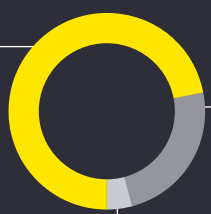
South Africa, Morocco and Nigeria were the key FDI destinations in 2020.

| South Africa | Morocco | Nigeria |
|---|---|---|
| 31.1 | 17.7 | 17.5 |

(Ranked using FDI scores. Score methodology described in the appendix.)

↑ The share of FDI in **services** has increased sharply, accounting for **72%** of total FDI in 2020.

↓ The share of FDI in extractives is declining with rising diversification and urbanization.

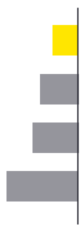


FDI into **industry** made up **24%**

with the remaining share in **extractives** accounting for only **4%**

> “Share of extractives FDI has been declining as the continent shifts focus to technology, manufacturing and services capabilities to stimulate growth.

## Africa’s economy contracted in 2020, but less severely than the global economy



-2.4% decline in Africa overall, versus a

-3.6% contraction in global GDP,

-4.3% in the Americas, and

-6.7% in the Eurozone

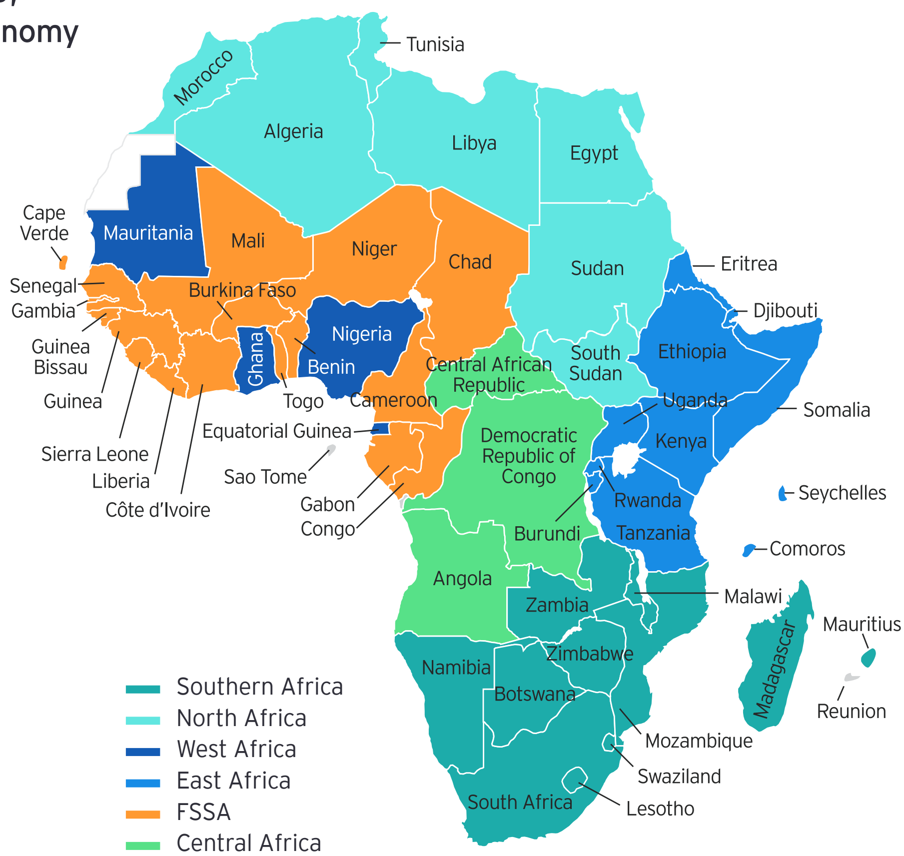
By country growth was uneven

Most economies contracted in 2020 ...

**Morocco**’s GDP fell **-7.1%**
**South Africa** fell **-6.4%**
**Angola** fell **-5.2%**
**Nigeria** contracted **-1.8%**

... but a few African countries proved resilient

**Tanzania** and **Ethiopia** rose **4.8%** and **3.3%** respectively
**Egypt**’s GDP rose **1.5%**
**Côte d’Ivoire** grew **1.2%**



# Economic overview

1

Africa is projected to grow by

**4.6%**

in 2021, then averaging 4% up to 2025.

Overall GDP contracted by

**2.4%**

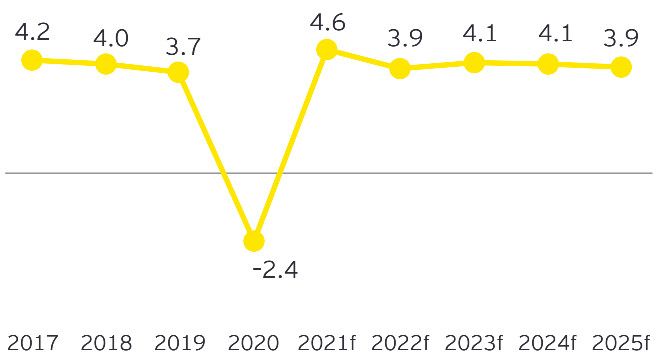
in 2020.

# 1.1 Africa is poised for a multi-speed recovery path, with significant country and regional cluster variances

Africa, along with the rest of the world, was significantly impacted by the COVID-19 pandemic in 2020 and witnessed one of its worst economic recessions in 50 years, heightened by weak health care systems and infrastructure. Overall GDP contracted by 2.4% in 2020, less than the 3.6% contraction in global GDP, 6.7% in the Eurozone and 4.3% in the Americas. Few countries were able to avoid the pandemic's impact. Across Africa, East Africa was most robust, with Tanzania and Ethiopia growing fastest in 2020. Southern Africa was greatly affected, with South Africa registering the highest number of COVID-19 cases in 2020, pushing the economy into deep recession.

The outlook for 2021 looks mixed, with government recovery measures varying by country. We believe that private sector involvement, slowly recovering trade, rising commodity and crude prices, rebounding tourism and strong agricultural output will determine Africa's recovery prospects. Africa is projected to grow by 4.6% in 2021, then averaging 4% up to 2025. Côte d'Ivoire, Morocco and Kenya are expected to rebound more strongly in 2021. But mounting debt, high unemployment, slow vaccination rollouts, political unrest in certain regions, lack of basic infrastructure and rising poverty levels pose risks to this outlook.

Real GDP growth (%)




Source: *Oxford Economics.* f=forecast data

> "Africa's economy will rebound from the impact of the COVID-19 pandemic and achieve a modest recovery this year (2021) ... Countries' liquidity and ability to vaccinate sizable portions of their population will prove pivotal in efforts to secure an economic turnaround.

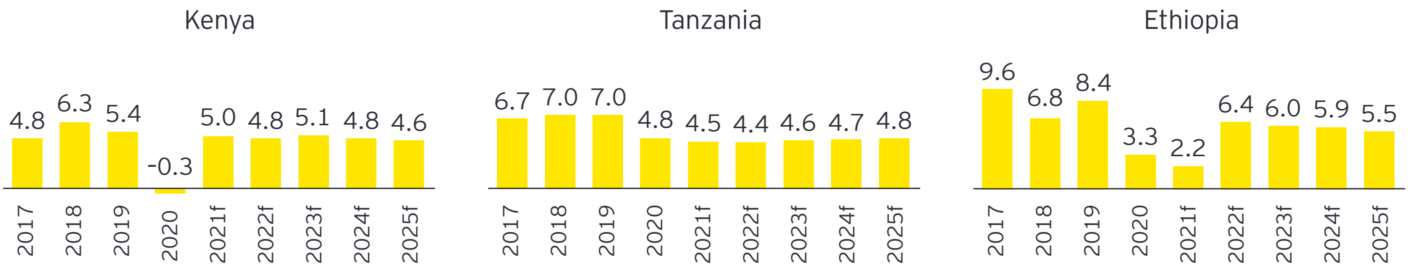
**UN Economic Commission for Africa**

# 1.2 East Africa avoided significant pandemic impact

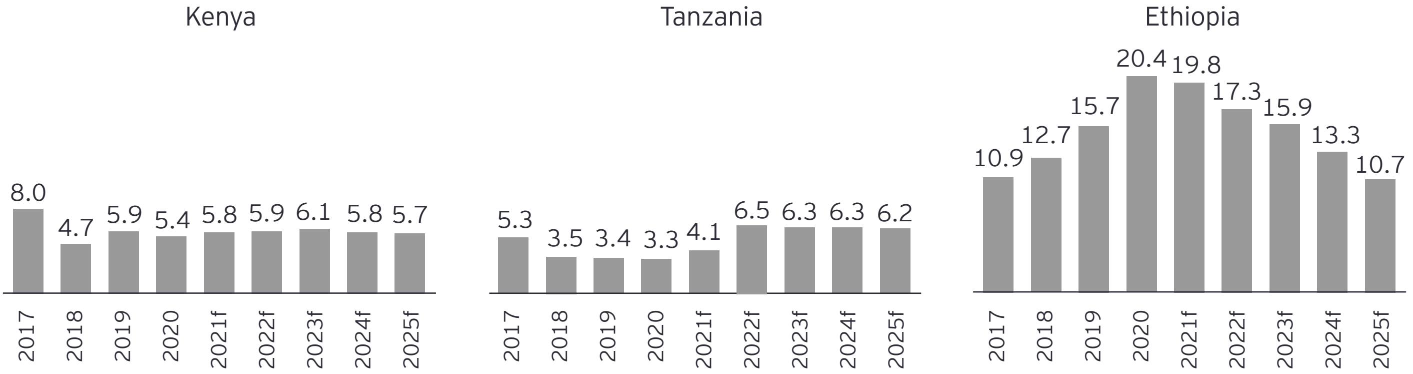
East Africa remained resilient, continuing its trajectory as the fastest-growing region in Africa in 2020, capitalizing on its success of the last two decades. With most countries having experienced GDP contraction in 2020, owing to COVID-19, the East region's major economies grew by 2.3% on average, with Kenya seeing a slight GDP contraction for the first time in two decades. Although GDP growth in Ethiopia and Tanzania slowed in 2020, it remained in positive territory.

East Africa's GDP should pick up in 2021. Kenya's growth is expected to rebound to 5%, supported by the Economic Recovery Strategy that has been implemented and a strong recovery in the service sector. Kenya may also benefit from an unprecedented free trade deal with the US, which is currently under negotiation. A new stable government and rebound in manufacturing will drive Tanzania's growth in 2021 to 4.5%, while Ethiopia's growth is projected to decline to 2.2% in 2021 as it struggles with high unemployment and political unrest in Tigray. Both Ethiopia and Kenya recorded some of the highest COVID-19 numbers* across Africa. The current low vaccination rates, (only 1.2% of the population is fully vaccinated in Kenya) pose further risk to the outlook. In addition, rising public debt, with high debt distress risk in both Kenya and Ethiopia, could slow the growth rebound. Kenya's debt rose to an estimated 69% of GDP at the end of 2020, which is considered high by emerging market standards.

## Real GDP growth (%)




## Inflation (%)




Source: *Oxford Economics.* f=forecast data

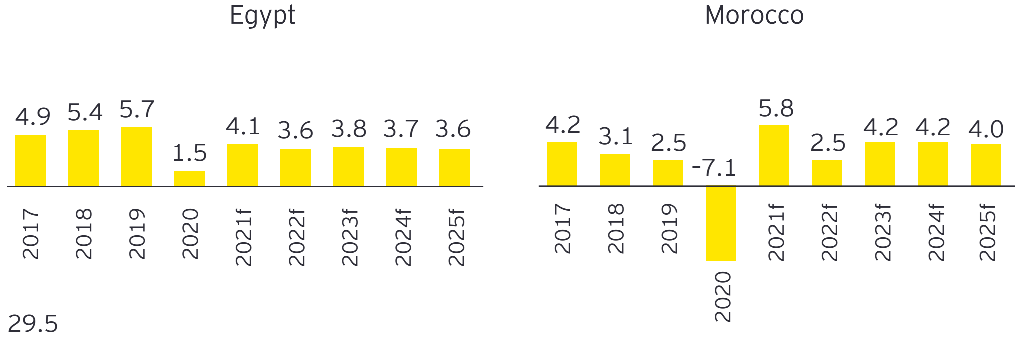
*https://apps.who.int/iris/bitstream/handle/10665/345180/OEW37-0612092021.pdf

# 1.3 Although North Africa was hurt by COVID-19, its vaccination rollout should support recovery

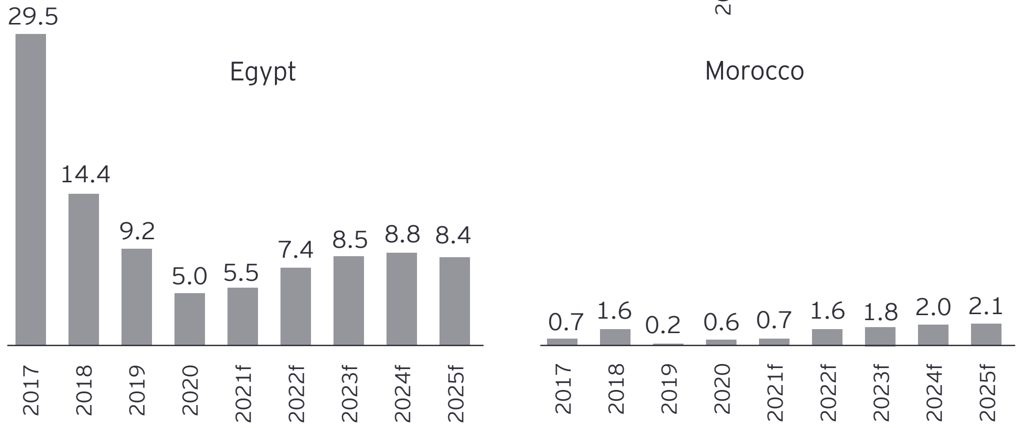
North Africa was one of the worst hit by the pandemic, with Morocco registering the 2nd highest COVID-19 cases in Africa. Egypt's economy proved somewhat resilient, recording a growth of 1.5% in 2020. But COVID-19 disrupted governments' fiscal consolidation plans as external debt rose a sharp 15% in 2020, to US$129b, and will rise further in 2021. Gross government debt reached 95% of GDP. By contrast, Morocco saw a sharp contraction of 7.1% in 2020 – its first recession in over two decades – impacted by the dual shock of the pandemic and severe drought.

GDP growth in Egypt is expected to rebound to 4.1% in 2021 on account of strong capital expenditure and reviving exports. Government measures to vaccinate employees in the hospitality sector will boost tourism revenues and offset the slowdown in the non-oil private sector. Morocco's GDP is projected to record a strong 5.8% recovery in 2021, supported by a rebound in agricultural output, a successful vaccination rollout, and higher automotive parts and phosphate exports. Morocco is at the forefront of Africa in getting the COVID-19 vaccination administered, with more than 27% of its population now fully vaccinated.

## Real GDP growth (%)




## Inflation (%)



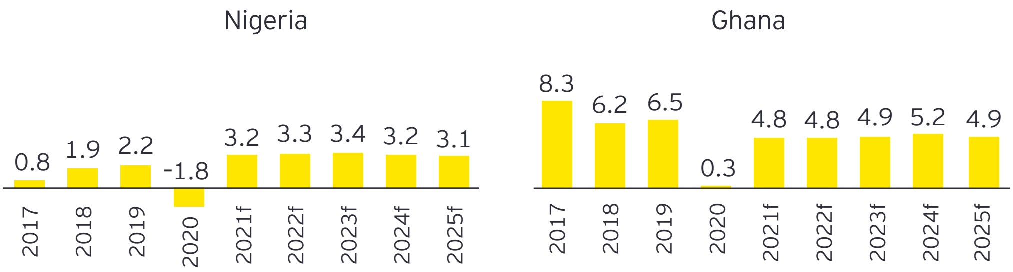

Source: *Oxford Economics*. f=forecast data

# 1.4 West Africa's recovery will benefit from a rebound in global trade

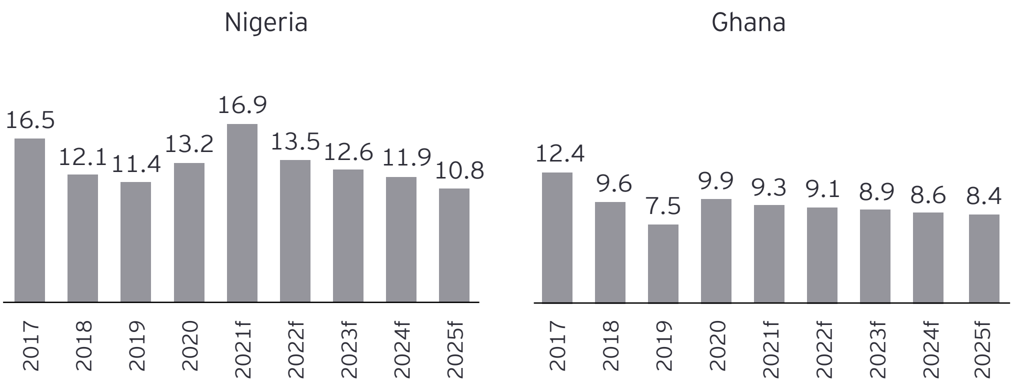
Growth across West Africa was affected by sharp declines in global trade, lower commodity prices and muted capital flows. The region's largest economies — Ghana and Nigeria — both slowed significantly in 2020. Nigeria's GDP contracted by 1.8%, while Ghana was slightly more resilient, with growth of 0.3%, driven by the agricultural sector. Nigeria was impacted by falling crude prices and oil exports, which constitute 80% of its exports (this is not the first time that the country has been hurt by global oil markets). The pandemic took a toll on poverty as unemployment rose (projected to reach 32% in 2021). Nigeria continued to suffer from acute shortages of foreign exchange due to its exchange rate pegging policy, impeding investment as sourcing foreign inputs prove difficult. Ghana's gross government debt also spiked by 15 percentage points in 2020 to 76.3% of GDP — deemed high for emerging markets.

However, Ghana's growth outlook remains positive, supported by a recovery in the construction and manufacturing sectors, improved business confidence and favorable cocoa prices. The country's COVID-19 Alleviation and Revitalization of Enterprise Support program will boost GDP growth, projected at 4.8% in 2021. To overcome the fiscal deficit of 11.1% of GDP in 2020, Ghana will borrow US$5b from the capital markets in 2021, which will further increase its debt to over 80% of GDP. Nigeria should also recover in 2021 with expected growth of 3.2%, with new orders surging in May 2021 and a recovery in oil demand. Robust growth in oil sector activity in the medium term will also support the country's growth.

## Real GDP growth (%)




## Inflation (%)




Source: *Oxford Economics.* f=forecast data

# 1.5 Southern Africa will only gradually recover from recession

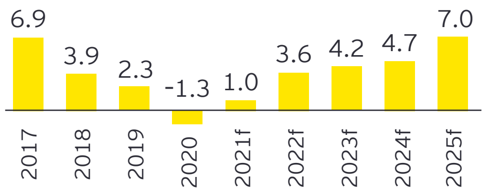
Growth in the region is expected to rebound over the medium term, after it was severely impacted by the COVID-19 pandemic in 2020. South Africa recorded the highest number of cases and fell into a deep recession that saw its GDP shrink by 7% — the steepest fall in over a century. Mozambique's GDP contracted by 1.3% in 2020 due to supply chain disruptions. Mozambique was one of the six African countries in debt distress in 2020, with debt mounting to 120% of GDP.

Recovery across the region is conditional on an accelerated vaccine rollout and continued focus on fiscal consolidation. South Africa's economy saw a stronger 1H2021 with a pickup in the industrial sector, particularly in mining and manufacturing. Its GDP is projected to grow by 4.8% in 2021, supported by higher commodity prices and a stronger currency. However, the fourth COVID-19 wave, slow vaccination rates (only 23.1% of the population is currently fully vaccinated*) and electricity outages pose significant risks to growth. The high unemployment rate (projected to reach 33% in 1Q2022) and rising public debt (projected to jump to an unprecedented 94% of GDP by 2025 from 71% in 2020) are key risks to growth. Of greater concern, recent unrest ignited by the former President's incarceration, resulting in widescale looting across two provinces, has led to a downward revision of growth estimates to −3.5%. Mozambique's GDP is also projected to recover slowly — to 1% in 2021, before rising to 3.6% in 2022 and up to 7% by 2025.

## Real GDP growth (%)

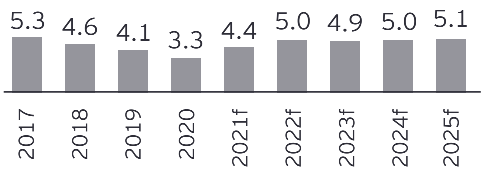
South Africa


Mozambique

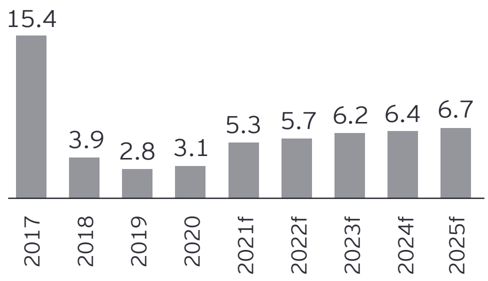



## Inflation (%)

South Africa




Mozambique




Source: *Oxford Economics.* f=forecast data

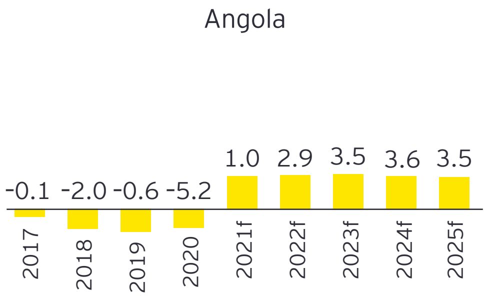
*World Health Organization as of 12 November 2021.

# 1.6 Central Africa struggles with falling crude oil production

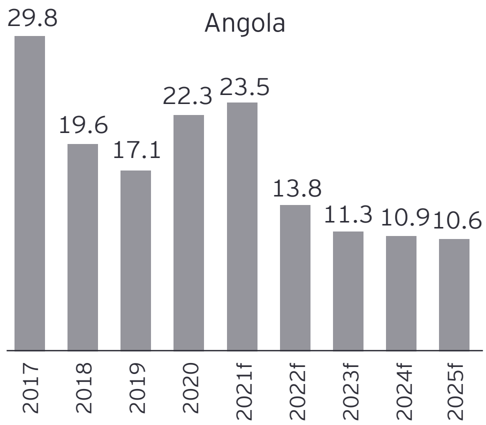
Angola — the largest economy in Central Africa — has been in recession since 2016, due to its over-reliance on oil and exports. In 2020, the economy shrank further, by 5.2%, due to COVID-19-related restrictions, a slump in oil prices and falling oil output. These events have offset the macroeconomic reforms, such as the implementation of VAT, a fiscal responsibility law and liberalization of exchange rates, introduced over the previous years. Falling oil prices have resulted in a weaker currency and lower export earnings, raising its debt servicing costs. Government debt increased rapidly to 123% of GDP in 2020 — the highest in Africa.

In 2021, Angola is expected to turn the corner and record growth of 1%. However, the recovery is expected to be slow, as crude oil production in the country declined further in 1H21 and failed to meet OPEC targets. Inflationary pressures are expected to peak in 2021 (with CPI rising to 23.5%) due to higher taxes and supply chain disruptions caused by the pandemic, impacting consumer real income and employment levels. Reviving crude oil prices will boost government expenditure over the medium term. The government has expedited its Social Protection Strengthening Program, Kwenda, during COVID-19 to support 1.6m low-income households.

## Real GDP growth (%)




## Inflation (%)




Source: *Oxford Economics.* f=forecast data

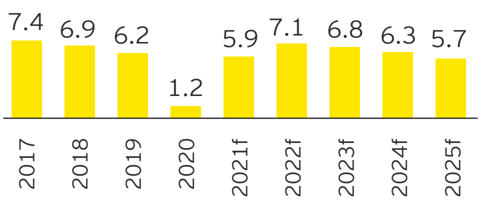
# 1.7 French-speaking sub-Saharan Africa (FSSA) should rebound strongly

The region — with **Côte d'Ivoire** and **Senegal** being the main investment destinations — saw a sharp slowdown in growth in 2020. Côte d'Ivoire avoided an economic contraction, with GDP up 1.2%, owing to strong agricultural output and fiscal stimulus during the pandemic. The country also received US$1b from the IMF for economic growth and recovery. Senegal, on the other hand, contracted by 0.7% due to a slowdown in exports and tourist numbers. Although government debt spiked in 2020, debt levels remain moderate. Côte d'Ivoire financed its budget deficit (5.9% of GDP in 2020) via bond markets due to weaker fiscal revenues. The vaccination rollout in FSSA, albeit slow, is ahead of other regions in Africa, with 5.5% of Senegal's population currently fully vaccinated.*

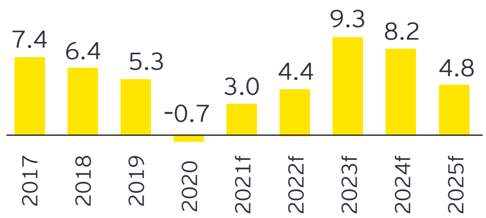
With the implementation of the National Development Plan (NDP) 2021–25, strong agricultural output, and efforts to maintain a stable political regime, Côte d'Ivoire should rebound sharply, with GDP growing 5.9% in 2021 and 7.1% in 2022. Senegal has implemented a similar long-term recovery plan — Emerging Senegal Plan (PSE) — which will gradually drive the country's GDP growth to a projected 9.3% in 2023, as it is further stimulated by private consumption and investment.

## Real GDP growth (%)

Côte d'Ivoire




Senegal




## Inflation (%)

Côte d'Ivoire


Senegal


Source: *Oxford Economics.* f=forecast data

*World Health Organization as of 12 November 2021.

# 1.8 The road to recovery will be difficult, but a few key catalysts can be harnessed to accelerate growth

## A young and growing population

Africa has the youngest population in the world, with a median age of less than 20 years, and 70% of the population is under the age of 30. This sizable proportion of youth, coupled with the availability of vast natural resources can be a significant catalyst for innovation and economic growth. But to benefit from this young population, will require investment in tertiary education with a particular focus on growing digital skills.

## The new free trade agreement: AfCFTA

The AfCFTA — with the potential to be the largest free trade area in the world, with 53 participating members– came into effect on 1 January 2021 and presents a potential income gain for Africa of US$450b by 2035. The deal aims to bring 30m people out of poverty, raise the incomes of 68m individuals, cut red tape, and simplify customs and tariffs.

But to achieve these goals, political will and buy-in across the continent is required. AfCFTA has been a long time in the making, but uptake and implementation remain patchy. To date, only a handful of countries have cut tariffs in line with the accord, and many are driving localization strategies that aim to promote local priority industries. It remains to be seen how and whether these competing goals can be achieved simultaneously.

## Debt sustainability

In the wake of the COVID-19 pandemic, most African countries announced fiscal stimulus investment ranging from 0.02% of GDP in Sudan to 10.4% of GDP in South Africa. The African Development Bank (AfDB) estimates that Africa needs additional financing of US$154b in 2020–21 to rebound properly from the crisis. This financing gap has pushed six African countries into debt distress, and many more are at risk of following suit. The average debt-to-GDP ratio for countries in Africa is projected to rise above 70% in the next few years from 60% in 2019, increasing the risks of downgrades and defaults. In the short to medium term, it is important to contain rising debt-to-GDP levels to stabilize or, even better, reduce debt servicing costs, leaving more funds to drive poverty alleviation programs.

# FDI highlights

2

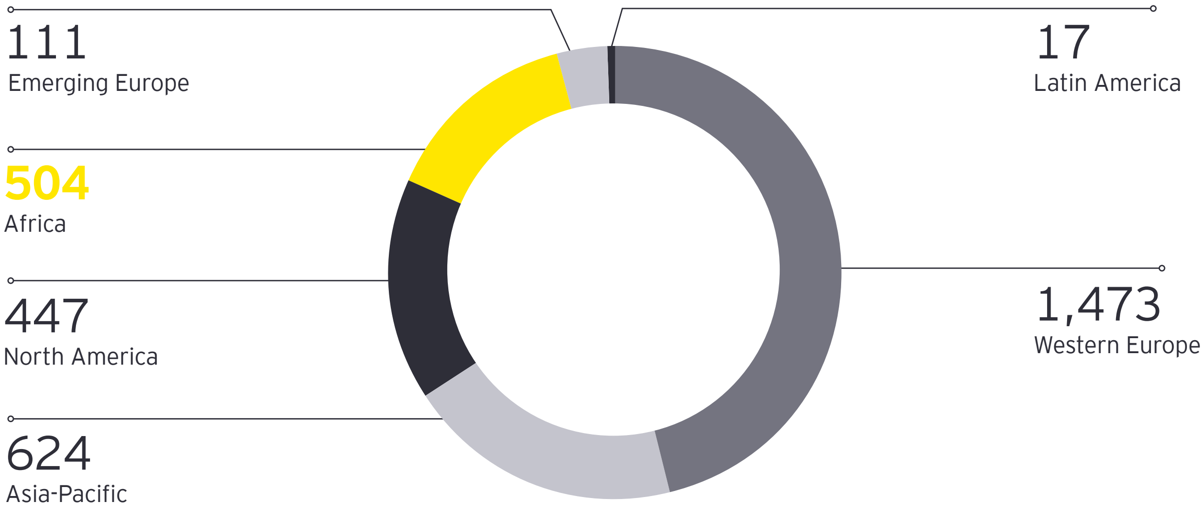
FDI in Africa declined by

**50%**

due to the economic and health crises caused by the pandemic.

# FDI into Africa declined significantly in 2020, hurt by COVID-19 and the resulting global slowdown.

FDI projects: 2016–20 by source region



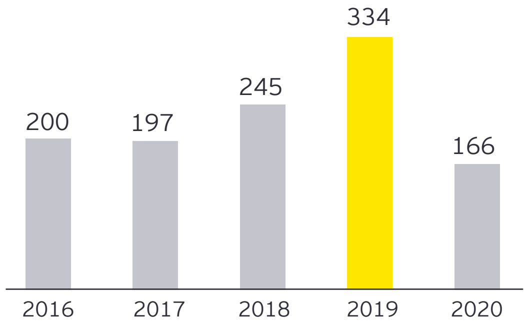

*Average projects calculated using greenfield projects.

# 2.1 FDI accelerated rapidly prior to 2020

FDI reached a five-year low in 2020 (as per our FDI score* — based on projects, jobs created and capital invested), after peaking in 2019. FDI in Africa declined by 50% in 2020 due to the economic and health crises caused by the pandemic. In 2020, job creation and capital investments into the continent were less than half of five-year average levels.

| Year | Projects | Jobs created ('000) | Capital invested (US$b) | Weighted score* |
|---|---|---|---|---|
| 2016 | 605 | 121 | 92.5 | 200 |
| 2017 | 606 | 129 | 85.4 | 197 |
| 2018 | 745 | 190 | 78.0 | 245 |
| 2019 | 1,029 | 187 | 68.9 | 334 |
| 2020 | 516 | 70 | 28.5 | 166 |
| **Average** | **700** | **139** | **71** | **229** |

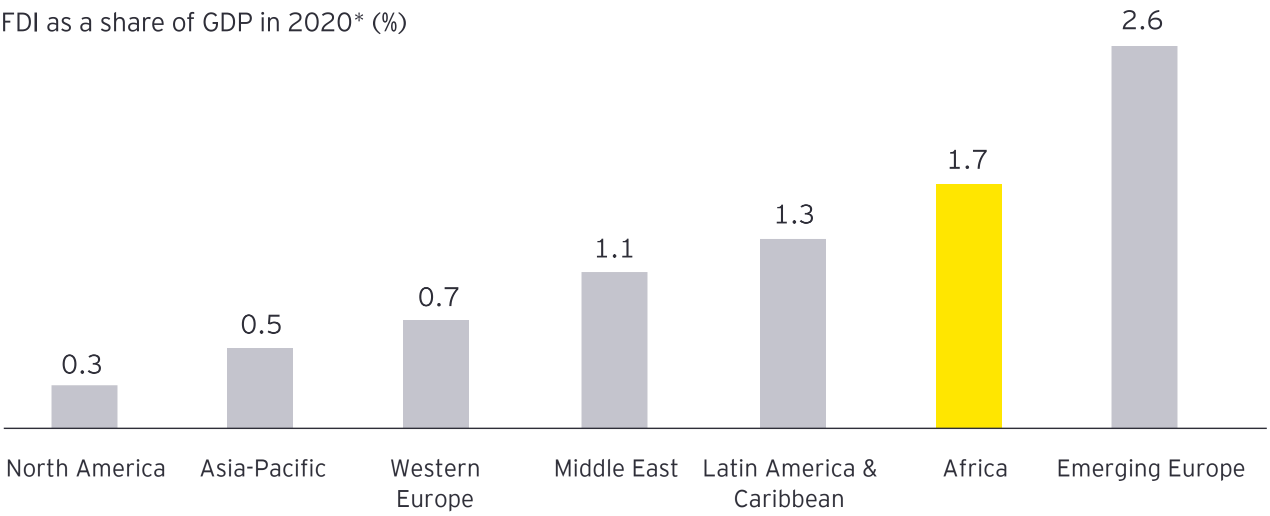
## FDI score*: five-year trend




Source: fDi Markets (Financial Times), EY analysis.
*FDI based on weighted average of three criteria: number of projects, jobs created and capital invested.

## Africa's FDI relative to GDP compares favourably with other regions

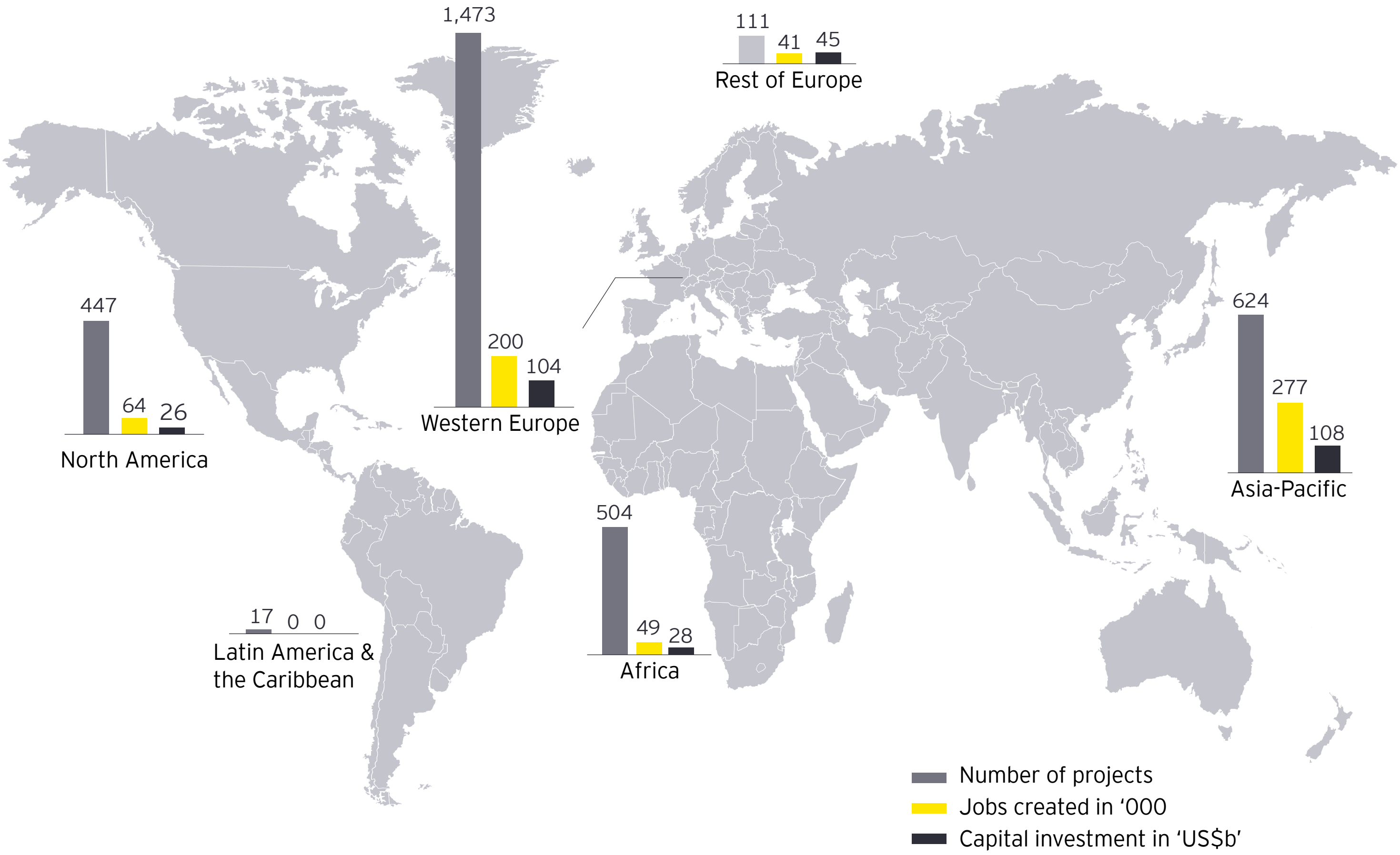
FDI as a share of GDP in 2020* (%)




Source: FDIMarkets (Financial Times), Oxford Economics, EY analysis.
GDP is in measured in nominal terms, FDI is the total capital invested in 'US$b'.

# FDI by source (region and country)

# 3.1 FDI by source: Africa is playing a greater role in investing across its borders, despite the 2020 setback




Source: fDi Markets (Financial Times).

> "France and the US were Africa's largest investors in the last two years — measured by FDI projects — overtaking China, which had been the largest investor in 2018. But in capital investment, China still leads.

# 3.2 The western world still accounts for nearly ¾ of Africa's FDI, but with three prominent developing market investors emerging

FDI projects by source country, over five years, 2016–20: 10 largest investors

| Country | Projects | Jobs created ('000) | Capital investment (US$b) |
|---|---|---|---|
| **US** | **401** | **54.0** | **23.7** |
| France | 346 | 46.2 | 19.5 |
| China | 287 | 170.1 | 70.6 |
| UK | 275 | 35.2 | 16.3 |
| Germany | 203 | 36.5 | 9.7 |
| UAE | 189 | 36.3 | 23.8 |
| Switzerland | 180 | 14.7 | 7.3 |
| **South Africa** | **133** | **12.1** | **8.2** |
| Japan | 115 | 38.5 | 8.9 |
| Spain | 101 | 10.1 | 4.8 |

Source: fDi Markets (Financial Times).

In 2020, France was the largest FDI investor in Africa by FDI projects, followed by the US, the UK and China. This is in part due to historical ties based on language and proximity, especially between the UK and the US with South Africa and other English-speaking countries on the one hand, and French-speaking countries commercial ties to France.

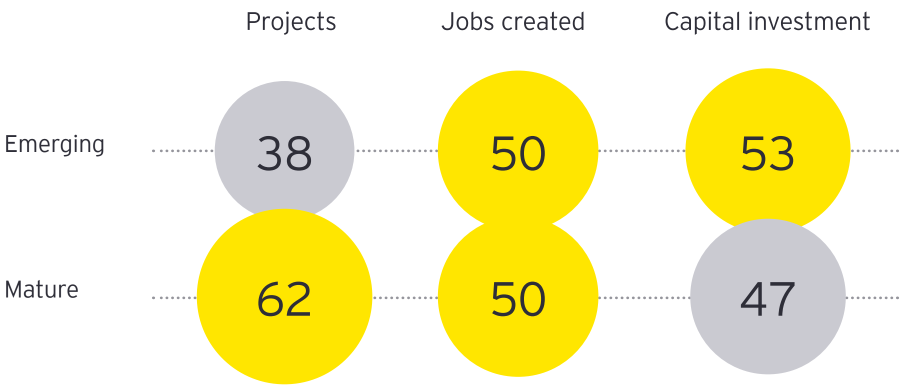
Cross-border investments across Africa have also gained traction over the last five years, with South Africa the largest investor into the rest of the continent. In 2020, the country announced two large-scale projects in Nigeria in the communications sector, worth US$2.5b, creating around 800 jobs.

Over the last five years, Morocco attracted large capital inflows, but this slowed in 2020, with FDI investment falling to US$69m after the pandemic's onset.

# 3.3 Mature versus emerging markets

## Although emerging market investors start fewer FDI projects, their projects are more labor and capital intensive than mature market projects.

Percentage share of FDI by source: 2016 to 2020




Source: fDi Markets (Financial Times), EY analysis.

Emerging market investors in Africa are becoming more prominent and accounted for 38% of all projects, 50% of all jobs created and 53% of the total capital investment between 2016 and 2020.

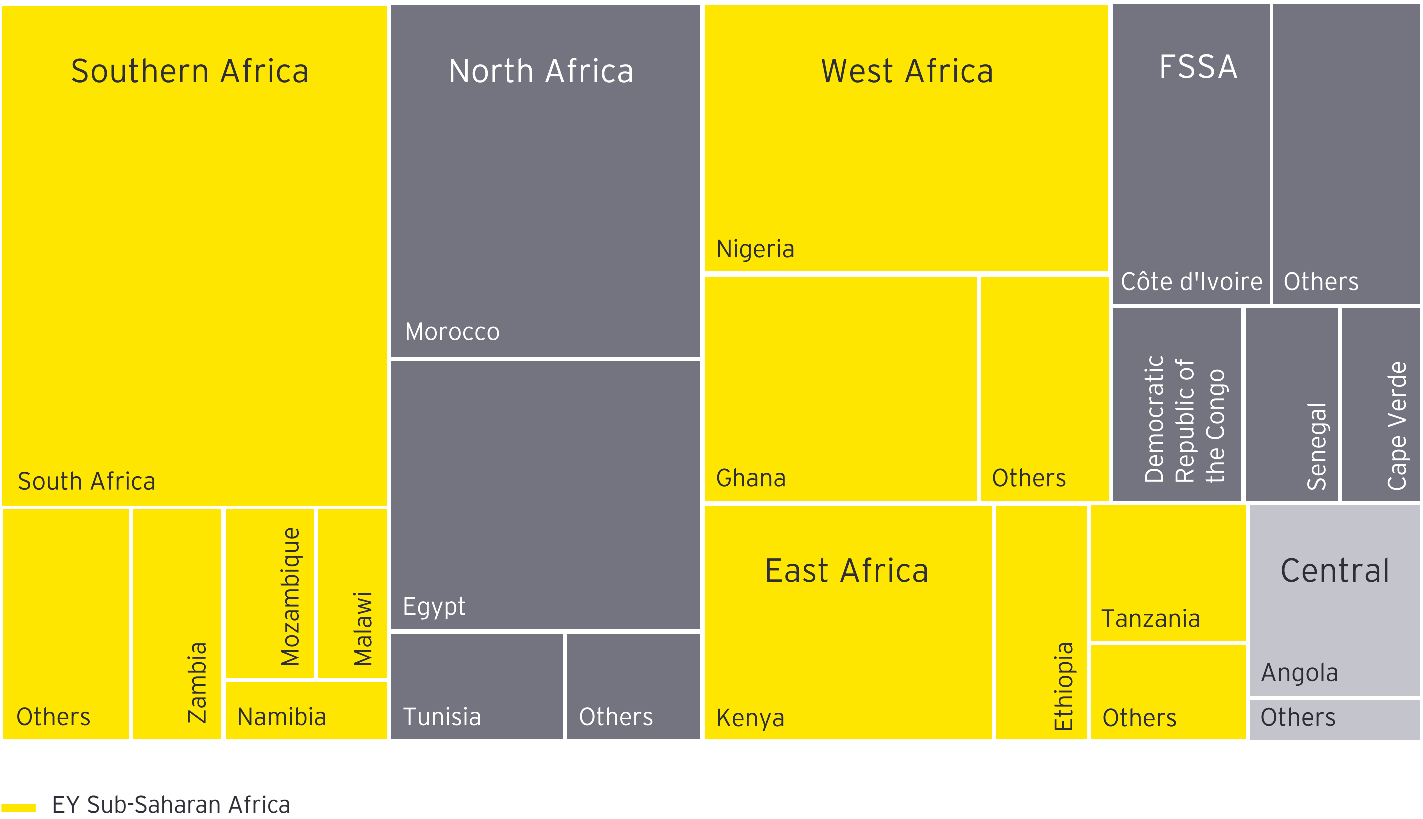
China was the largest investor in Africa during the five-year period by jobs and capital, but only third in terms of number of projects. During the period, China announced large investments into the major economies, namely Egypt, South Africa, Nigeria and Kenya. Russia, though a much smaller investor in terms of projects, brought capital-intensive projects, especially in Egypt's energy sector. Between 2016 and 2020, Russia's capital investments were the second-highest into Africa, behind China.

# 3.4 FDI by destination

## 3.4.1 By region

Southern Africa regained its lead as the largest FDI destination hub in Africa, with South Africa's more diversified economy attracting the most FDI.

Regional FDI score* 2020




*FDI is based on three criteria, reflecting a roughly equal contribution of jobs, capital and project numbers. A weighted average of projects, jobs created, and investment (measured in US$m) determines the FDI score.

## Through the last decade, a few major FDI hubs have emerged.

This played out again in 2020, where:

- Morocco and Egypt attracted most of the investment in the North
- South Africa is the key hub in the Southern region
- Kenya in the East
- Nigeria and Ghana in the West
- Angola in the Central region
- Côte d'Ivoire in FSSA

The Southern region was more resilient through the COVID-19 crisis, replacing the North as the largest FDI destination in 2020. South Africa received the most projects into the continent in 2020, followed by Morocco and Nigeria. While South Africa attracted more projects, Nigeria received the highest capital investment, with FDI valued at US$6.6b in 2020 (1.7x the capital investment in South Africa). In terms of jobs created, Morocco leads, with approximately 12,000 jobs created, followed by South Africa with 9,000 jobs created.

Southern Africa received the lion's share of FDI, concentrated in South Africa. The region's resource-based economies were significantly impacted by the COVID-19 pandemic, while FDI in South Africa remained buoyant owing to its diversified economy, which is more reliant on services type sectors.

North Africa lost its leading position as the most attractive destination in Africa in 2020, due to a sharp decline in the number of projects in Egypt, as the country struggled with low energy prices. Morocco, on the other hand, remained a prominent FDI destination in North Africa due to its strategic geographical location, strong governance and infrastructure, and a budding industrial sector.

In 2020, East Africa lost out to both West and FSSA regions, following large FDI flows into Nigeria, Ghana, and Côte d'Ivoire. Despite it being the fastest-growing hub on the continent, East Africa's policy bottlenecks and rising political tensions (in Ethiopia and Tanzania) have contributed to the relative decline in its share of FDI. Anchor economy Kenya saw a decline in FDI inflows as the Government introduced new ownership rules to protect local industries during the COVID-19 pandemic.

FDI into West Africa was largely driven by investments in the telecoms sector in Nigeria, owing to its large population and lucrative internet and mobile penetration rates. Nigeria ranked third overall in Africa for FDI.

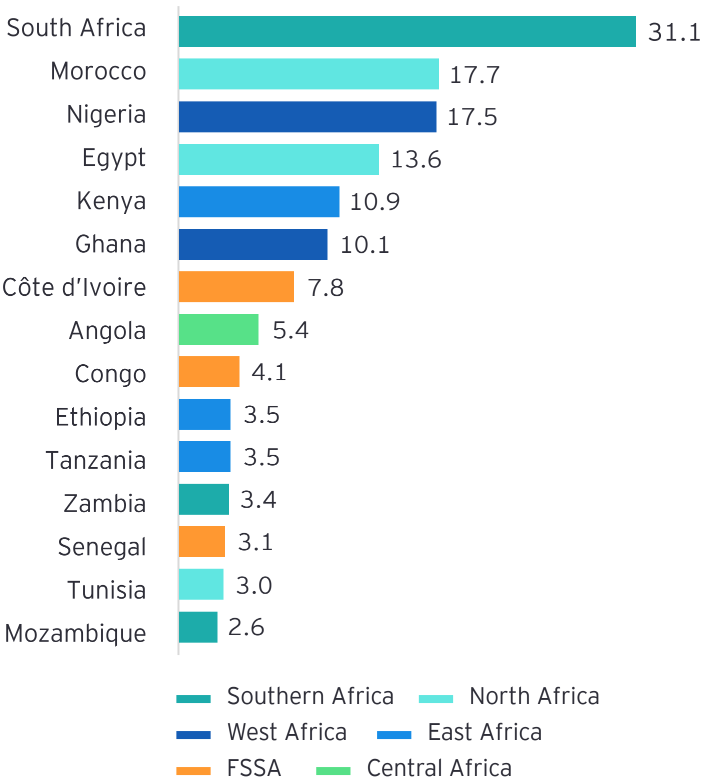
Neighbouring Ghana and Côte d'Ivoire also attracted significant FDI, driven by their pro-investment economic reforms and focus on diversification, away from resource-based sectors.

The Central region, dominated by Angola, typically receives investment into the energy sector. Though the share of extractives industries is declining in Africa, Angola remains a crucial market for oil and gas exploration, for European and US energy companies.

## 3.4.2 By country

South Africa outpaced rivals Morocco and Egypt, aided by its more diversified economy.

Fifteen largest recipients by FDI score in 2020




Source: fDi Markets (Financial Times), EY analysis.

Measuring project numbers, jobs and capital investment, Egypt forfeited its FDI lead to South Africa, and the country was also outpaced by Morocco and Nigeria. South Africa is less reliant on resource-based industries, and more driven by services and technology sectors, helping it attract more projects during the pandemic. South Africa received two large investments, including the acquisition of Pioneer Foods by US-based PepsiCo and Google's investment in an undersea fiber optic cable to boost internet speed in the country.

Morocco ranked second in 2020 on the back of its attraction to European manufacturers. According to UNCTAD, Morocco's stable economic growth attracts investments into the automotive, aerospace and textiles sectors. A decline in cross-border investments was partially offset by commitments from European manufacturers. By contrast, its neighbors, including Algeria, are more dependent on energy investments and were significantly impacted by declining hydrocarbon production and falling energy prices.

Nigeria remains a key destination for oil and gas exploration, as well as for technology investments, supported by its booming venture capitalist and start-up culture. In the first half of 2020, FDI in Nigeria declined due to lower crude prices and closure of oil development sites as a result of the COVID-19 pandemic. In the second half of the year, the country saw an uptick in foreign investments in the infrastructure, technology, manufacturing and health care sectors. There was an influx of high-capital cross-border projects (worth US$2.5b) from South Africa to expand and enhance telecoms network coverage in the country. Another crucial cross-border greenfield investment in Nigeria included the construction of a manufacturing facility by Kenyan-based Ariel Foods in the Lekki Free Zone, attracting US$66m in capital.

In the East, both Kenya and Ethiopia saw a sharp decline in FDI in 2020, as their agriculture and energy sector FDI flows slowed. Kenya also introduced local participation rules in the insurance, telecoms and technology sectors to protect domestic companies, which may prove restrictive to investment.

**South Africa retains its lead by FDI projects, while Nigeria takes the lead in capital investments, and Morocco in jobs created.**

> Investors find Egypt and Morocco lucrative, due to their strategic locations, strong manufacturing base and development plans.

15 largest African FDI destinations by project numbers in 2020

| Country | Projects | Jobs created ('000) | Capital investment (US$b) |
|---|---|---|---|
| **South Africa** | **101** | **9** | **3.8** |
| Morocco | 54 | 12 | 2.4 |
| Nigeria | 54 | 7 | 6.6 |
| Egypt | 43 | 6 | 1.4 |
| Kenya | 36 | 2 | 0.5 |
| Ghana | 30 | 3 | 1.3 |
| Côte d'Ivoire | 23 | 2 | 0.8 |
| Angola | 16 | 5 | 3.1 |
| Congo | 12 | 3 | 1.1 |
| Tanzania | 11 | 2 | 0.2 |
| Ethiopia | 11 | 1 | 0.5 |
| Zambia | 10 | 1 | 0.9 |
| Tunisia | 9 | 4 | 0.5 |
| Senegal | 9 | 3 | 0.5 |
| Mozambique | 8 | 1 | 0.6 |

Source: fDi Markets (Financial Times).

# FDI by sector

Economic diversification is crucial for Africa's transformative journey.

# 4.1 FDI by industry

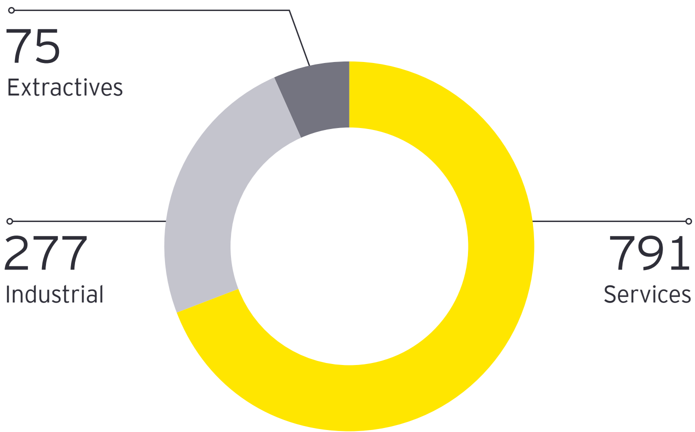
## FDI is shifting away from extractives towards more service-based sectors.

FDI is shifting away from extractive industries as an increased global focus on environmental sustainability requires a step change across the corporate world. Though extractives accounted for a considerable portion of inbound capital (31%) between 2016 and 2020, they rank low in comparison with both services and industry in project numbers (7%l) and the share of jobs created (11%). Over the last five years, service-based sectors received the highest capital investment (45%, amounting to US$158b) of the three industry groups, created more jobs (55%, 0.4m) and accounted for 69% of Africa's FDI projects.

Africa's economies have been rapidly transforming through the first two decades of the new millennium, making them less dependent on extractive industries, as they aim to become more sustainable and competitive. Investors are moving away from oil exploration and mining to "new age" sectors, including ICT, retail and business services. This trend is likely to accelerate as energy investors are increasingly compelled to meet stringent zero net carbon emission targets. The shift toward renewables and electric vehicles will become even more urgent, as extreme weather events continue to rise.

Nevertheless, the pace of this economic diversification is proceeding only gradually, and it is very uneven across the continent. Many countries, including Nigeria, Angola and the Democratic Republic of the Congo (DRC) remain heavily reliant on one key commodity, and have been slower to drive the required transition that will help their economies benefit from evolving global trade flows. To ensure more resilience from external shocks such as pandemics, natural calamities and volatility in energy prices, governments will need to undertake pro-business economic reforms that attract investments into new economic sectors and reduce dependence on natural resources.

FDI score by industry segment 2016–20




Source: fDi Markets (Financial Times), EY analysis.

> "The share of extractives FDI has been declining as the continent shifts focus to technology, manufacturing and services capabilities to stimulate growth.

# Case study: Angola's oil and gas sector remains lucrative to foreign investors.

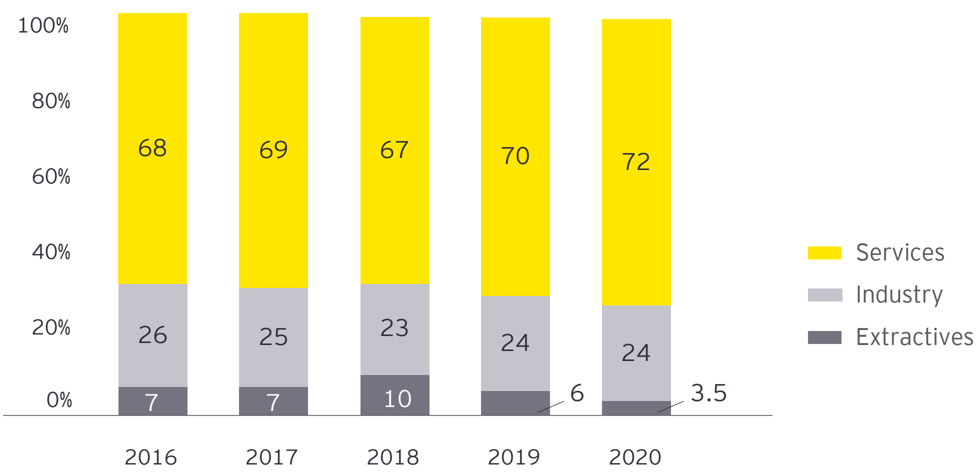
Oil and gas is the most crucial sector for Angola's economy, accounting for 30% of its GDP. Due to a slump in global crude prices, oil production has been on the decline. The Government's National Development Plan 2018–2022 and a revised Hydrocarbon Exploration Strategy 2020–2025 aims to expedite research and exploration in the sector, with plans to auction 50 new oil and gas blocks between 2019 and 2025. Also, as part of the broader privatization initiative, Angola's Government plans to sell a 30% stake in state-owned oil company Sonangol (estimated to be worth US$6.4b).

In 2020, Angola received two of the top three highest-valued FDI projects (in terms of capital investment) from Italy and the UK, worth more than US$3b. London-based investment firm GenCorp Capital made a final investment decision on a 60,000 b/d refinery in Angola's northern state of Cabinda.

Italian energy group Eni sees Angola as a key market for its future growth plans and announced plans in 2021 to spend approximately US$7b in the country over the next four years. The investment is earmarked for exploration, refining and expansion of solar energy in the country.

Source: **www.reuters.com/article/us-eni-angola-idUSKBN2BU2QN**
**www.mondaq.com/oil-gas-electricity/1015698/angola39s-back-five-key-2020-moves-to-increase-oil-and-gas-stakeholder-returns**
**www.africanews.com/2021/07/12/angola-s-oil-and-gas-industry-continues-to-provide-huge-opportunities-for-investors-despite-energy-transition-by-verner-ayukegba//**
**www.argusmedia.com/en/news/2155307-gemcorp-makes-fid-on-60000-bd-angola-cabinda-refinery**

## Industry share of total FDI (%) based on FDI score (weighted average of projects, jobs and capital)




Source: fDi Markets (Financial Times), EY analysis.

## Services percentage share by FDI score

| Year | Business services | Telecoms | Financial services | Technology | Consumer products | Automotive | Real estate | Health sciences | Tourism and leisure | **Services** |
|---|---|---|---|---|---|---|---|---|---|---|
| 2016 | 12.9 | 7.6 | 10.9 | 11.5 | 8.6 | 8.4 | 3.6 | 2.4 | 2.0 | 67.8 |
| 2017 | 7.3 | 6.6 | 13.2 | 11.6 | 13.1 | 6.0 | 5.2 | 2.7 | 2.9 | 68.6 |
| 2018 | 9.5 | 9.0 | 9.1 | 10.5 | 12.2 | 6.2 | 4.3 | 1.8 | 4.8 | 67.3 |
| 2019 | 11.3 | 3.6 | 18.3 | 9.5 | 9.5 | 5.0 | 4.0 | 3.4 | 5.4 | 70.1 |
| 2020 | 14.5 | 13.5 | 11.2 | 10.9 | 10.7 | 5.0 | 3.1 | 2.7 | 0.8 | 72.4 |

## Industry percentage share by FDI score

| Year | Advanced manufacturing | Renewables | Automotive | Construction | Mobility | **Industry** |
|---|---|---|---|---|---|---|
| 2016 | 8.9 | 6.8 | 5.9 | 2.4 | 1.6 | 25.6 |
| 2017 | 10.6 | 5.1 | 5.6 | 2.1 | 1.6 | 24.9 |
| 2018 | 9.5 | 4.1 | 6.7 | 1.5 | 1.4 | 23.2 |
| 2019 | 9.2 | 5.7 | 4.8 | 2.1 | 2.1 | 23.8 |
| 2020 | 10.7 | 7.1 | 3.8 | 1.5 | 0.8 | 24.0 |

## Extractives percentage share by FDI score

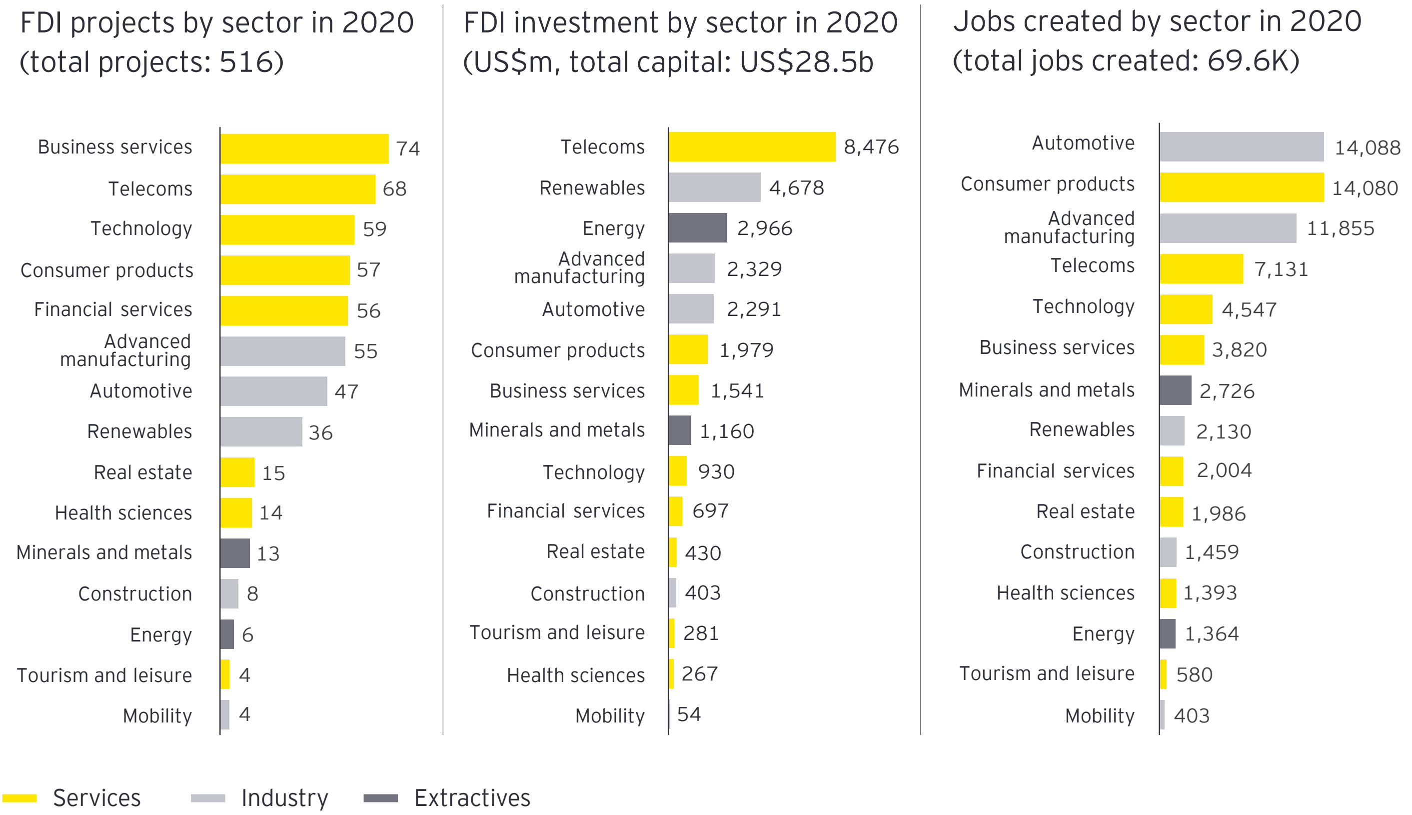
| Year | Energy | Minerals and metals | **Extractives** |
|---|---|---|---|
| 2016 | 4.2 | 2.4 | 6.6 |
| 2017 | 3.0 | 3.5 | 6.5 |
| 2018 | 2.5 | 7.0 | 9.5 |
| 2019 | 2.3 | 3.7 | 6.0 |
| 2020 | 1.3 | 2.3 | 3.5 |

Source: fDi Markets (Financial Times), EY analysis.

# 4.2 FDI by sector

## FDI increases in "new age" service sectors, while investment in resource-intensive industries shrinks.

Industry share of total FDI (%) based on FDI score (weighted average of projects, jobs and capital)




Source: fDi Markets (Financial Times), EY analysis.

In 2020, business services overtook financial services as the largest recipient of FDI when measured by projects. However, the cumulative capital investment from business services is lower than capital intensive sectors such as telecoms, energy and automotive. Financial services, historically a major recipient of investment, saw a significant decline in FDI in 2020 (from 186 projects in 2019 to 56). This may be a result of banks slowing their growth plans, as they held capital in line with national regulator's rules, and became more cautious, as the duration and impact of the pandemic appeared less certain.

The telecoms sector's prominence has risen since the early 2000s, with countries requiring telecoms infrastructure upgrades, greater network and broadband penetration in rural communities, fiber connectivity and mobile networks in new areas, and data centers. Telecoms FDI by capital investment in 2020 totaled US$8.5b – the highest of any sector, and of which US$4.4b was destined for Nigeria.

FDI in the consumer sector declined in 2020 due to a slowdown in public consumption caused by the pandemic. Investment in the sector is likely to rebound as demand and consumption picks up over the medium term, supported by rising urbanization and income levels. The extent of the recovery will depend on vaccination rollout rates and the ability of informal workers to resume earning an income.

# Service-based sectors remain the major focus for investors (encompassing business services, telecoms, media and technology, financial services, and consumer and retail).

## There has been an accelerated shift to business services during the pandemic

Business services saw elevated levels of inward investment, as urbanizing populations and rising consumer demand stimulates corporate activity. The sector received the highest number of FDI projects, although total capital investment and number of jobs created remained low, given the low capital intensity of the sector. Remote working and hybrid work models implemented due to the COVID-19 pandemic significantly raised demand for transformative business solutions in Africa, as it did in other parts of the world. Even so, the portion of the population in formal employment across the continent significantly lags other regions (both mature and emerging markets), but the opportunity for the sector looks promising as more economies mature and increasingly absorb larger numbers of employees into the formal economy.

## The telecoms sector received the bulk of capital; tech investments are also rising

After business services, the telecoms and technology sectors received the most FDI projects in 2020, driven by Africa's increasing pace of digitization and modernization of telecoms networks. The telecoms sector received the highest capital investment totaling around US$8.5b, with the largest investments focused on Nigeria and South Africa.

Telecoms FDI was driven by governments' push to expand their ICT infrastructure and increase mobile penetration in smaller economies, setting up national fiber optic cable networks and creating national broadband policies. Companies are focused on expanding the fiber optic network, building cloud computing capabilities and launching 5G networks in the key countries, namely South Africa, Kenya, and Nigeria. A young demography and rising urbanization have led to a growing internet economy, which has the potential to contribute US$180b to Africa's economy by 2025 and will be crucial for its recovery.

Technology investments received a considerable number of FDI projects in 2020, although the size of the projects remains small. Investments are concentrated in regional tech hubs (including Cape Town, Lagos, Cairo and Nairobi), supported by strong venture capital ecosystems and the presence of large tech companies. Global hyperscalers such as Facebook, Google and Microsoft are all expanding their presence in Africa. Microsoft's development centers in Lagos and Nairobi aim to hire 500 local software engineers by 2023. In addition, both Microsoft and Amazon have both set up new data centers in South Africa. There is also a rise in the number of tech start-ups and accelerators in these regions, which is driving demand for skilled African IT and software engineers. According to Boston Consulting Group, the number of tech start-ups securing funding have increased to 359 in 2020 (from only 55 in 2015, a CAGR of 46% vs. 8% globally).

# Case study: Nigeria's telecoms FDI accelerates as it upgrades network infrastructure and plans a 5G rollout

## MTN plans to invest US$1.5b to strengthen broadband access in Nigeria

Earlier this year, South Africa-based telecoms company MTN announced plans to invest US$1.5b over three years to increase broadband penetration in Nigeria, Africa's most populous country. MTN Nigeria plans to connect 1,000 rural communities to its network in 2020, adding 2,000 more communities in 2021. The investment from MTN support's Nigeria's New National Broadband Plan (NNBP 2020 to 2025), which aims to increase broadband penetration from an estimated 45% in 2018 to 90% by 2025.

In addition to the South African investment, China and France are major players in Nigeria's telecoms sector. Nigeria is also speeding up its plan to launch 5G networks across the country, which could create additional investment opportunities for MTN and other global telecoms providers.

Source: www.reuters.com/article/us-nigeria-mtn-nigeria-comm/mtn-nigeria-to-invest-1-5-billion-to-expand-broadband-over-three-years-idINKBN2F31M8?edition-redirect=in;
telecom.economictimes.indiatimes.com/news/mtn-nigeria-to-invest-1-5-bln-to-expand-broadband-over-three-years/84993794

## Investment in renewables shifts from north to south

Africa is undergoing an energy transition and has made great progress in developing solar and wind power. The sector attracted the second-highest capital in 2020, with large investments announced in Zambia and South Africa. As the push toward rural electrification while achieving sustainable goals and diversifying the energy mix continues, investments into renewables have surged. Zambia's 2019 Renewable Energy Financing Framework aims to develop 100 MW of renewable projects, mainly through solar power. Until recently, most investments in renewables were focused on Egypt and Morocco, driven by supportive policies. Morocco and Egypt are the only two African countries ranking in the top 20 in EY's Renewable Energy Country Attractiveness Index (RECAI) 2021, enhancing their attractiveness. Egypt's ambitious target to increase its share of renewables to 20% by 2022 and 42% by 2035 will further stimulate investment. According to the International Renewable Energy Agency, Africa has the potential to build 310GW of clean renewable power, meeting 25% of its energy needs by 2030. With the right policies and regulations, governments can attract even more foreign investment in this space, as they promote and adopts sustainable energy use.

# Climate change: up to government or down to business?

It was recently announced at COP26 that South Africa has been awarded a $8.5bn investment to facilitate the move of the country from being one the highest consumers of coal-based energy to leveraging alternative energy, in the fight against climate change.

One of the most divisive aspects of the climate change debate has been on the fairness of pushing for less developed countries, whose economies are just starting to grow, to move away from using cheap — yet dirty — fuel. In many instances, the economic structure of these economies is fundamentally based on industries related to, or significantly reliant on, fossil fuels. Accelerating this transition is an expensive prospect, which these economies do not have the funds for — particularly after the impact of the pandemic.

South Africa is one of the most carbon intensive countries in the world. According to the World Bank, its C02 emissions/capita were 7.5 metric tons in 2018, significantly higher than the global average of 4.5 tons and twice that of middle income economies of 3.7 tons. In 2020, 86% of South Africa's electricity came from coal, which is locally sourced, compared to the global average of 34%. This, coupled with the fact that it is a highly unequal and debt-burdened economy, make it a perfect test case for the application of concessional green financing from developed countries.

*Sources: End of coal in sight at COP26 - UN Climate Change Conference (COP26) at the SEC – Glasgow 2021 (ukcop26.org)*
*Ember. 2021 Global Electricity Review. https://ember-climate.org/global-electricity-review-2021/g20-profiles/south-africa/*
*https://data.worldbank.org/indicator/EN.ATM.CO2E.PC?contextual=aggregate&locations=ZA*

## Investment in the financial services sector is largely driven by FinTech

Investments in financial services, which once flourished with FDI inflows aimed at the digital payments space, took a hit in 2020, due to market saturation as well as slowing growth. The banking sector's appetite for offshore expansion slowed, given the uncertainty relating to capital levels. In addition, the insurance sector faced similar concerns, given the rising capital reserves required for pandemic-related payouts, and regulators in many instances imposed minimum capital thresholds to ensure financial system stability. FinTech remains the largest beneficiary of investments across financial services, attracting 33% of total tech start-up investments in 2020. Nigeria remains a primary hotspot for FinTech funding, attracting large investments from US-based investors. A substantial portion of Africa's population remains unbanked and financially excluded from the economy, creating enormous potential for investors, once growth resumes post-COVID-19.

## The consumer sector has been hit by falling demand, but still creates the most jobs

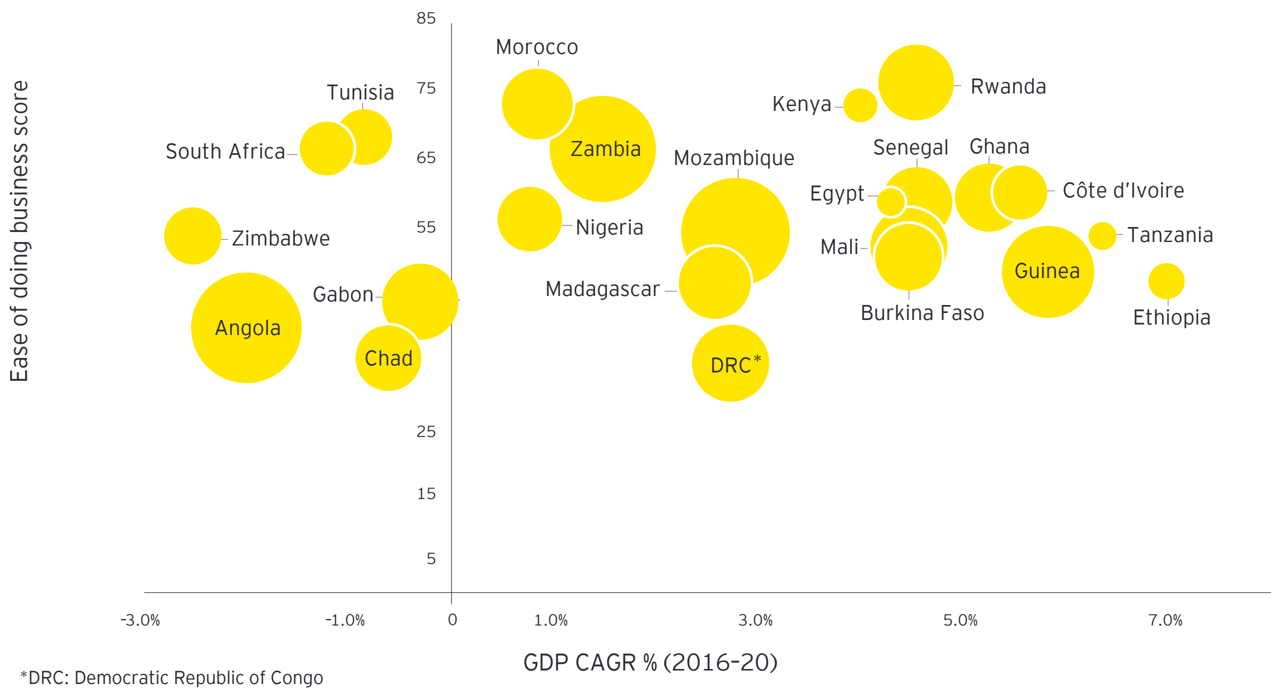
Investments in the consumer and retail sector were weak in 2020 due to subdued consumer demand and supply chain disruption caused by the pandemic. South Africa and Egypt are the main FDI destinations in this sector, in line with their larger and more formal economies. The pandemic-induced transition to e-retail resulted in the adoption of online retail platforms in many countries and will likely attract foreign investors in the coming years, as more retailers transform their business models in line with shifting consumer habits. While many foreign investors scaled down operations in Africa in 2020, there were investors that took the weak market conditions as an opportunity to expand their presence in the continent. French retailer Carrefour grew its presence in Kenya, Tanzania, and Uganda, with plans to open more than 100 stores in 2021 across the Middle East, Africa and Eastern Europe. In 2021, French LC Waikiki opened stores in Uganda and Ghana, with plans to expand further in Africa, namely to Congo, Ghana, Kenya, Zambia, and South Africa, by 2023.

# Assessing Africa's FDI leaders and laggards

5

In our 2019 report, we assessed which countries could be considered more successful in attracting foreign investment and concluded that countries adopting business-friendly approaches and easing bureaucratic processes tended to fare better, while those regressing on these fronts fared less well. We revisit that framework this year to understand how robust that theory is.

## Ease of doing business score versus GDP CAGR %




*DRC: Democratic Republic of Congo
CAGR: Compound annual growth rate

Source: fDi Markets (Financial Times), World Bank, EY analysis.

Note: the top 25 countries by FDI capital were analyzed for this exercise, except for Seychelles, as its FDI capital as a percentage of GDP was an outlier for 2020. The size of the bubble represents FDI capital as a percentage of GDP.

In 2020, while Nigeria, South Africa and Morocco received the most FDI capital in absolute terms, when measured relative to their economies, they were outpaced by countries such as Mozambique and Zambia.

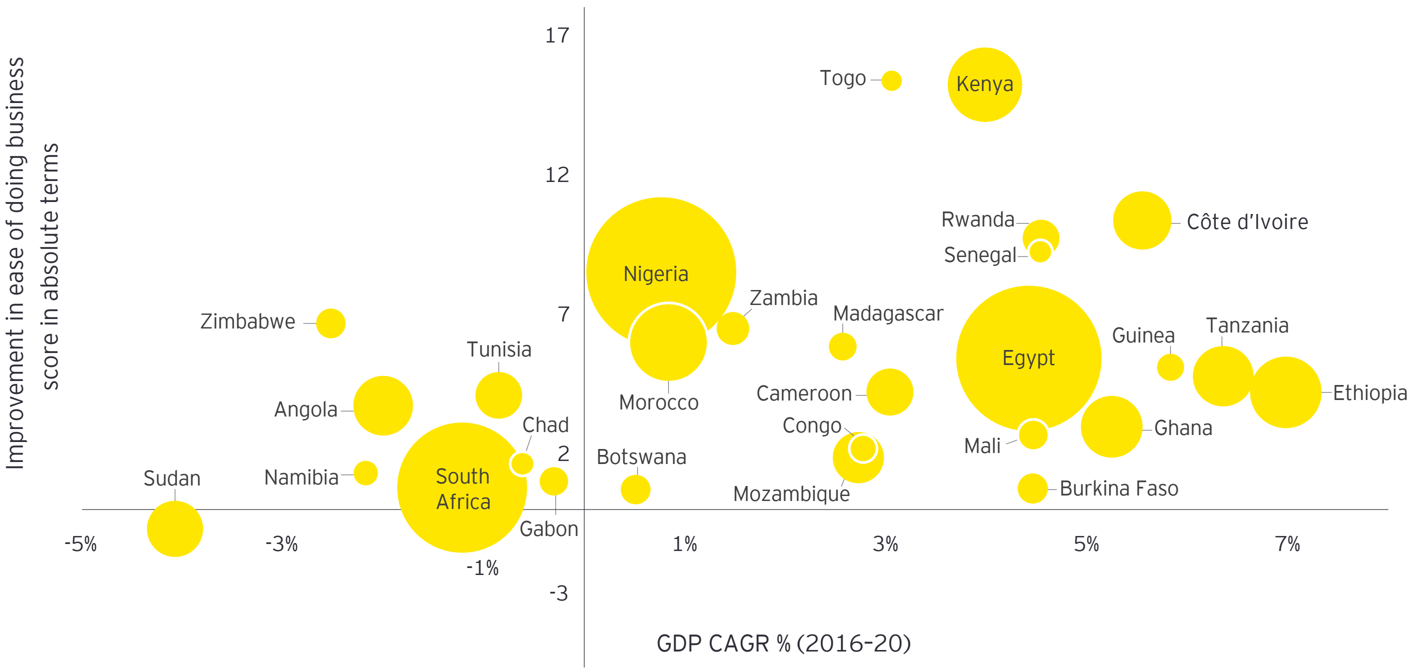
The ten economies that received the highest proportion of FDI capital (relative to GDP) are Angola, Mozambique, Zambia, Guinea, Mali, DRC, Gabon, Rwanda, Madagascar and Morocco.

Intuitively, one expects economies that ranked low on the ease of doing business metric to attract less FDI than countries that are strong on governance and creating a competitive business environment. However, in 2020, the DRC, Chad, Angola, Liberia, Gabon and Madagascar attracted a considerable proportion of FDI capital relative to GDP, despite unattractive scores on the World Bank's annual ease of doing business rankings. All major economies (Nigeria, Egypt, South Africa, Morocco and Kenya) lag in terms of FDI capital as a percentage of GDP, despite having higher EASE OF DOING BUSINESS scores.

An economy that stands out is the DRC, as its FDI activity reached a decade high in 2020, countering a crunch seen across most emerging markets caused by the pandemic. The telecoms sector drove much of the activity, as the likes of China Mobile International, Egypt-based Benya, and US-based Raxio announced projects to lay the foundation of the country's digital communications infrastructure. The DRC also recorded two renewable energy projects for the first time in seven years. There has been a general decline in investment projects engaged in the metals sector since 2018, coinciding with the Government's plan to diversify the economy by shifting away from an over-reliance on mining and agriculture for jobs and revenue, and to prioritize the financial services sector. Improved investment climate and economic policies tend to show their effects in the medium to long term.

Adding to our analysis, we plotted the improvement in the ease of doing business scores over the last five years for selected African countries against the GDP CAGR for the period 2016 to 2020.

## Ease of Doing Business score versus GDP CAGR %




Source: fDi Markets (Financial Times), World Bank, EY analysis.

Note: the top 25 countries by FDI capital were analyzed for this exercise, with the exception of Seychelles, as its FDI capital as a percentage of GDP was an outlier for 2020. The size of the bubble represents nominal GDP.

Nigeria was among the top 10 economies improving the most across three or more areas as indicated by the Doing Business 2020 report. In 2020, Nigeria recorded the highest FDI by capital, worth US6.6b and representing 23% of the total. South Africa was second on this measure, accounting for 13%. Nigeria's long-term objective of investment diversification has started to show its effects as the country's share of service-based FDI has increased substantially, but inbound investors still deal with a range of practical difficulties, including shortages of foreign exchange and hence difficulty in sourcing imported input components and product. Telecoms is now the largest source of Nigeria's FDI in 2020 and, interestingly, the energy sector, still Nigeria's largest, received only three FDI projects in 2020. This could be in response to Nigeria increasing the Government's share of profits from oil activities under production-sharing contracts, deterring investment.

Nigeria is showing signs of economic diversification boosted by the reforms taken by the Government in recent years to improve the ease of doing business in Nigeria.

## Case study: Côte d'Ivoire has robust plans to drive investment inflows.

Before the COVID-19 crisis, Côte d'Ivoire had one of the highest GDP growth rates globally, at 8% per annum. The country aimed to achieve "emerging economy" status by 2020 with urban poverty rates falling from 46% in 2015 to 39% in 2020. But this stalled in 2020, and to buffer the impact of COVID-19, the Government has implemented measures supporting households and the private sector, with a FCFA 1700b plan that incorporates:

- Tax deferrals and suspension for the corporate sector
- Funds for large companies, SMEs and the informal sector
- A lighter regulatory burden

Multilateral and bilateral support from the Banque Centrale des États de l'Afrique de l'Ouest, the Agence Française de Développement and Proparco has enabled this aid. But a more ambitious revenue enhancement strategy is needed, including a wider tax base that will bring the large informal sector into the tax net.

The National Development Plan 2021–25 has three pillars:

- Developing the private sector
- Accelerating structural transformation of the economy
- Promoting Human capital development and employment

Initiatives include moving up the value chain in the agricultural sector and improving profit sharing with farmers in the priority cocoa and cashew nut markets.

Three industrial economic zones in partnership with a foreign company will increase raw material processing and manufacturing. Investment is estimated at FCFA 1000b, with 100,000 new jobs expected by 2025.

The Government is actively seeking long-term FDI, expressed at the Côte d'Ivoire/China 2018 meeting and the Côte d'Ivoire/France business workshop in Paris in July 2021.

Furthermore, the first major offshore oil discovery was announced in September 2021.

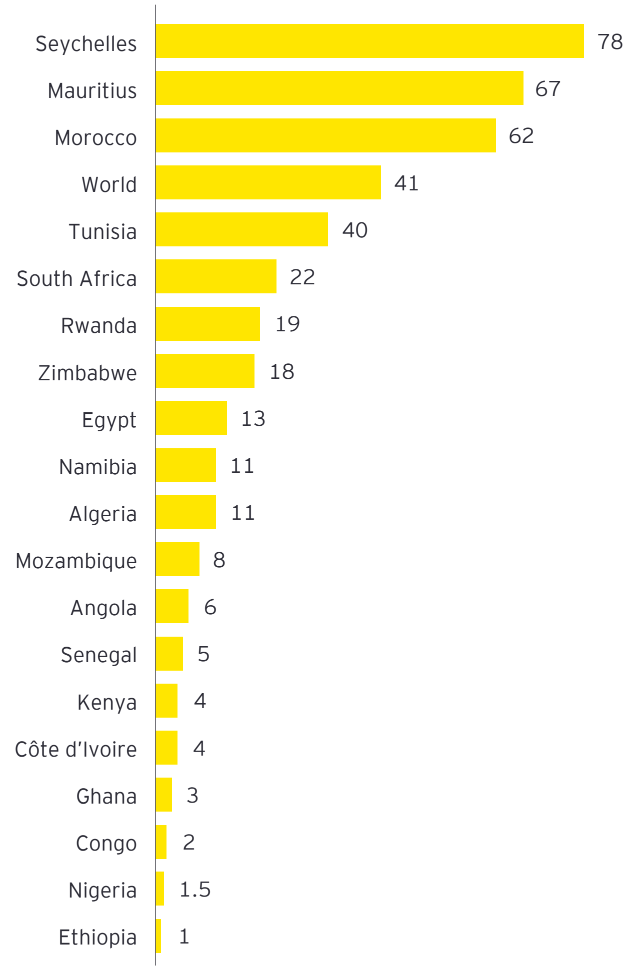
# Now, next and beyond: resetting the future for accelerated growth

# **Now**: swift measures are needed for a speedy Africa-wide vaccination campaign

## 6.1 Accelerate the rollout of vaccinations to support economic recovery

COVID-19 has significantly impacted the socioeconomic progress made by Africa in the last decade, pushing an estimated 30 million people into extreme poverty. Up until June, the continent had recorded nearly five million COVID-19 cases (with half of those in South Africa). The vaccination rollout is concentrated in a handful of countries, but has recently slowed due to limited supplies, lack of funding, insufficient planning and citizen hesitancy to get the vaccine. Morocco has administered the highest number of vaccines, while South Africa, the most affected country on the continent, has had very limited success in vaccinating its people, with 14% partially vaccinated, and only 8% fully vaccinated.

Percentage fully vaccinated population




Source: World Health Organization, as of 16 November 2021.

Seychelles and Mauritius have low populations, so the number of full doses administered per 100 people appears significantly higher. Morocco leads in terms of vaccination rollout rates.

Picking up the pace of vaccination across the continent is critical to get back on track and meet social objectives, especially with the likelihood of a fourth wave. In August 2021, Africa signed a landmark agreement with J&J to source 400m vaccine doses for African Union member states, providing a much-needed boost to the economic recovery. The number of doses provided could prove to be effective in immunizing one-third of Africa's population, bringing the continent halfway to meeting its goal of vaccinating 60% of its population by 2022. To implement a successful continental vaccination campaign, governments need to collaborate and work collectively in creating awareness of the benefits of the vaccine, releasing timely information about vaccination strategies to the public, targeting high-risk people first and strengthening basic health care systems to deal with rising COVID-19 cases.

## 6.2 Prioritize key sectors to drive growth

### While FDI fell sharply in 2020, this is only half of the story. Rising investment outside the traditional extractive industries creates a more sustainable long-term growth outlook.

Africa is witnessing a continued shift in its FDI inflows. Until the turn of the century, FDI into Africa was largely focused on extractives, with investors looking to export natural resources. But much has changed during the last two decades, and in 2020, the service sector's share of FDI projects increased to 72% while the extractives share had fallen to an all-time low of 3.5%. There is far more investor interest in both services and industry than ever before, with telecoms, manufacturing, renewables, IT services, business equipment, retail, health care and medical devices all on investors' radars. FDI can and should be a key enabler in helping Africa to achieve rapid economic recovery from COVID-19, with governments more cash strapped than ever, and therefore in need of economic partners to fund growth. Africa can capitalize on these transformative opportunities.

### Africa's demographic dividend looks promising but needs rapid economic transformation for the benefits to flow.

Not only is Africa the only part of the world with an expanding pool of youth who are also tech savvy, but it also has a growing middle class, now numbering some 350 million people. The continent's median age is 18, 14 years younger than any other region, making it the youngest region globally. However, the continent's demographic transition must be guided by purpose and policy. Many of its citizens remain excluded from mainstream economic activity and seek informal income earning tasks instead. This leaves them vulnerable to shocks (such as the COVID-19 pandemic), which tore through the continent and, in many instances, removed people's already-low income. South Africa stood out as the only country on the continent that could provide relief, even though its COVID-19 stimulus package was low by global standards.

The extractives industry's FDI absorbs very little of the abundant labor force, accounting for only 6% of total jobs created by FDI investment and providing few skilled jobs. If Africa aims to capitalize on its booming young population, it needs to improve governance and political stability, diversify economically, and invest in infrastructure to create new flows of investors who will employ more of its people. The shift away from extractives toward manufacturing and services activity creates more meaningful and sustainable growth over the longer term, and more of the continent's leaders will be aiming to attract the capital and skillsets that are needed.

## Fostering sustainable development and growth in Africa is critical

The reallocation of resources to tackle COVID-19 has significantly slowed Africa's ability to achieving its Sustainable Development Goal (SDG ) targets set under its 2030 Agenda for Sustainable Development and the African Union Agenda 2063. The pandemic has highlighted the imperative of implementing resilient and sustainable development goals in Africa. Given the challenges, governments need to reprioritize and target a selective smaller set of SDG goals focusing on health care, infrastructure, education and poverty alleviation to improve the standards of living. Policymakers need to keep the mounting debt in check by limiting borrowing and expanding fiscal space, implementing pro-business policies and regulations in energy, tourism and agriculture sectors, diversifying economies and reducing exploitation of natural resources, to create employment opportunities that can take advantage of the growing young population. Investing in emerging technologies and innovative solutions can improve the food and energy security on the continent. Building quality infrastructure, tapping into the continent's renewable energy potential, increasing agricultural productivity, cultivating skills and human capital, and improving sustainable governance are some essential measures to help Africa rebound and rebuild from the pandemic.

## Intra-African FDI has risen, while China accounts for more than half of Asia's inbound FDI.

Historically, Europe dominated the African FDI landscape, contributing to over two-thirds of FDI, in line with historical trade and cultural ties that go back centuries. While Europe's FDI in absolute value continues to grow, its share of overall FDI has fallen for several reasons. Africa's leaders are open to building trade outside of the "western" hemisphere and have actively sought out partnerships with the BRICS member states, as well as building deeper relations with other emerging market regions. As a result, FDI from Asia has increased sharply, China being the primary driver. Between 2016 and 2020, 20% of Africa's capital has come from China, making it the single largest investor over the past five years. Despite China's share of FDI declining substantially in 2020, it remains a key economic partner for much of the continent, as it seeks commodities and markets for its own exports.

# **Next:** resilience plans, an improved business climate and a successful AfCFTA rollout are key to unlocking growth

## 6.3 Commit to improving the business environment

Africa is reforming to attract more investment and concrete action plans are needed to bridge the gap.

Nigeria is one country that has improved strongly in the Doing Business 2020 report. But that still leaves it with significant scope to continue making business-friendly reforms; it currently ranks 131 out of 184 countries globally. Overall, 25% of reforms recorded by Doing Business 2020 came from sub-Saharan Africa. However, most of the continent still sits in the third and fourth quartiles on the index, and therefore have among the lowest ease of doing business scores globally, indicating that significant additional work is still required.

Though progress has been made, it is not enough. Mauritius (13) and Rwanda (38) are the only two sub-Saharan African economies ranked in the top 50. Other large economies in the region and their rankings are Kenya (56), South Africa (84), Ghana (118), Nigeria (131) and the DRC (183). The region's economies perform best in getting credit and underperform in the areas of generating electricity, trading across borders and registering property. But given how many African countries still lag in the ease of doing business rankings, governments could take the opportunity to stand out from their peers by further enhancing their regulatory frameworks and removing bureaucratic barriers. This is the game changer that will make them more attractive and promote job creation, which is so necessary to alleviating poverty across the continent

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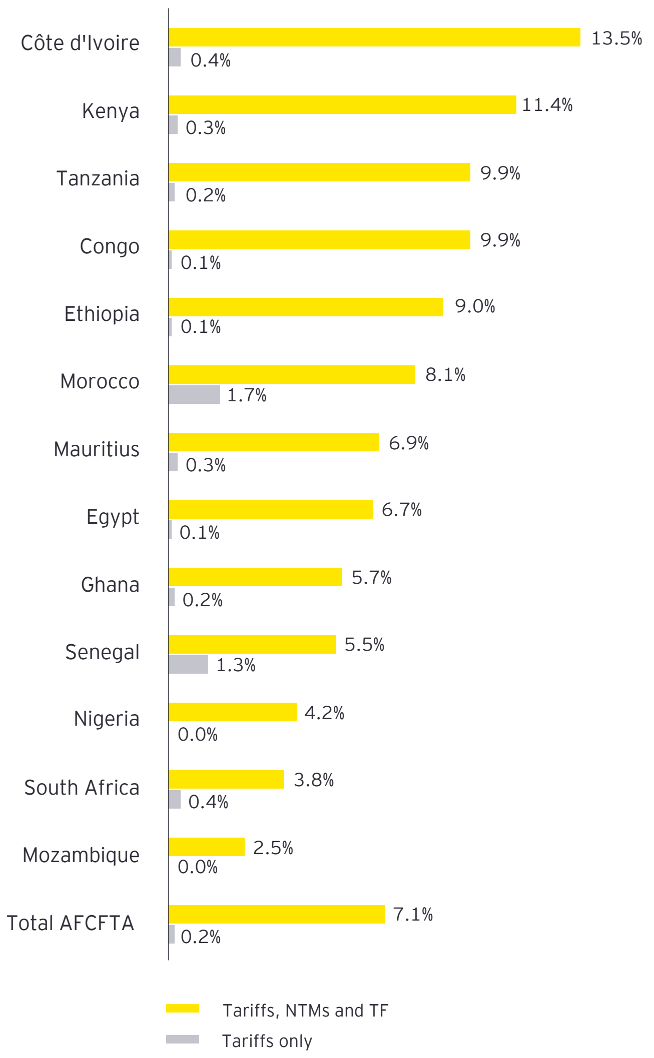
With a more favorable political outlook, demographics make for a durable factor to drive attract FDI into Africa. The continent needs to prioritize investment policy and promotion; improve the domestic investment climate; focus on employment-intensive and export-oriented sectors; and harness regional growth opportunities through trade collaboration. Capitalizing on these drivers presents a compelling opportunity for African policymakers looking toward economic recovery.

## 6.4 Ratify the AfCFTA implementation to benefit from trade

The AfCFTA trade pact was signed in March 2018 and came into effect in January 2021. With an estimated 1.3b people across the continent and a combined GDP of US$3.4t, the pact could become the largest free trade area in the world in terms of number of countries participating (55 countries). AfCFTA represents a tremendous opportunity for Africa to stimulate stagnant growth, reduce poverty and inequality levels, cut red tape, and increase employment and skilling opportunities. According to the World Bank, once completely implemented, it has the potential to:

- Lift 30m Africans out of extreme poverty and boost income levels of 68m individuals who live on less than US$5.50 a day
- Raise Africa's income by as much as US$450b by 2035 (up by 7%)
- Increase Africa's exports by US$560b, mainly in manufacturing
- Boost wages for women (by 10.5%) and men (by 9.9%)
- Increase wages for skilled workers (by 9.8%) and unskilled workers (by 10.3%)
- Reduce red tape and simplify customs, resulting in an income gain of US$292b of the total income benefits of US$450b
- Increase intra-regional trade by 52% by 2022

## Expected AfCFTA income gains: 2035*




*Note: NTMs: non-tariff measures; TF: trade facilitation. The graph shows percentage changes with respect to the baseline scenario in 2035. The baseline scenario does not have policy interventions such as tariffs, NTMs, and TFs.

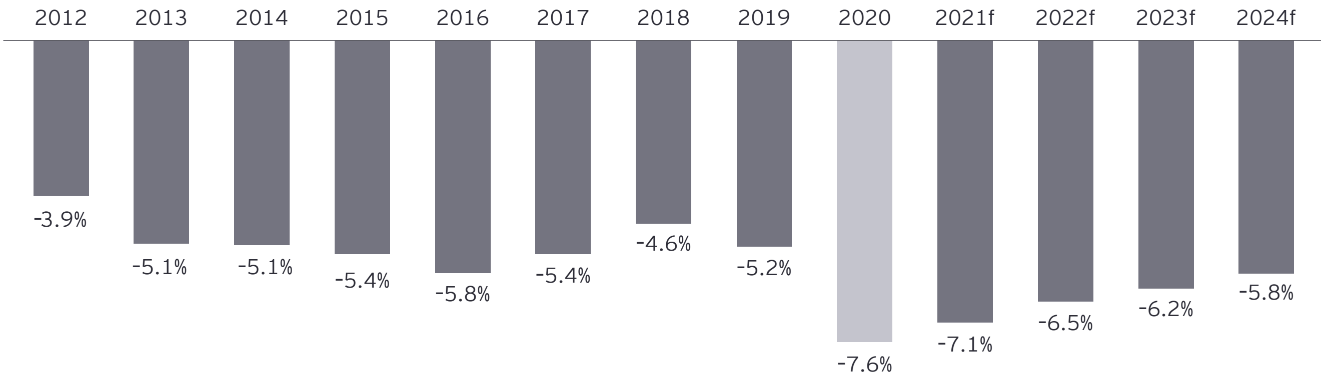
Source: World Bank.

But for AfCFTA to provide these benefits will require buy-in and participation of all the signatory countries. Some fear that countries with established manufacturing bases (including South Africa and Kenya) will benefit disproportionally, while smaller frontier markets will struggle to find competitive advantage, and therefore face greater levels of stagnation. There is a sense that greater levelling of the playfields is required for the pact to really make significant impact on poverty reduction.

## 6.5 Adopt strong fiscal measures to keep government deficits in check

Africa is currently running budget deficits above the recommended norm of 3% (as a percentage of GDP) and has been in this position since 2012. The average deficit peaked at 7.6% in 2020 due to economic and health measures to tackle the COVID-19 pandemic. Of course, African economies were not unique in this regard, but have far less of a buffer to see them through such traumatic events. According to the African Development Bank (AfDB), the average fiscal stimulus package deployed across Africa amounts to 3% of GDP, but varies significantly, from about 32% in Mauritius to 10% in South Africa, to less than 1% in Tanzania. In addition to COVID-19-related fiscal interventions, government revenues were severely impacted by declining commodity prices and exports, a narrower tax base due to mobility restrictions and weak trade tariff income.

Government deficit (as a % of GDP)*




*f: forecast; countries included in the study are Egypt, Morocco, Angola, South Africa, Mozambique, Kenya, Nigeria, Ghana, Ethiopia, Tanzania, Senegal and Côte d'Ivoire.

Government balance and debt were recorded in local currency and converted using period average exchange rate for each year. Government balance (deficit/surplus) as a percentage of GDP = total deficit/surplus of select countries (in 'US$m')/total GDP of the select countries (in 'US$m').

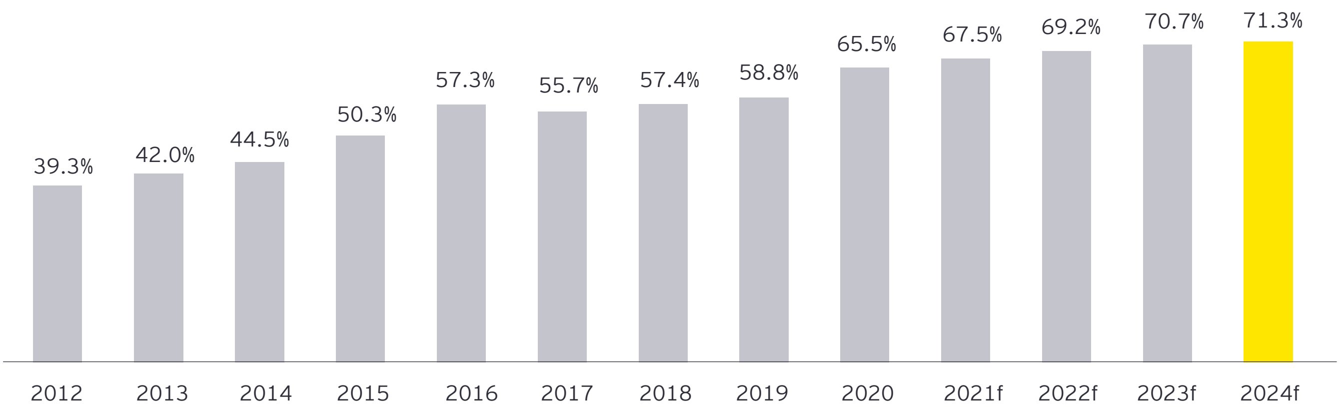
Source: Oxford Economics, EY analysis.

The deficit is likely to moderate in the medium term as economies recover and growth returns to historical levels. But deficits will remain well above pre-COVID-19 levels for some time. Prudent fiscal policies will be needed as COVID-19 relief programs continue, and funds are required to stimulate growth through the recovery. Governments need to strengthen the tax collection base by reducing tax evasion. It is estimated by both the UN and African Union that "African countries lose an estimated US$15b every year in unpaid taxes, in addition to the US$50b lost annually to illicit financial flows, facilitated by shell companies.

> On the expenditure front, improving tax transparency by raising budget transparency and tax audits, reducing corruption and bottlenecks in the business sector, and strengthening judicial and executive oversight can help governments regain lost revenues, which is key to keeping governments afloat and deficits in check. Digitization will also play a key role in improving tax administration and revenue collection, and the quality of public spending.

# 6.6 Control mounting public debt to regain investor confidence

Government debt (as a % of GDP)*

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Source: Oxford Economics, EY analysis.

The COVID-19 pandemic significantly increased public financing needs to counter its socioeconomic impact, forcing many African countries to borrow and incur substantial debt, which, as a share of GDP, is expected to rise to approximately 66% in 2020 (up from 59% in 2019), which is high for emerging markets, albeit low by mature market standards. Capital market volatility, particularly exchange rate depreciation, rising interest expenses and high primary deficits added to this mounting debt. Most countries will see even higher debt-to-GDP ratios in the medium term. According to IMF debt risk analysis, six countries in Africa were already in debt distress by the end of 2020, and 14 more were at an elevated risk of distress. In 2020, interest payments rose to 20% of tax revenue for the continent and exceeded one-third of revenue in some countries. Access to capital markets to raise additional funds comes at a cost, with investors wanting a premium to fund additional debt, which has increased the cost of borrowing, while restricting funds available for health, education and protection services. If the rising debt levels are not controlled in the short term, many countries might face a "debt overhang" (a debt they can no longer service), impacting their recovery and raising investment risk.

To help countries manage debt sustainability, the World Bank and the IMF established the G20 Debt Service Suspension Initiative (DSSI), as well as the Common Framework for Debt Treatments, to provide debt service relief to countries with high debt vulnerabilities. The initiatives provide temporary suspension of debt service payments until December 2021, which will aid many low-income African countries facing a severe liquidity crunch but may also sharply raise debt servicing requirements over the medium term. African countries require a much more comprehensive debt restricting program than temporary debt servicing reliefs. Africa needs to make its local debt capital markets more accessible, reduce the costs of trading, and ease regulatory requirements. Governments can thereby create local funding sources, lessening the need to borrow from external creditors, thereby reducing their vulnerability to external shocks.

> The African Development Bank's initiative to connect seven of the largest stock exchanges on the continent and create a central platform for trading will help attract a broader investor base and increase liquidity.

# **Beyond:** enhance infrastructure to stimulate economic activity, create employment, bolster supply chains and expand health care access

## 6.7 Accelerate technology investment, health care access and infrastructure development

For long-term success, Africa must focus on transport and power generation, make health care more inclusive, and build on its commitments to information and communications technology development.

Health infrastructure has deteriorated due to a lack of national funds, low private investment and low income levels. But with Africa's middle class growing, there is increased employer-provided health insurance, and the sector could begin to attract more foreign investors and expertise to tap into this growing demand. To accelerate enhanced health care requires inbound investment, with an enabling legislative environment that stimulates skills transfers, shared benefits and long-term investment commitments.

Investment in technology highlights the continent's digital divide, with major deficits across sectors and geographies. Infrastructure constraints, including low broadband internet access, are key, and could attract significant investment under a favorable legislative environment that seeks to attract and reward investors, while developing technology (particularly digital) skills that will drive greater benefits for government, business and society.

Additionally, Africa requires robust regional infrastructure to speed up implementation of the AfCFTA. To this end, there is a strong need to attract the private sector through PPPs and private sector projects.

# Methodology

## About the EY attractiveness program

EY Attractiveness reports and surveys are widely recognized by 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.

The program has a 20-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.

### Sources

**FDI data**: The Africa FDI data is sourced from fDi Markets by Financial Times. It tracks cross-border investments across countries and sectors covering investment projects, capital investments and jobs created.

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.

**Macro indicators**: All macroeconomic numbers are sourced from Oxford Economics.

**Timeline**: This 2021 report tracks FDI data for the period 1 January 2020 to 31 December 2020

For more information, please visit:
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