EY's Attractiveness Program
Africa

May 2017

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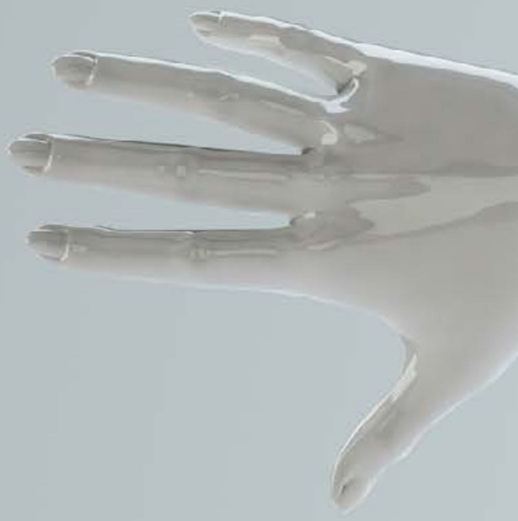
EY attractiveness reports and surveys are widely recognized by our clients, the media and major public stakeholders as a key source of insight on foreign direct investment (FDI). Examining the attractiveness of a particular region or country as an investment destination; the surveys, reports and analysis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



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Glossary

AAI: Africa Attractiveness Index

AGOA: Africa Growth and Opportunity Act

CPR: Consumer products and retail

DIP: Diversified industrial products

DRC: Democratic Republic of Congo

EU: European Union

FDI: Foreign direct investment

GDP: Gross domestic product

OBOR: One Belt, One Road

OPEC: Organization of the Petroleum Exporting Countries

RHC: Real estate, hospitality and construction

SME: Small-and medium-sized enterprizes

SSA: Sub-Saharan Africa

TMT: Technology, media and telecommunications

4
Executive summary

6
Economic overview

8
FDI in Africa in 2016

9
Africa's uneven FDI picture reflects global uncertainty

11
More FDI flows to the hub economies, with new clusters emerging in East and West Africa

18
Africa's diversified FDI sources provide resilience

22
Sector diversification continues

24
Looking forward

25
The upside of disruption: connecting the dots

30
What does this all mean?

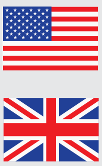
Executive summary

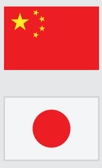
FDI patterns in Africa hold steady despite growing global uncertainty.

The key hub economies (South Africa, Nigeria, Kenya, Egypt and Morocco) remain Africa's top recipients by FDI projects.

South Africa remains the largest FDI hub.

China picks up pace in Africa amid uncertainty around US policies and Brexit.


US
UK


China
Japan

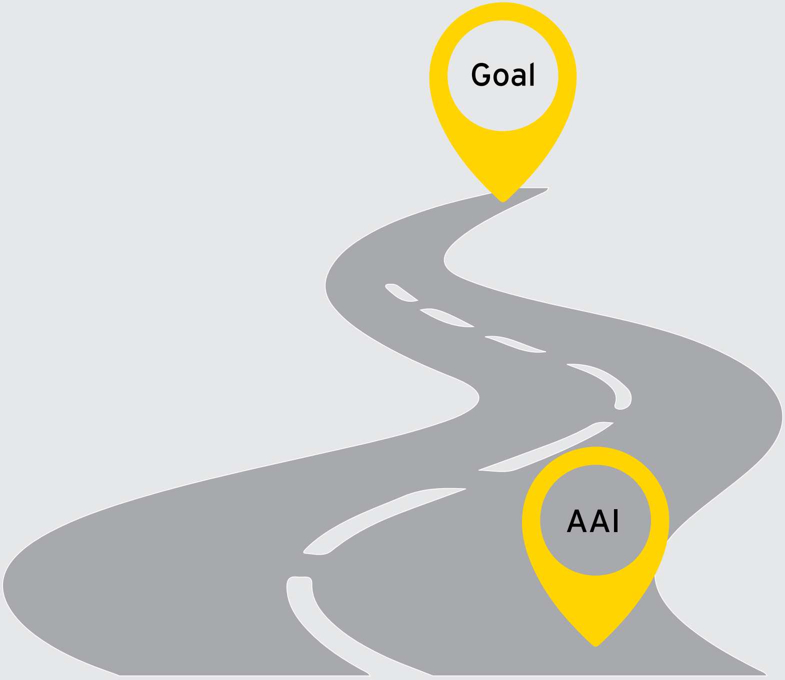
Two of the biggest traditional investors face domestic uncertainty on account of Brexit and policy changes under President Donald Trump.

Asia-Pacific has become a more visible FDI investor.

#1
China emerges as the largest jobs creator.

125%
Year over year rise in Japanese FDI projects.

A longer-term horizon is required — the Africa Attractiveness Index can help assess potential.

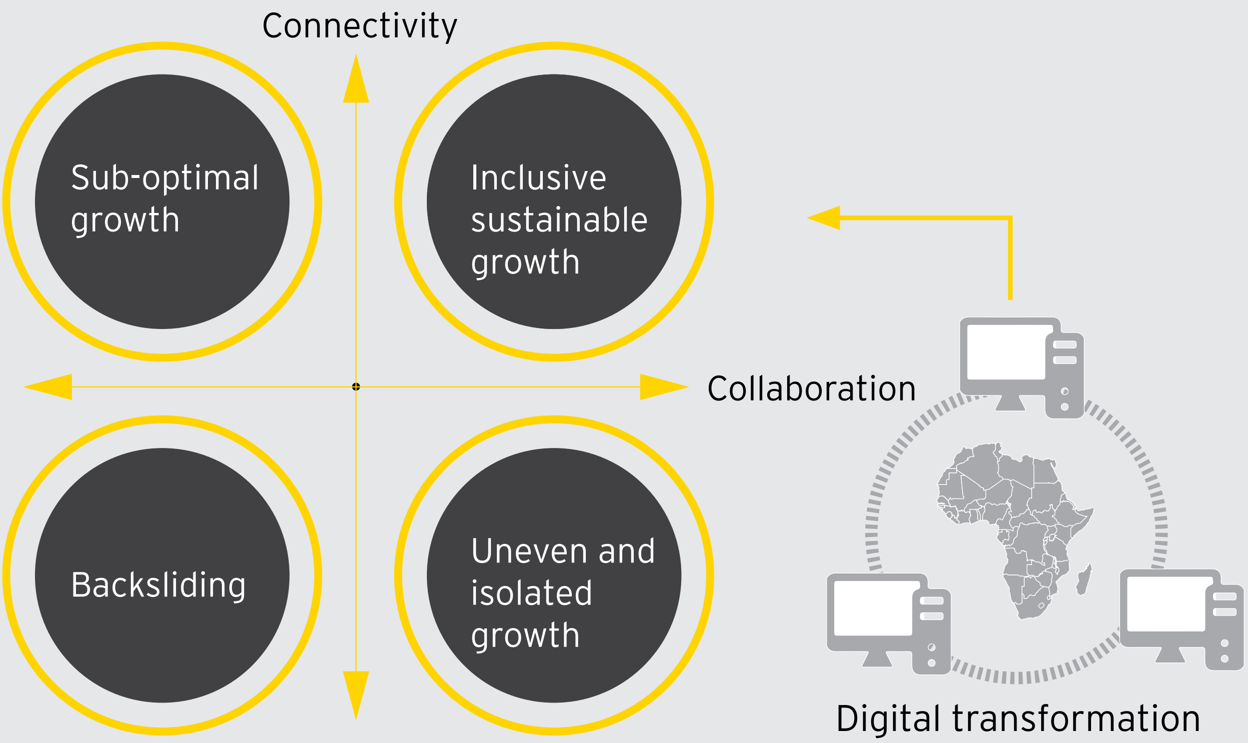


EY's Africa Attractiveness Index (AAI) 2017 measures the FDI attractiveness of 46 countries.

Helps companies to make fact-based decisions in context of uncertainty.

Balances short-term and long-term factors that determine choice of location to invest.

Digital transformation can be a game changer for inclusive growth.



Economic overview

Africa's growth will improve off 2016 – the worst year for the continent in nearly 20 years.

- Africa's growth will improve following 2016.
- Selected key economies will continue excelling.

Low growth was largely driven by external factors, particularly oil prices, which meant two of the largest three economies in Sub-Saharan African (SSA), i.e. Nigeria and Angola, had to accept lower receipts for their exports.

As a result, both economies fell into recession, with Nigeria hit particularly hard, as the nation dealt not only with reduced terms of trade, but with lower production levels as a result of domestic insurgency.

South Africa's growth in 2016 was only marginally positive (0.3%), while Angola's growth for the year is likely to be flat. All three of these economies are expected to grow more strongly in 2017, although each one is dependent on a combination of global commodity price recovery and structural economic reform.

At the other end of the spectrum, Cote d'Ivoire remains one of the fastest growing countries globally, although once again, highly dependent on commodity (cocoa) prices, and its ability to manage internal conflict. Staying in West Africa, Ghana's prospects are also looking increasingly promising, with a newly elected administration promising to manage the public purse more prudently.

East Africa remains the most buoyant of all, with the four key economies (Kenya, Ethiopia, Tanzania and Uganda) all poised for growth of 6% and above for the decade.

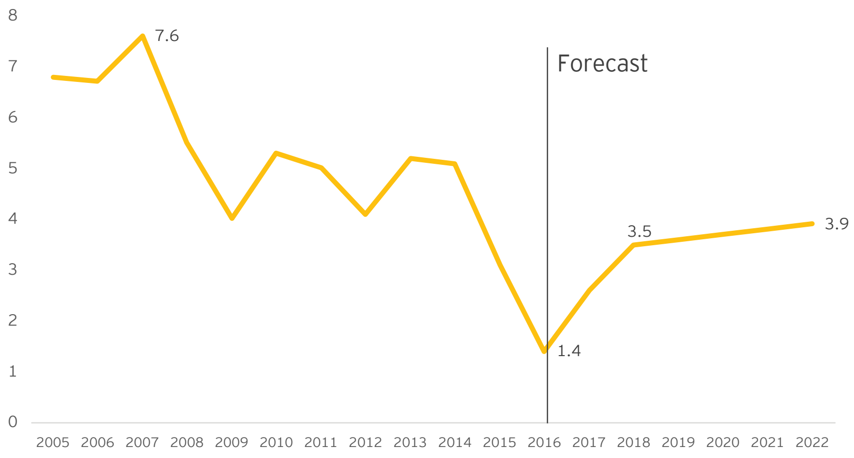
For most of the sub-continent, inflation has peaked and is declining, allowing the space for central banks to ease interest rates. This in itself will add stimulus to economic growth, and should interest rates at the very least remain stable, consumer disposable income will support even stronger growth through 2017.

However, there are a number of risks that need to be managed. Countries with high and rising twin fiscal and trade deficits remain at risk of currency devaluation. This becomes all the more evident where national debt levels are either rising too rapidly or are already at high levels. Mozambique is the most notable example, although this has not impacted its growth outlook.

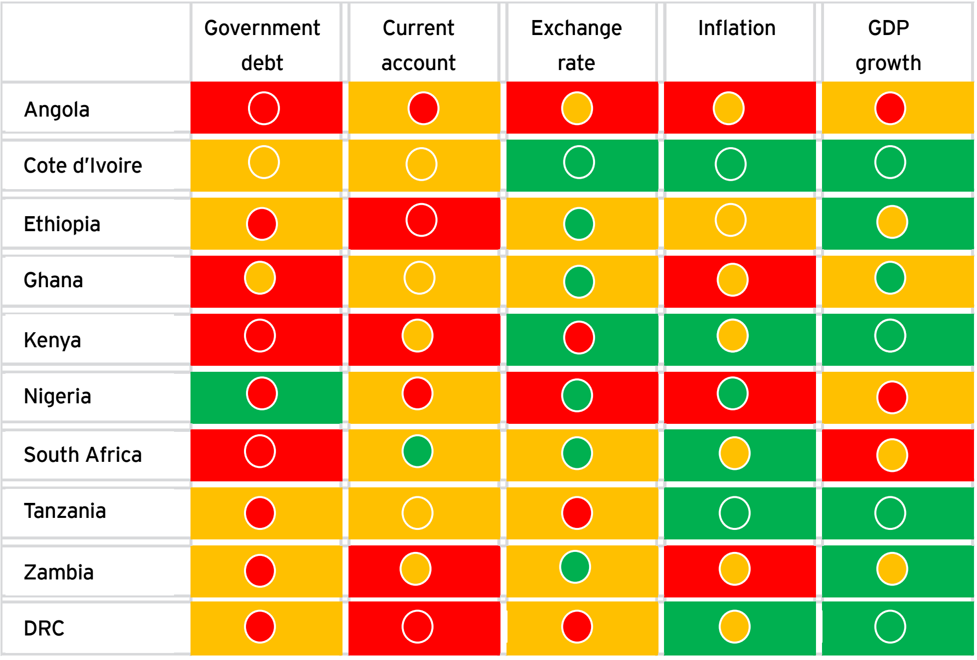
Commodity prices are also key to growth assumptions. Oil prices have fallen back to US$50 after trading at US$55 in the first two months of 2017. Price moves will depend on OPEC's ability to get member countries to agree to production levels. China remains critical to commodity prices more broadly, as its recent slowdown in economic growth rate has already illustrated. Given these unknowns, policy certainty and economic reform are critical to stimulating growth and reducing the impact of exogenous influences.

Africa remains on track to be a US$3t economy. To achieve that will require accelerating diversification initiatives thereby boosting resilience to external shocks.

SSA's 2016 growth was the slowest in 20 years. Recovery will be gradual.
Annual GDP growth (percentage).



Source: *IMF World Economic Outlook*, April 2017.



Source: Exchange rates; Oanda.com; GDP growth; IMF inflation; Current account, Government debt – all from tradingeconomics.com.

- The color of the individual block represents the longe- term position for that metric on a scale of green being more positive to red being more negative.
- The color of the circle in the block represents the current trend.

The traffic light illustrates an improving inflation outlook, more stable exchange ratesand stronger growth prospects. Rising national debt and large current accounts are the risks most common to the large SSA economies.

Longer term, growth prospects remain robust. More and more countries will grow at 3% or above per annum, with a record number of high-growth economies more than 5% per annum. Between 2001 and 2015, there were 14 such countries. This number is expected to rise to 19 by 2030. At the same time, the number of countries growing on average between 3%–4.9% per annum holds constant at 17.

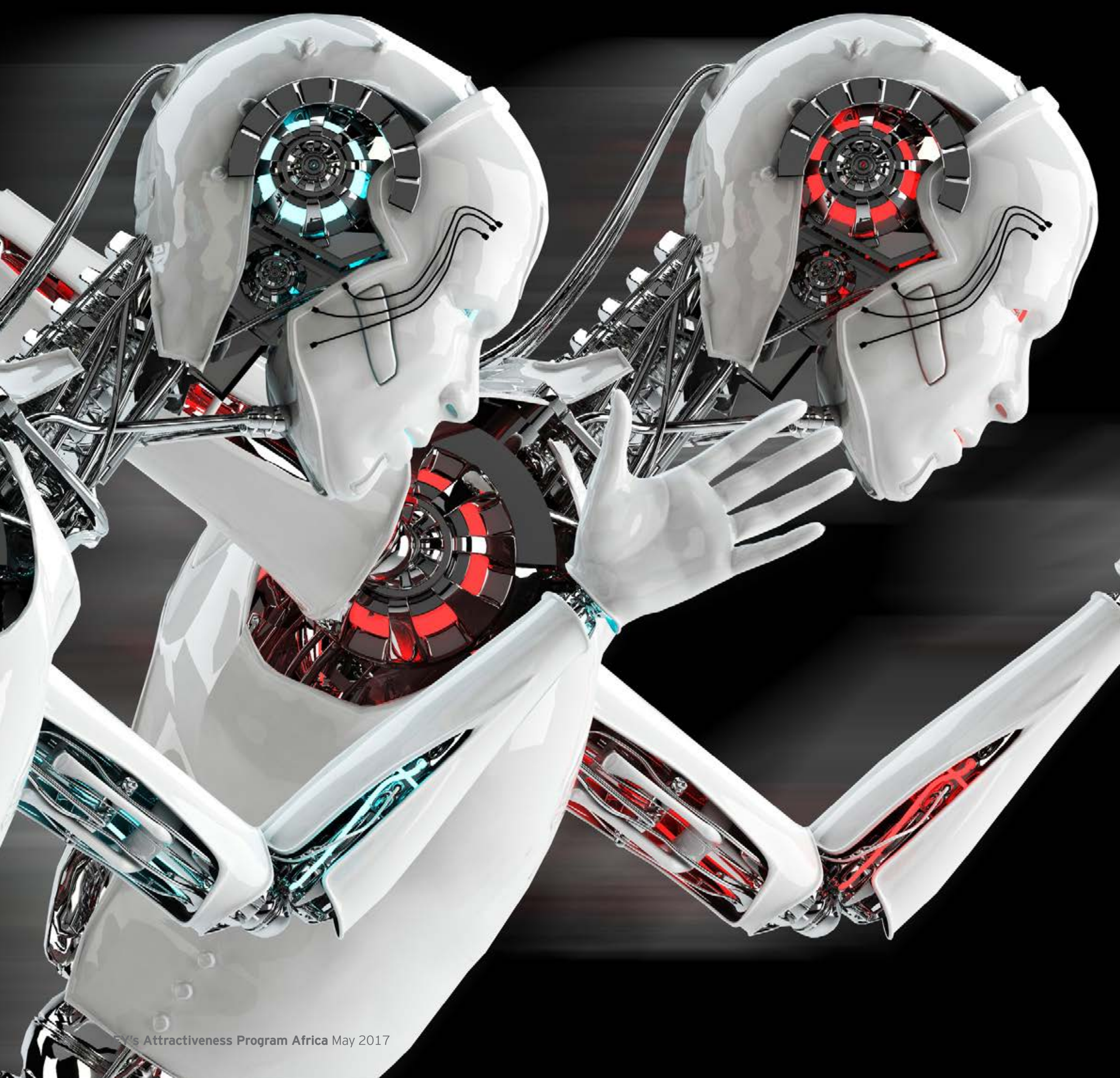
FDI in Africa in 2016

Page 9 Africa's uneven FDI picture reflects global uncertainty

Page 11 More FDI flows to the hub economies, with new clusters emerging in both East and West Africa

Page 18 Africa's diversified FDI sources provide resilience

Page 22 Sector diversification continues apace



Africa's uneven FDI picture reflects global uncertainty

The global political, economic and investment landscape has entered an exceptional period of transition. Some of the factors contributing to investor uncertainty include:

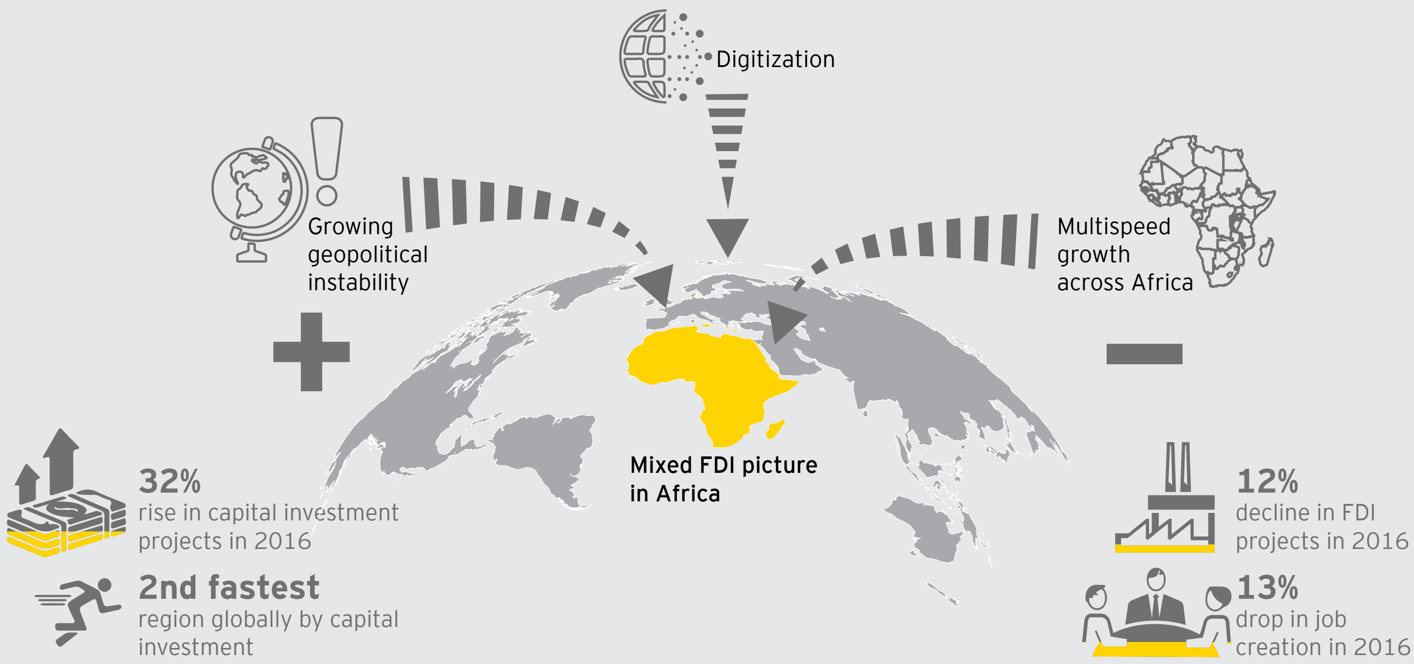
- The UK vote to leave the European Union (EU)
- The election of Donald Trump as the US President
- Heightened political uncertainty in Europe
- China's entry into a new phase of slower economic growth
- The end of the commodity super cycle

At the same time, with the ongoing Fourth Industrial Revolution and technologies such as the Internet of Things set to disrupt existing business models and create new ones, the global cross-border investment landscape is poised for tremendous change.[1]

Looking at Africa, 2016 marked the worst year for economic growth across SSA in over 20 years. However, this overall slowdown in growth masks a significant variance in economic performance across different African economies. Even as SSA's three largest economies – Nigeria, South Africa and Angola – saw sharp downward revisions in growth forecasts, a diverse group of the second-tier economies in Africa – including Cote d'Ivoire, Senegal, Ethiopia, Kenya, Tanzania, Mozambique and Egypt – are expected to sustain high growth rates over the next five years.

As anticipated in our recent 2016 year-end report, heightened geopolitical uncertainty and "multispeed" growth across Africa did indeed present a mixed FDI picture for the continent. On the more negative side in 2016, Africa attracted 676 FDI projects, which was down 12.3% from the previous year. These FDI projects created 129,150 jobs across the continent, a decline of 13.1% from 2015.

Heightened global uncertainty results in uneven FDI landscape for Africa

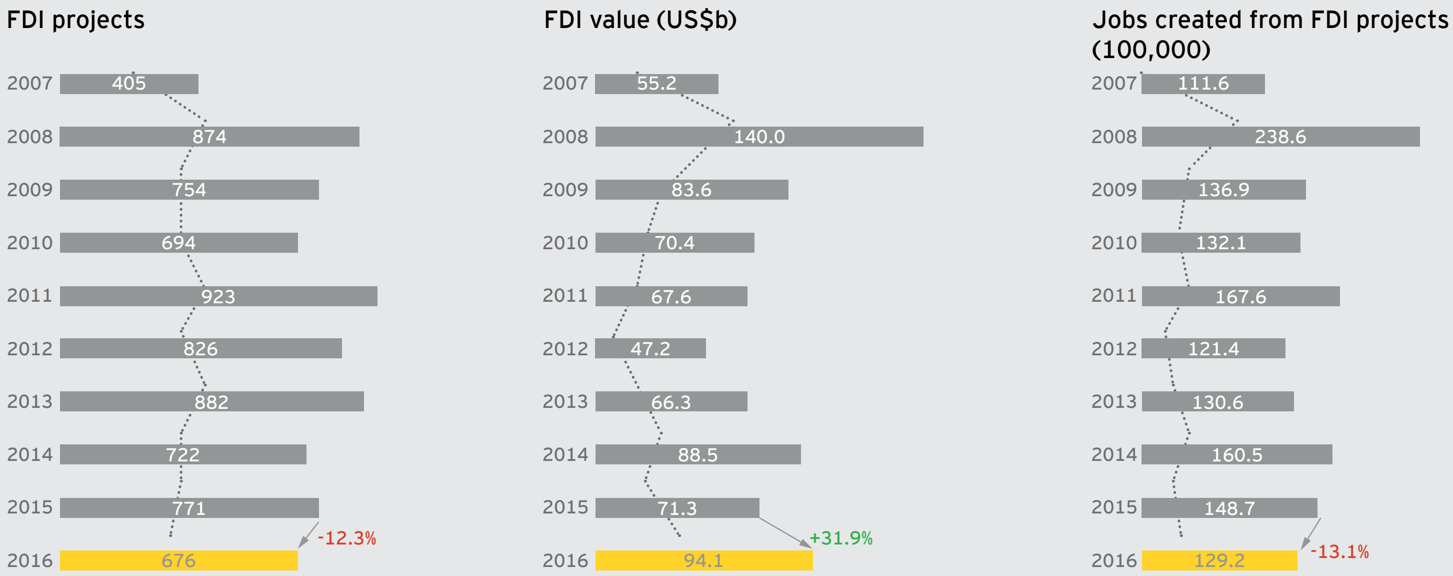


Source: fDi Markets.

[1] "Global investment climate faces a stormy outlook for 2017," *fDi Intelligence website*, fdiintelligence.com/locations/global-investment-climate-faces-a-stormy-outlook-for-2017, accessed 7 March 2017.

More positively though, in terms of capital investments, the flow of FDI into Africa recovered in 2016 after a dip in 2015. During 2016, capital investment into Africa rose 31.9%. Investment per project averaged US$139m, against US$92.5m in 2015. This surge was driven by several large, capital intensive projects in the real estate, hospitality and construction (RHC), and transport and logistics sectors. The continent's share of global FDI capital flows increased to 11.4%, up from 9.4% in 2015. That made Africa the second-fastest growing destination when measured by FDI capital.

FDI in Africa



Source: fDi Markets.

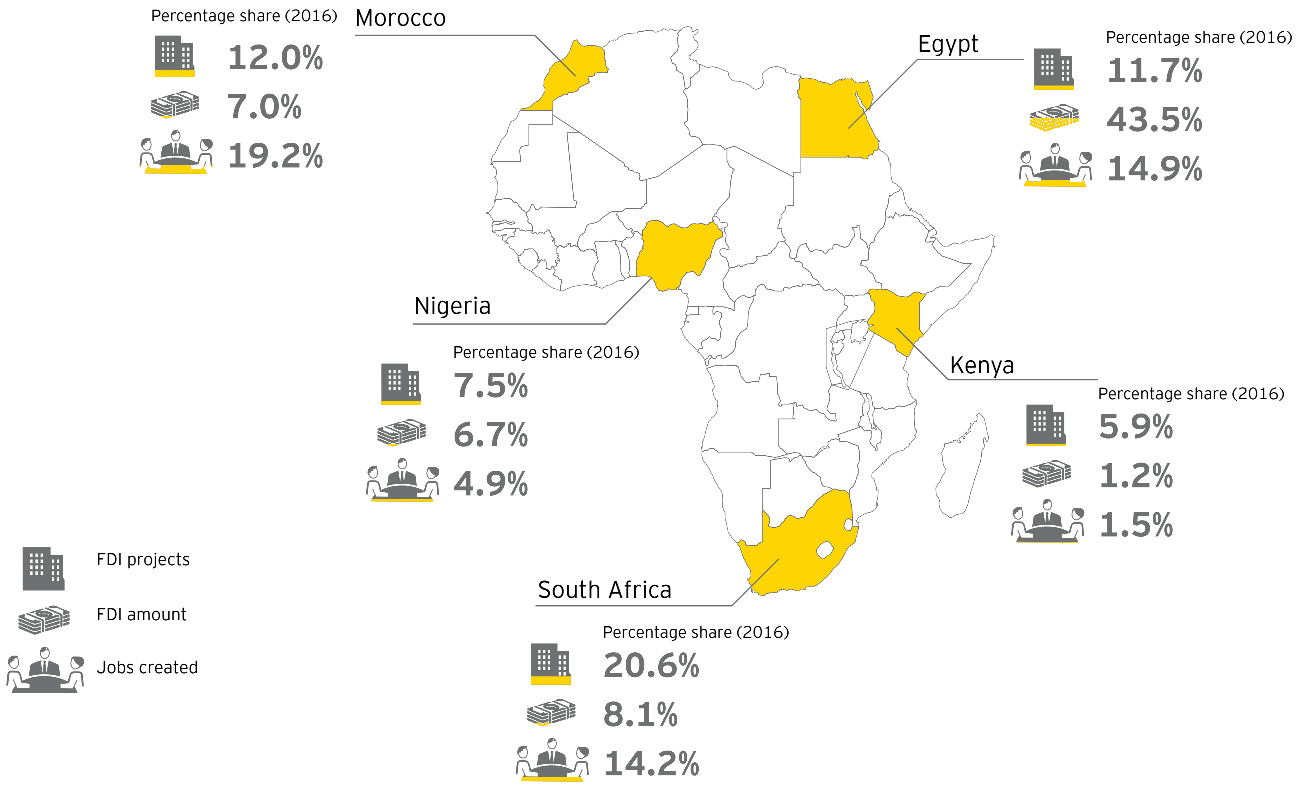
This somewhat mixed picture is not surprising to us. We believe that investor sentiment toward Africa is likely to remain somewhat softer over the next few years. From our point of view, this has far less to do with Africa's fundamentals than it does with a world characterized by heightened geopolitical uncertainty and greater risk aversion.

Companies already doing business in Africa will continue to invest, but will probably exercise a greater degree of caution and be more discerning. We are still of the opinion that any shorter-term shifts in FDI levels will be cyclical rather than structural. We also anticipate that the evolution of FDI — increasing diversification in terms of sources, destinations and sectors — will continue. Over the longer term, as economic recovery slowly gathers pace and as many African economies continue to mature, we also anticipate that levels of FDI will remain robust and will continue to grow.

More FDI flows to the hub economies, with new clusters emerging in East and West Africa

Investors prefer Africa's anchor economies

Africa's hub economies account for the majority of FDI



Source: fDi Markets.

Over the past year, foreign investors tended to gravitate toward the larger, more diverse economies in Africa. These include South Africa in the south, Morocco and Egypt in the north, Nigeria in the west and Kenya in the east. Collectively, these markets attracted 58% of the continent's total FDI projects in 2016. Given that these markets are the dominant anchor economies in their respective regions, they provide investors with greater scale and relatively more mature markets.

With a 6.9% increase in FDI projects from 2015, **South Africa** maintained its position as the continent's leader from an FDI projects perspective. There was a strong pickup in FDI activity in the consumer products and retail (CPR) sector, where projects more than doubled from 19 in 2015 to 41 in 2016. For instance, in April 2016, Nestlé officially inaugurated its instant coffee factory in KwaZulu-Natal after investing ZAR1.2b (US$87.4m) in the plant's expansion.[2] Even as its economy remains under pressure, South Africa retains its appeal as a launchpad for growth across the continent.

[2]"Nestlé South Africa injects R1.2 billion into local economy," Nestle press release, nestle.co.za/media/pressreleases nestl%C3%A9-south-africa-injects-r1-2-billon-into-local-economy, 19 April 2016.

In 2016, **Morocco** regained its place as Africa's second largest recipient of FDI, with projects and capital investment up 9.5% and 46.2%, respectively. Investor confidence into Morocco is also evident from its top ranking on our AAI 2017. Aided by a stable administration, even during the Arab Spring, Morocco has increasingly marketed itself as an export base for Europe, Africa and the Middle East. The country's automotive sector has especially attracted investor interest, with FDI projects increasing from 5 in 2014 and 10 in 2015 to 14 in 2016.

Strong FDI activity in Egypt and Morocco in recent years has driven the rebound in investor appetite to North Africa. In 2016, **Egypt** attracted 19.7% more FDI projects compared with 2015. Even more striking was the growth in capital investment, which almost trebled year-on-year, driven by large-ticket RHC projects. Chinese companies were particularly active, with 16 FDI projects in 2016 (zero in 2015), focusing mainly on the business services and technology, media and telecommunications (TMT) sectors. There was also an uptick in FDI projects from the US and France. Egypt has embarked on an ambitious reform program aimed at making it easier to invest by eliminating bureaucracy, liberalizing procedures to obtain licenses for projects and rolling out new incentives.[3] However, with the economy still under pressure amid a devalued currency and high inflation, Egypt ranked 11th on the AAI 2017.

In the west of Africa, recession in **Nigeria** resulted in FDI projects eazing 3.8% compared with 2015. With the plunge in crude prices, Africa's largest oil exporter has been hit by a scarcity of foreign exchange, impacting businesses that are already grappling with issues, including insufficient power supply and complexity in paying taxes.[4] Nigeria's business environment is in urgent need of improvement, considering the country's 169th ranking on the World Bank's E*ase of Doing Business Index 2017*. On a more positive note, the sheer size of the Nigerian market, and its diversification initiatives have led to a significant shift in the nature of FDI to the country. Should progress be made on various dimensions of the AAI (notably business enablement, governance and human development), Nigeria remains well-placed to become the largest FDI market in Africa over the next decade.

Kenya, which is East Africa's anchor economy (and SSA's fourth largest), saw investment flag in 2016 after a bumper year in 2015. FDI projects were down 57.9%, while capital investment declined by 55.5%. However, if we take a longer-term perspective, FDI into Kenya has tended to ebb and flow year-on-year, similar to the experience of Nigeria. Additionally, Kenya had a strong 2015, mainly driven by a surge in projects from the UK. These understandably slowed in 2016, as the UK copes with uncertainty following the vote to leave the EU. Our confidence in Kenya's investment prospects remains firm, underscored by the country's strong ranking as the second most attractive FDI destination on the AAI 2017.

AAI 2017 — please see page 15.

[3] "Egypt's long-awaited investment law to go before cabinet shortly," *Reuters website*, reuters.com/article/idusl5n1dz0rr, accessed 5 March 2017.
[4] "Nigeria Seeks Double Foreign Investment Amid Dollar Shortage," *Bloomberg website*, bloomberg.com/news/articles/2016-02-19/nigeria-seeks-to-double-foreign-investment-amid-dollar-shortage, accessed 7 March 2017.

More bright spots appear in East and West Africa

While foreign investors still favor the key hub economies in Africa, a new set of FDI destinations are emerging, with some of the Francophone and East African markets of particular interest to us.

West Africa's second-largest economy, **Ghana,** remains a key FDI market, despite posting below average growth in recent years, and even though FDI projects declined 31.7% during 2016. An improving macroeconomic environment, combined with a strong governance track record, has seen Ghana rise to fourth position on the AAI 2017.

Cote d'Ivoire is ranked in the top 10 of the AAI, and is increasingly attracting investor interest, with a 21.4% jump in FDI projects in 2016. According to the International Monetary Fund, the country is forecast to be the fourth fastest-growing economy in Africa and eighth highest globally in 2017.[5] Cote d'Ivoire is encouraging investors by its strong focus on developing infrastructure and improvements in the business environment following years of political uncertainty.[6]

Senegal, a Francophone country (like Cote d'Ivoire), has all the makings of a strong FDI destination, although its potential does not reflect in its FDI perfomance for now. It does, however, rank strongly (ninth position) on the AAI 2017, up two places over 2016, owing to its diverse economy, strong strides on the macroeconomic resilience pillar as well as progress in improving its business environment, and is well-positioned to attract future flows of FDI.

North African economies move up the FDI rankings ladder

		Number of FDI projects				FDI investment percentage in 2016	Jobs created percentage in 2016
Rank	Country	2016	2015	Percentage change	Percentage in 2016		
1	South Africa	139	130	6.9	20.6	8.1	14.2
2	Morocco	81	74	9.5	12.0	7.0	19.2
3	Egypt	79	66	19.7	11.7	43.5	14.9
4	Nigeria	51	53	-3.8	7.5	6.7	4.9
5	Kenya	40	95	-57.9	5.9	1.2	1.5
6	Cote d'Ivoire	34	28	21.4	5.0	0.8	2.9
7	Ghana	28	41	-31.7	4.1	0.6	0.9
8	Tanzania	22	23	-4.3	3.3	2.0	2.0
9	Tunisia	18	13	38.5	2.7	0.3	1.7
10	Algeria	17	13	30.8	2.5	7.9	8.2
11	Ethiopia	16	30	-46.7	2.4	7.2	9.0
12	Mozambique	15	32	-53.1	2.2	6.7	3.8
13	Zambia	13	13	0.0	1.9	0.5	1.6
14	Rwanda	11	13	-15.4	1.6	1.0	1.5
15	Senegal	10	10	0.0	1.5	0.3	0.8

Increase in FDI projects (2016 vs. 2015)
Decrease in FDI projects (2016 vs. 2015)

Source: fDi Markets.

[5] "Star economies shine amid gloomy Africa outlook: IMF," *This is Africa website*, thisisafricaonline.com/analyse-africa/star-economies-shine-amid-gloomy-africa-outlook-imf, accessed 20 March 2017.
[6] "Ivory Coast aims to entice investors with 'new vibe' of stability and growth," *The Guardian website*, theguardian.com/global-development/2016/mar/07/ivory-coast-entice-investors-stability-growth-infrastructure, accessed 10 March 2017.

Most East African economies continued to grow strongly in 2016, with Kenya, Tanzania, Uganda, Rwanda and Ethiopia all among the fastest growing on the continent. Although there were year-on-year declines in FDI flows into East African markets generally, both **Tanzania** and **Uganda** are highly placed on the AAI 2017, ranking fifth and sixth in terms of FDI attractiveness respectively. Recent oil and gas discoveries in these countries have put them even more firmly on the investor map, although Tanzania has also benefited from a strong growth over the last decade, driven by increased investment in infrastructure and services.

Rwanda, despite a loss of three places on the AAI 2017, has Africa's second-best business environment, according to the World Bank's *Ease of Doing Business Index 2017*.

Ethiopia, where FDI levels echoed impressive GDP growth in previous years, saw its FDI projects almost halve in 2016, owing to political instability[7] and drought. However, the country aims to build its manufacturing hub to drive employment growth. This, combined with its agricultural base and a very large consumer market, has the potential to be a major driver for future FDI flows.

[7] "Ethiopia experiences FDI woes," *fDi Intelligence website*, www.fdiintelligence.com/trend-tracker/ethiopia-experiences-fdi-woes, accessed 15 March 2017.

Africa Attractiveness Index 2017

In a context of uncertainty, the opportunities for growth and investment are a lot more uneven than they used to be. As such, making investment choices on the basis of fact-based analysis are more important than ever.

To support investors in adapting to a more uncertain environment and to assess changing opportunities and risks across Africa, we developed a tool in 2016 that provides a balanced set of shorter and longer-term focused metrics. This tool, known as the AAI, helps to measure resilience in the face of current macroeconomic pressures, as well as progress in critical areas of longer-term development, namely governance, diversification, infrastructure, business enablement and human development.

EY AAI 2017 measures the FDI attractiveness of 46 African countries (with the entry of 3 new countries), constructed on the basis of six broad pillars that act as key determinants for choosing a location to invest. Within each pillar, a set of key indicators have been included with specific weightings to arrive at the overall pillar rank and score. The first two pillars – macroeconomic resilience and market size – are considered shorter-term factors, and account for 40% of the total weighting; the other four pillars are longer-term factors, and account for 60% of the total weighting.

It is important to recognize that this indexed ranking does not provide a definitive assessment of any of these markets; there are no obvious or absolute answers in searching for market potential. In reality, there will be different rankings across organizations and investors with different priorities; and as priorities change over time, so will the rankings. The AAI can, however, provide a useful starting point for analysis and support strategic dialogue on growth priorities, risk appetite and investment criteria.

	Pillar	Description	Weighting
I	Macroeconomic resilience	Measures the stability of the macroeconomic environment	20%
II	Market size	Evaluates the size and appeal of the domestic market	20%
III	Business enablement	Determines the degree of ease in doing business in the country	15%
IV	Investment in infrastructure and logistics	Measures the efficiency of infrastructure networks to support the effective functioning of the economy	15%
V	Economic diversification	Determines the degree of dependence of the economy on resource-oriented sectors versus others such as manufacturing and services	15%
VI	Governance and human development	Measures the quality of governance and social development in the country	15%

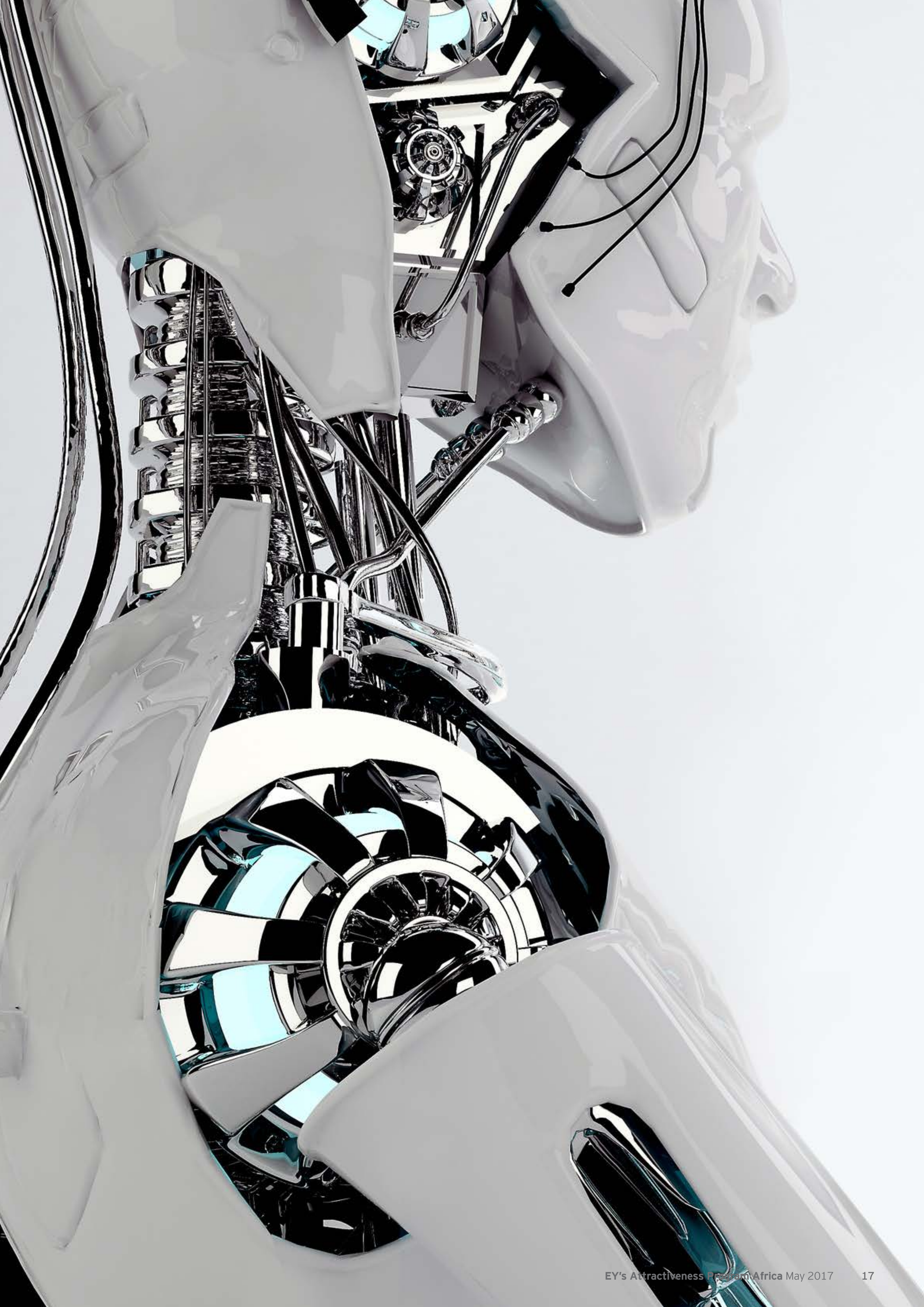
Introduced in 2016, the AAI measures the relative investment attractiveness of 46 African economies on the basis of a balanced set of shorter and longer-term focused metrics.

EY AAI 2017 country ranking – top 10

1. Morocco
2. Kenya
2. South Africa
4. Ghana
5. Tanzania
6. Uganda
7. Cote d'Ivoire
8. Mauritius
9. Senegal
10. Botswana

Below is the ranking of the top 25 countries on AAI 2017, both on overall basis as well as on each of the six pillars:

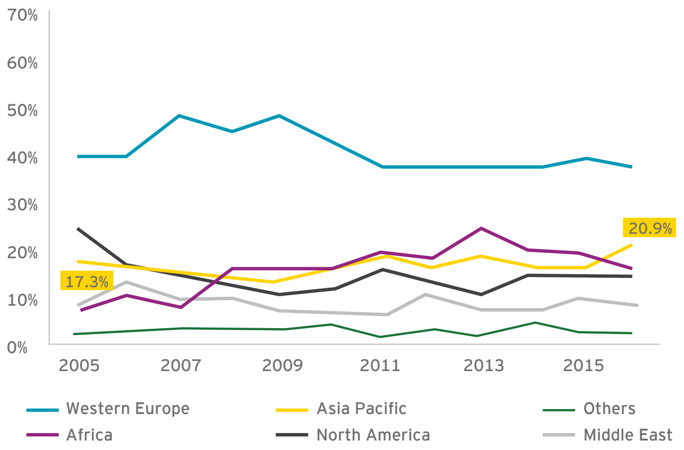
Country	Overall			Macro-economic resilience	Market size	Business enablement	Investment in infrastructure and logistics	Economic diversification	Governance and human development
	Rank of 2017	Rank of 2016	Change in ranking						
Morocco	1	2	1	18	9	3	4	5	8
Kenya	2	4	2	2	8	10	16	10	16
South Africa	2	1	-1	33	5	6	1	2	6
Ghana	4	6	2	17	11	8	7	14	7
Tanzania	5	12	7	1	4	18	18	23	16
Uganda	6	13	7	4	10	11	24	8	23
Cote d'Ivoire	7	9	2	3	13	16	11	18	22
Mauritius	8	5	-3	20	39	1	8	1	1
Senegal	9	11	2	12	16	23	17	4	12
Botswana	10	7	-3	9	31	2	5	32	2
Egypt	11	3	-8	42	3	15	2	7	13
Rwanda	12	9	-3	8	32	4	22	15	9
Tunisia	13	8	-5	38	22	14	6	3	4
Namibia	14	18	4	22	32	5	10	25	4
Algeria	15	16	1	28	6	36	3	28	11
Zambia	16	17	1	24	15	7	31	26	10
Nigeria	17	15	-2	16	1	33	14	33	24
Cape Verde	18	23	5	30	42	13	13	10	3
Cameroon	19	22	3	11	14	35	23	21	31
Ethiopia	20	14	-6	10	12	38	36	16	26
Burkina Faso	21	21	0	7	22	22	29	35	21
Mozambique	22	20	-2	39	18	17	19	9	31
Madagascar	23	24	1	15	21	30	42	13	30
Mali	24	28	4	25	19	20	27	37	25
Benin	25	19	-6	21	28	21	33	31	18



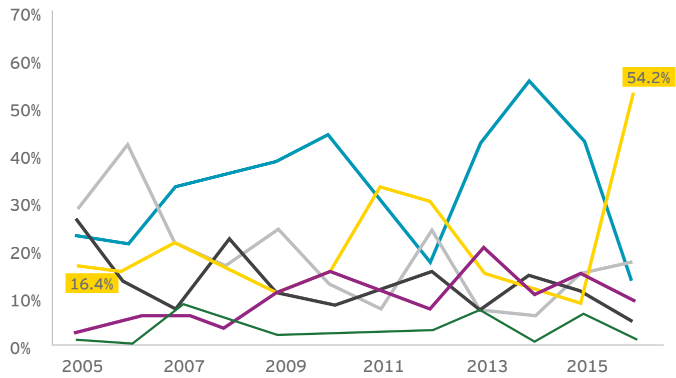
Africa's diversified FDI sources provide resilience

Asia-Pacific becomes the second-largest source of FDI projects and the largest capital investor.

FDI projects, 2005 – 16 (percentage share)



FDI capital, 2005 –16 (percentage share)



Source: fDi Markets.

Asia-Pacific investors are bullish on Africa

In a sign of diversification of Africa's investors, investment from the Asia-Pacific region into Africa hit an all-time high in 2016, accounting for more than a fifth of projects and more than half of capital investment. Companies from the Asia-Pacific region were also the largest contributors to FDI jobs to Africa. In recent years, China and Japan have been competing with other Western countries — including the US, to build influence on the continent.

China-sourced FDI into Africa increased dramatically in 2016. With a 106% jump in projects, China became the third largest investor in the continent. In fact, this was the highest level of FDI from China across all three metrics, (namely projects, capital investment and jobs) since our *Africa Attractiveness Program* began. Almost a quarter of Chinese FDI projects were directed toward Egypt. In January 2016, the Chinese President Xi Jinping, visited Egypt during which his country committed to a US$700m loan to the National Bank of Egypt. China is also planning US$15b of investments across 15 electricity, infrastructure and transport projects in Egypt.[8] Across Africa, Chinese investors took an active role in the TMT, automotive and business services sectors in 2016.

China's evolving economic ties in Africa

There has been much interest in the nature of China-Africa economic ties.

Since the late 1990s, Sino-African trade has grown rapidly, with China now Africa's largest trade partner. In 2016, China's exports to Africa stood at US$82.9b while imports from the continent were valued at US$54.3b. China exports a wide variety of consumer and capital goods to Africa but mainly imports commodities such as oil, minerals and other natural resources.

While there has been a lot of speculation about overseas financial flows from China into Africa, they have largely been in the form of development assistance through loans and aid. Our definition of FDI, tracking new greenfield and significant expansion (brownfield) FDI projects, shows that this category of investment from Africa has been relatively low until now. Since 2005, China has invested in 293 FDI projects in Africa, totalling an investment outlay of US$66.4b and creating 130,750 jobs.

[8] "China's Xi visits Egypt, offers financial, political support," *Reuters website*, reuters.com/article/us-egypt-china-iduskcn0uz05i, accessed 28 March 2017.

Chinese FDI into Africa is well diversified across sectors, covering resource-oriented ones as well as mining and metals, services and manufacturing. For instance, in July 2016, Chinese companies and banks reached US$17b worth of preliminary cooperation pacts with their African counterparts in sectors such as infrastructure, energy, pharmaceuticals and technology.[9] Our data also reveals diversification of Chinese investment across more countries, covering both resource-rich nations, such as South Africa, Nigeria and Angola, and agricultural exporters such as Kenya.

In 2016, jobs created from Chinese FDI projects hit an all-time high, more than double the number in 2015 and more than three times the number of jobs created by the next biggest investor, i.e. the US. This highlights the job-creating impact of Chinese FDI on Africa.

Besides trade and FDI, Chinese companies and state-related entities have financed and built many infrastructure projects across the continent, including ports, roads, railways, dams, telecom networks, power stations and airports. One notable example is the October 2016 launch of a Chinese-built railway linking Addis Ababa in Ethiopia to the port of Djibouti, involving an investment of US$4b.[10]

China's ambitious OBOR initiative to rebuild the ancient Silk Road trading route intends creating a foundation for the next level in Sino-African economic ties. The OBOR initiative could prove to be a win-win situation for both partners, positioning Africa as a suitable avenue for China's excess savings and infrastructure capacity.[11]

In the case of Japan, the country directed 27 FDI projects to Africa in 2016, more than double the 12 FDI projects in 2015. Both capital investment and jobs created increased during the two years, up 757% and 106%, respectively. South Africa was the single largest destination for Japanese investors, accounting for more than one-third of projects, followed by Egypt and Tanzania. By sector, there was an uptick in FDI in TMT and diversified industrial products (DIP). In recent years, Japan has deepened ties with Africa in a bid to secure resource supplies and in return, fulfil the continent's demand for infrastructure. In August 2016, Japanese Prime Minister Shinzo Abe announced US$30b in investment to Africa, including about US$10b committed toward electricity generation projects and for the upgrading urban transport systems and ports.[12]

The US remains Africa's leading investor

The US continued to be the leading investor in Africa, accounting for 13.5% of inward investment projects. In 2016, companies from the US invested in 91 projects down 5.2% creating 11,430 jobs. South Africa (28 projects) continued to be the key target of US-based companies, with Morocco (14 projects) and Egypt (13 projects) outpacing Kenya (11 projects) to become the second and third-largest recipients of US investment, respectively. By sector, nearly a quarter of US FDI was in TMT, down 11.5% from 2015 levels. FDI projects, however, increased in the CPR and transport and logistics sectors.

In previous editions of the *Africa Attractiveness Survey*, we highlighted how the US is competing to maintain and build its influence on the continent. The renewed African Growth and Opportunity Act (AGOA) has been one of the more visible measures. However, speculation that President Donald Trump's foreign policy may be more insular than his immediate predecessor, is creating some uncertainty regarding the future of the US' engagement with Africa. Any potential impact on levels of US FDI in Africa will be evaluated later in the year.

[9] "China, Africa ink $17 billion preliminary cooperation pacts: Xinhua," *Reuters website*, reuters.com/article/us-china-africa-iduskcn1081pf, accessed 1 March 2017.
[10] "Major Chinese-built railways in Africa," *Xinhua website*, news.xinhuanet.com/english/2016-10/06/c_135733943.htm, accessed 6 March 2017.
[11] "Africa, and China's One Belt, One Road initiative: Why now and what next?," *International Centre for Trade and Sustainable Development website*, ictsd.org/bridges-news/bridges-africa/news/africa-and-china%e2%80%99s-one-belt-one-road-initiative-why-now-and-what, accessed 31 March 2017.
[12] "Japan's Abe Dangles $30 Billion at Africa Leaders in Nairobi," *Bloomberg website,* bloomberg.com/news/articles/2016-08-27/japan-s-abe-dangles-30-billion-at-african-leaders-in-nairobi, accessed 11 March 2017.

China becomes third-largest investor by FDI projects in 2016, South Africa regains the role as the largest intra-regional investor

Source country	FDI projects			FDI investment (US$b)		Jobs created from FDI	
	2016	2015	Percentage change	2016	Percentage share	2016	Percentage share
US	91	96	-5.2	3.6	3.9	11,430	8.9
France	81	58	39.7	2.1	2.2	8,087	6.3
China	66	32	106.3	36.1	38.4	38,417	29.7
UK	41	77	-46.8	2.4	2.5	2,383	1.8
UAE	35	50	-30.0	11.0	11.7	8,109	6.3
South Africa	29	33	-12.1	1.6	1.7	2,925	2.3
Japan	27	12	125.0	3.1	3.3	6,630	5.1
Switzerland	27	18	50.0	0.5	0.6	1,557	1.2
Spain	23	16	43.8	0.8	0.8	2,049	1.6
Italy	20	16	25.0	4.0	4.3	2,137	1.7
Germany	19	38	-50.0	0.4	0.4	2,389	1.8
India	18	45	-60.0	1.2	1.2	1,924	1.5
Morocco	17	14	21.4	4.8	5.1	3,957	3.1
Kenya	14	36	-61.1	0.1	0.1	462	0.4
Nigeria	11	14	-21.4	0.4	0.4	732	0.6

Source: fDi Markets.

UK investment drops, while French investment recovers

In line with previous years, Western Europe continued to be the largest regional investor in Africa in 2016, making up 37.7% of FDI projects and 13.3% of capital investment. The UK, which has led Western European investment in Africa since 2010, saw its share of FDI projects ease from 10% in 2015 to 6.1% in 2016. The more notable decline was in FDI jobs, down by a significant 81.4%. The Brexit vote at the end of June 2016 and the resulting uncertainty seem to have had an immediate impact on UK investment into Africa. Governments across the continent will need to redefine their trade and investment relations with a post-Brexit UK. Most of the existing trade arrangements that African countries have with the UK have been negotiated through the EU.[13]

In contrast to the UK, France moved up the rankings, becoming the second largest investor. France invested in 81 FDI projects in 2016, up 39.7% on 2015, with total investment of US$2.1b, and creating 8,087 jobs. French companies were particularly active in the TMT, business services and CPR sectors. Morocco remains the favorite destination, getting 27.2% share of FDI projects, with higher project numbers also in South Africa (12.4% share), Cote d'Ivoire (12.4%) and Tunisia (8.6%).

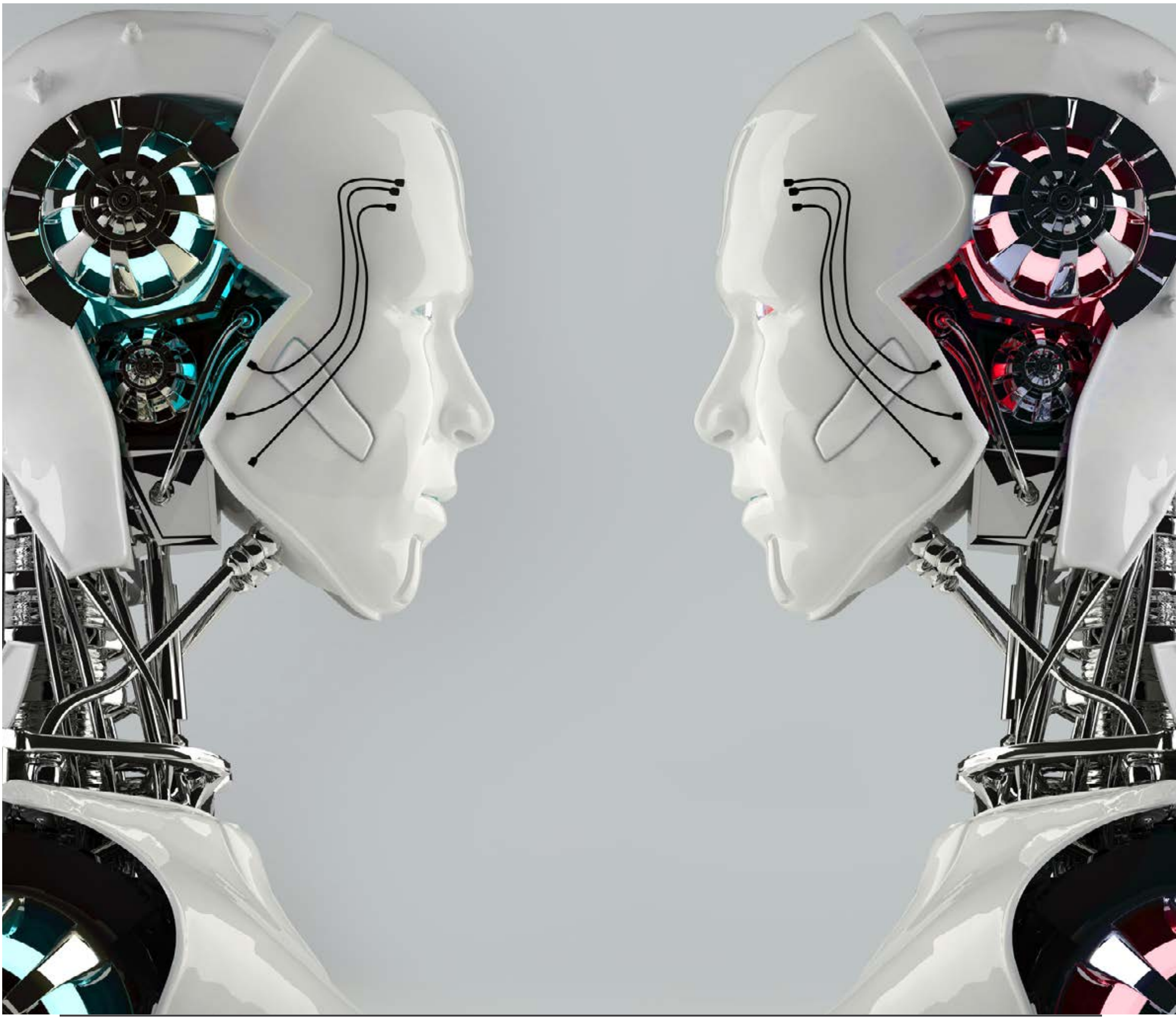
With a 50% increase in FDI projects, Switzerland became the seventh largest investor in Africa, up from tenth position in 2015. Swiss investors were particularly strong in CPR (18.5% of FDI projects), followed by RHC, and transport and logistics with a 14.8% share each. Nigeria and South Africa were the largest destinations for Swiss FDI projects, securing 14.8% each, followed by Morocco (11.1%).

[13] "Africa after Brexit," *Africa Renewal Online website*, un.org/africarenewal/magazine/august-2016/africa-after-brexit, accessed 14 March 2017.

Intra-African investment: fewer projects and jobs, lower capital investment

After hitting an all-time high in 2013, the share of intra-regional investors in FDI projects has continued to ease. It stood at 15.5% in 2016, down from 18.9% in 2015. This is in line with the weakest growth across SSA in nearly two decades. Latest estimates are that SSA's growth in 2016 was likely only 1.4%, with two of the three largest economies in recession (Angola and Nigeria) and South Africa only growing marginally. South Africa outpaced Kenya to resume the role of being Africa's largest intra-regional investor. This change in rankings was a result of a sharp decline in Kenya's outbound FDI projects in 2016, from 36 to 14.

Investors from Morocco also became more prominent in 2016, initiating 17 intra-regional investments — the highest in over a decade. This fits in with a broader attempt by Morocco to diversify its economy away from an over-reliance on Europe, including rejoining the African Union in January 2017, after an absence of more than three decades.[14] Morocco's largest banks have made a strong push south over the past decade.



[14] "Morocco rejoins African Union after more than 30 years," *The Guardian website*, theguardian.com/global-development/2017/jan/31/morocco-rejoins-african-union-after-more-than-30-years, accessed 11 March 2017.

Sector diversification continues

In 2016, the broadening of greenfield FDI projects in Africa beyond the extractive sectors held momentum. Consumer-facing sectors again attracted the bulk of FDI, with coal, oil and natural gas, and mining and metals collectively accounting for just 6.2% of FDI projects during the year. Business services became the third-largest sector and RHC attracted the most FDI by capital.

RHC, transport and logistics and coal, oil and natural gas account receive more than two-thirds of FDI capital but less than one-fith of FDI projects.

Top sectors	FDI projects		Top destinations (by projects)		Jobs created percentage share in 2016	FDI investments percentage share in 2016
	Percentage share in 2016	Percentage share (2016 vs. 2015)	Country	Percentage		
Technology, media and telecommunications	19.5	3.1	South Africa Egypt Nigeria	19.7 11.4 7.6	7.3	3.4
Consumer products and retail	15.2	4.0	South Africa Egypt Nigeria	39.8 12.6 6.8	19.6	3.4
Business services	11.8	-19.2	South Africa Morocco Egypt	21.3 12.5 8.8	3.3	1.7
Financial services	9.9	-43.2	Ghana South Africa Nigeria	16.4 14.9 9.0	1.5	0.9
Transport and logistics	7.7	20.9	Morocco South Africa Mozambique	23.1 9.6 7.7	11.7	13.4
Real estate, hospitality and construction	6.7	-15.1	Morocco Egypt Cote d'Ivoire	20.0 15.6 13.3	17.8	40.6
Cleantech	6.2	0.0	Morocco Nigeria Egypt	21.4 21.4 21.4	2.5	9.5
Automotive	4.9	6.5	Morocco South Africa Algeria	42.4 18.2 9.1	19.1	2.7
Diversified industrial products	4.6	-27.9	South Africa Egypt Nigeria	32.3 16.1 12.9	2.7	0.4
Coal, oil and natural gas	4.1	12.0	Egypt South Africa Tanzania	32.1 14.3 10.7	2.6	13.3

Source: fDi Markets.

TMT and CPR remain strong, while financial services slows

The appeal of Africa's sizeable and growing consumer class largely holds true. Collectively, TMT, CPR and financial services still accounted for 44.7% of FDI projects in 2016.

With digital transformation gaining momentum across the continent, TMT remained the leading sector by investment, attracting almost one-fifth of FDI projects. French companies were particularly active, with FDI projects up from just 7 in 2015 to 23 in 2016. Chinese investors also stepped up interest in the sector. South Africa remained the primary target, with Egypt and Cote d'Ivoire also reporting strong growth in FDI activity.

CPR remained the second-largest sector, registering a 4% increase in FDI projects compared with 2015. Similar to previous years, it was also the top job-creating sector in 2016. Most of the activity was centered in South Africa, where FDI projects more than doubled to 41 in 2016 from 19 in the previous year. Both the US and France announced more projects in 2016, as did investors from China and Spain.

Investment in the African financial services sector however slowed, with FDI projects down a sharp 43.2% over 2015. The number of jobs created and capital investment also declined. The UK, which was the biggest source of FDI in the sector previously, directed fewer FDI projects in 2016, as did Kenya, the UAE and Nigeria.

Africa's "next-generation" sectors continue drawing investor attention

Foreign investors into Africa continue to seek the "next wave" of sectors beyond consumer-facing ones.

With a 20.9% increase in FDI projects, transport and logistics became the fifth largest sector in 2016. The sector also ranked second by FDI investment and was the fourth largest contributor to FDI jobs. By source, the US directed more than 23% of the projects. Morocco was the largest destination, with 12 FDI projects, up fourfold from 3 in 2015, followed by South Africa, Mozambique and Egypt. Global transport and logistics providers see an opportunity to act as "connectors" for Africans and markets, considering the relatively underdeveloped state of infrastructure.[15]

In 2016, RHC accounted for more than 40% of the capital investment into Africa on the back of several large-ticket projects, including a US$20b investment by China Fortune Land Development Co. Ltd. to develop the second phase of Egypt's new administrative capital.[16]

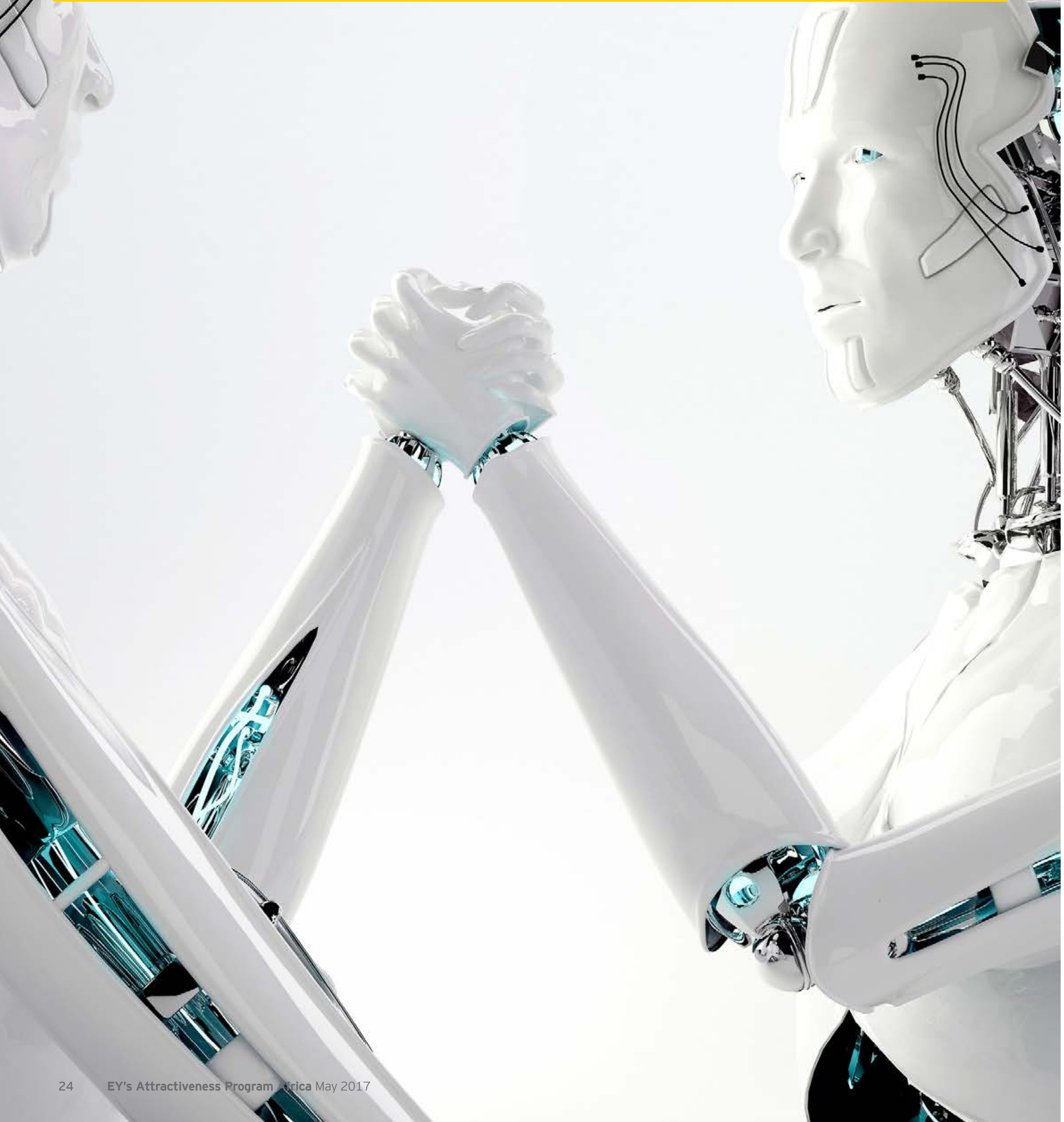
Investor interest in the automotive sector is also stronger, on the back of rapid urbanization, improving infrastructure, road connectivity and favorable government policies. Though traditionally an import market, the continent is now seeing the launch of products as well as expansion of manufacturing and retail presence. In 2016, automotive FDI projects increased 6.5% compared with 2015. Morocco retained the top spot for investment (14 FDI projects), followed by South Africa, Algeria, Tunisia and Nigeria.

[15] "6 reasons to invest in Africa," *World Economic Forum website*, weforum.org/agenda/2016/05/6-reasons-to-invest-in-africa/, accessed 16 March 2017.
[16] "Chinese company to spend $20 billion developing second phase of Egypt's new capital," *Reuters website*, reuters.com/article/us-egypt-china-financing-iduskcn12328a, accessed 21 March 2017.

Looking forward

Page 25 The upside of disruption: connecting the dots

Page 30 What does this all mean?



The upside of disruption: connecting the dots

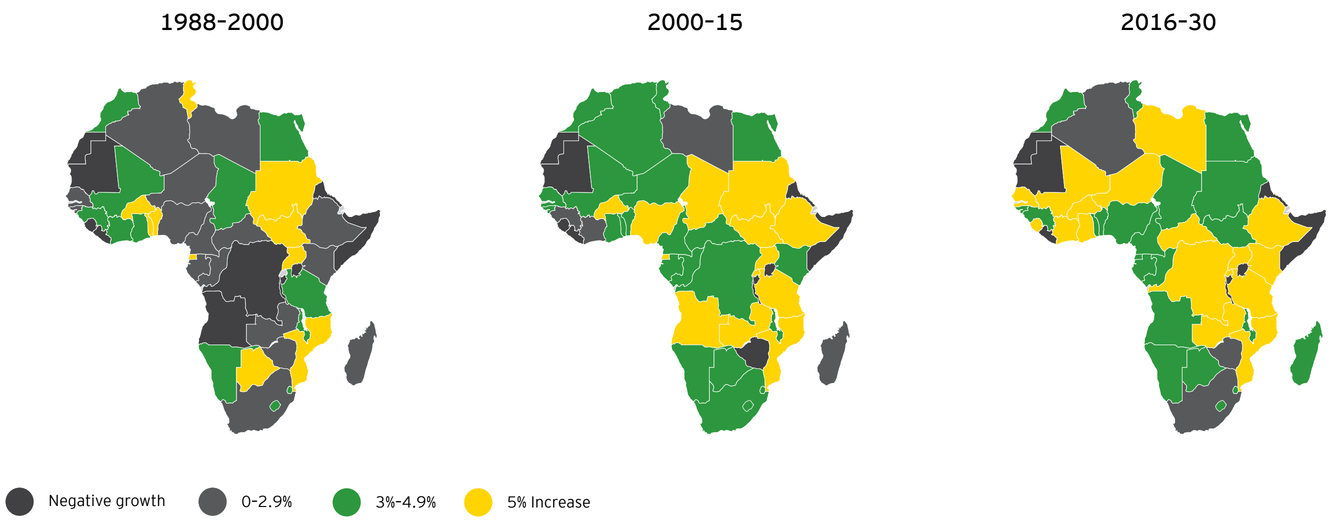
Our analysis of 2016 economic and FDI data reaffirms the view we expressed in last year's report: despite a slowdown in overall economic growth and a variable, "multispeed" picture across African economies, most of these economies remain resilient, and the longer-term outlook is far more positive.

Our view remains that Africa's rise over the past 15 years is real. It is important to note that what we have witnessed has been a process of structural evolution rather than the kind of cyclical change that has marked previous boom and bust periods in Africa's post-colonial history. Although exports from many African economies remain commodity-orientated, private consumption has become a key growth driver, as has investment in infrastructure.

As our FDI analysis reflects, the services sector constitutes an increasingly significant proportion of most African economies, and while still small, the role of (and investment into) manufacturing is increasing. These multiple factors underpin the resilience that many African economies have displayed in what have been extremely challenging global conditions over the past few years.

This process of structural evolution — as with anywhere else in history — will likely take decades. However, most African economies are in a fundamentally better place today than they were 15 to 20 years ago, and overall growth is likely to remain robust relative to most other regions over the next decade. Structural evolution will continue, and as economic conditions improve globally, much of Africa will be well-positioned to accelerate the growth momentum once again.

SSA GDP growth 1990–2030



Source: Oxford Economics data, EY analysis.

Does this mean that we should simply put our heads down and wait for the good times to return? Clearly not. The kind of inclusive, sustainable growth that is required to materially impact current levels of inequality and poverty cannot be evolutionary in nature. It instead requires an emphasis on game-changing opportunities; a proactive, action-orientated approach that is attuned to emerging and future trends.

EY recently launched a report — *The upside of disruption: megatrends shaping 2016 and beyond* — the focus being on uncovering the opportunities created by transformative global trends and helping our clients seize the "upside of disruption." For those of us operating in Africa, we sometimes feel quite far removed from some of these transformative trends. It may be interesting when futurists talk of the transformative potential of the Internet of Things, virtual reality, artificial intelligence and robotics, but this kind of talk could seem fanciful in an environment in which a large proportion of the population still lives below the poverty line. In this environment, one struggles to access foreign exchange, to move goods across borders and recruit and retain professional skills. As a result corporates become more focused on hitting short-term targets.

However, we need to resist the temptation to ignore these megatrends as being largely irrelevant to Africa, and focus our energies on becoming more attuned than ever to what is happening in the world around us. The EY megatrends report has identified three primary forces behind the current wave of disruption: globalization, demographic change and technology.

1. Globalization

Thanks to trade liberalization and emerging market growth, globalization has accelerated in recent decades. Many African economies have become ever more integrated into the global economy, so we experience the impact of global shocks and uncertainty all the more deeply. The solution is not to become more isolationist, but rather to become more competitive and more connected, particularly within the context of the African continent. We have consistently highlighted accelerated **regional integration** as a key priority for accelerating and driving more inclusive, sustainable growth in Africa. Given the shifting dynamics, Africans have a unique opportunity to break the structural constraints that have long marginalized the continent.

However, this opportunity can only be achieved by driving greater regional economic coherence — including making it much easier and more efficient to conduct cross-border business and creating markets with greater critical mass, coherence and density of economic activity. Progress is being made, perhaps most promisingly with the so-called Tripartite Free Trade Area. However, there is still a long way to go to realize this kind of ambition.

At the same time, the impact of regional integration will also ultimately depend on the quality of Africa's physical connecting **infrastructure**. On this depends the ability to physically connect markets, reduce the costs of delivered goods, facilitate the mobility of people, remove productivity constraints, generate enough electricity to support the development of manufacturing and other industrial sectors, and enhance the overall competitiveness of the region. Although the infrastructure funding gap has been significantly closed in recent years, the greatest challenge remains to effectively execute infrastructure projects, with too large a number of active infrastructure projects that we found to still be in pre-implementation stages. Far greater urgency is therefore required both to accelerate the process of regional integration and address all possible barriers to infrastructure project execution.

2. Demographics

In the decades ahead, aging populations across many parts of the world will transform everything from health care to real estate, while millennial-dominated workforces will reinvent the workplace. Meanwhile, urbanization will increase cities' economic and public policy clout, even as it strains their ability to grow in sustainable ways. Migration and immigration will also have profound impacts on workforces and economic development.

Africa's young and growing population has the potential to be one of the engines of economic opportunity globally. However, in order to realize this opportunity — "demographic dividend" — we need to urgently focus on enabling Africa's youth, and significantly improving human development more generally. While many African economies have made tremendous progress over the last 20 years, and we remain positive that Africa will continue to rise over the longer term, we need to continually ask the question: Whose Africa is rising? Far more attention still needs to be given to what we need to get right to drive and accelerate more **inclusive growth**. Creating employment and other economic opportunities for the youth will become a key necessity for preserving growth and social harmony, and requires far greater attention from governments and the private sector. A critical driver of economic development will be the promotion of **entrepreneurship** — small-and medium-sized enterprises (SMEs) will be the main drivers of the jobs and other economic opportunities required to realize inclusive, sustainable growth.

More broadly, we also need to more aggressively address the **human development** challenge — education, health and general welfare remain massive gaps. For Africa to realize the potential of the demographic dividend, many more people will need to be lifted out of abject poverty, and genuinely enjoy the benefits of a rising Africa.

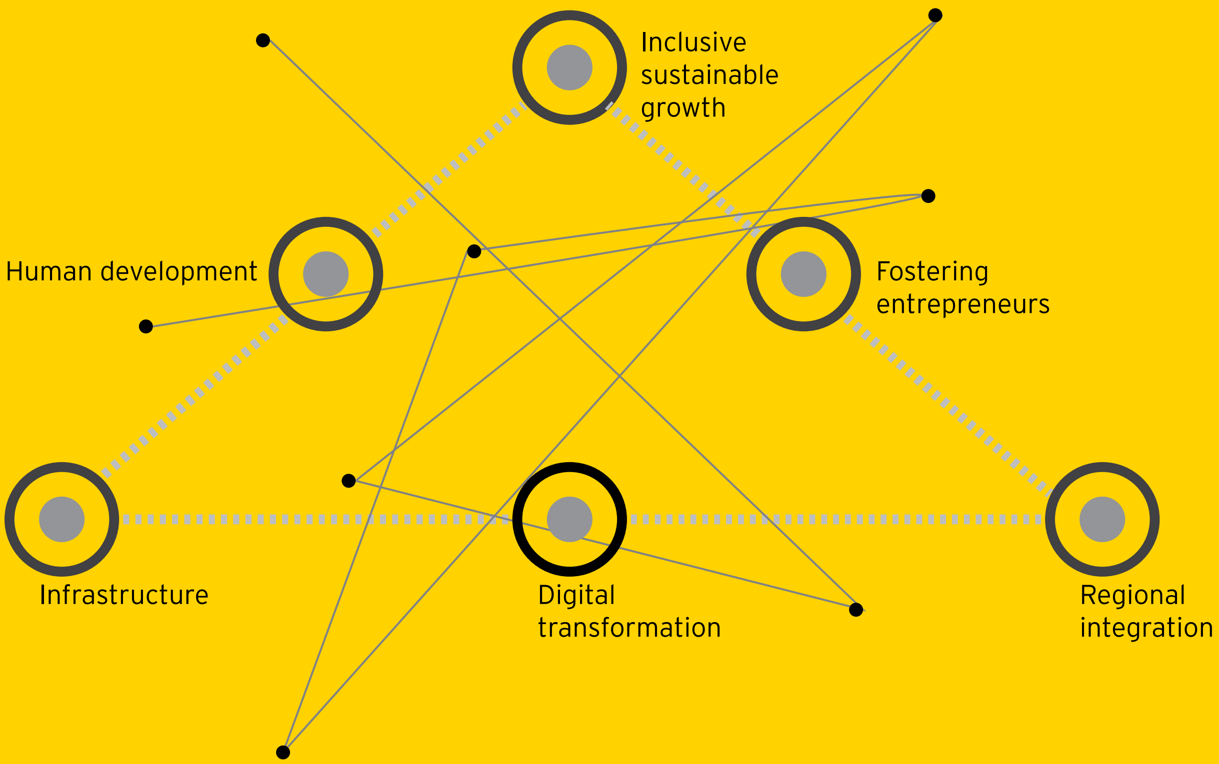
3. Technology

Advances in technology have been disrupting social structures and business models for centuries. In our lifetime, successive waves of the IT revolution (PC, online, mobile, social) have democratized data, empowered consumers and citizens, and spawned scores of new industries. The impact of this disruption has been felt nowhere more than across Africa, where exponential growth in mobile and smartphone penetration, together with expanding internet and broadband access, has fundamentally changed the way we communicate, access information and conduct business. This has, in turn, opened up new and transformative opportunities in the health and education sectors, for the delivery of government services, in enabling financial inclusion and for the growth of local entrepreneurs.

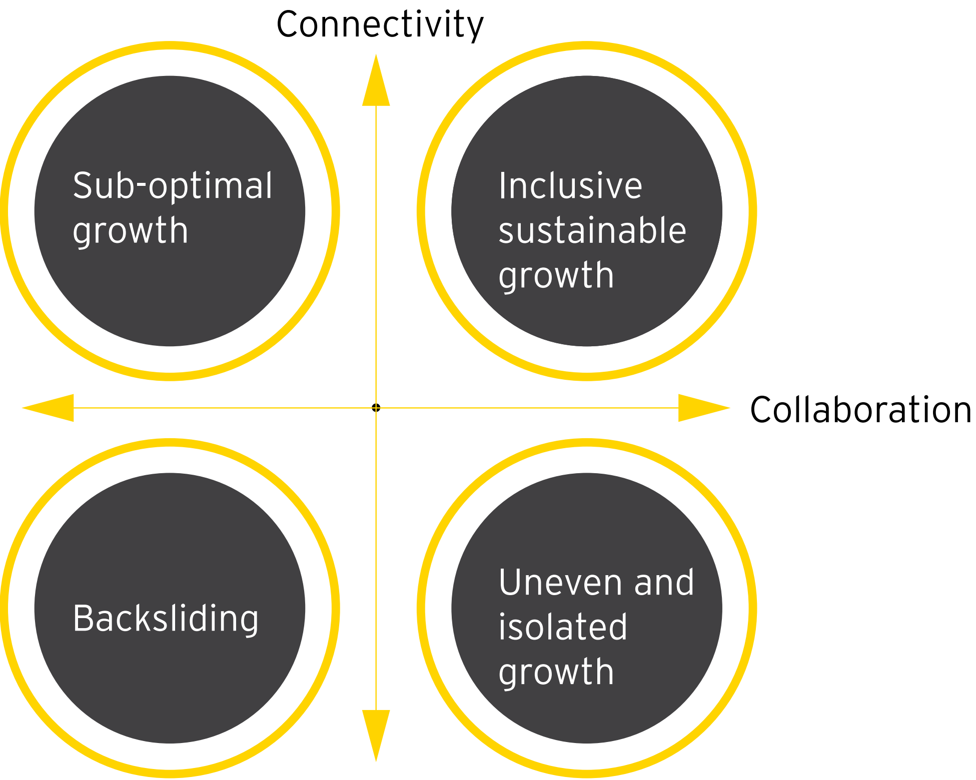
While regional integration and infrastructure development will remain critical drivers of inclusive growth, it is perhaps established and emerging **digital technologies** that offer more immediate transformative potential for Africa, if embraced with vigor and purpose. The growth and impact of mobile telephony has demonstrated how the lack of legacy infrastructure and business models can actually be an advantage as transformative technologies are embraced – the so-called "leapfrog" effect.

In the case of Africa, with its geographical scale and diverse, fragmented markets, digital connectivity provides an obvious opportunity to transcend many of the physical boundaries and barriers that currently hamper trade, commerce, communication, service delivery and human development. We have already seen glimpses of the positively transformative possibilities that digital **connectivity** offers, for example, in the form of mobile payment platforms, digitally enabled entrepreneurship, innovative health and education delivery systems, and growing numbers of e-government initiatives. Governments need to view digital technologies as an opportunity rather than a threat, and urgently create digital enabling regulatory environments.

If we accept the reality that physical connectivity – enabled by regional integration and the development of physical infrastructure – will remain a key stumbling block to inclusive growth across Africa for at least the next decade, then the need to actively embrace digital connectivity is all the more critical. However, efforts to harness the potential of digital technologies as a fundamental driver of inclusive growth, are still far too piecemeal and fragmented. What is required is a far more **collaborative** effort across governments, business and non-profit sectors to embrace technological disruption, and to adopt a systematic approach to fostering digitally enabled ecosystems with a particular focus on health, education and entrepreneurship.



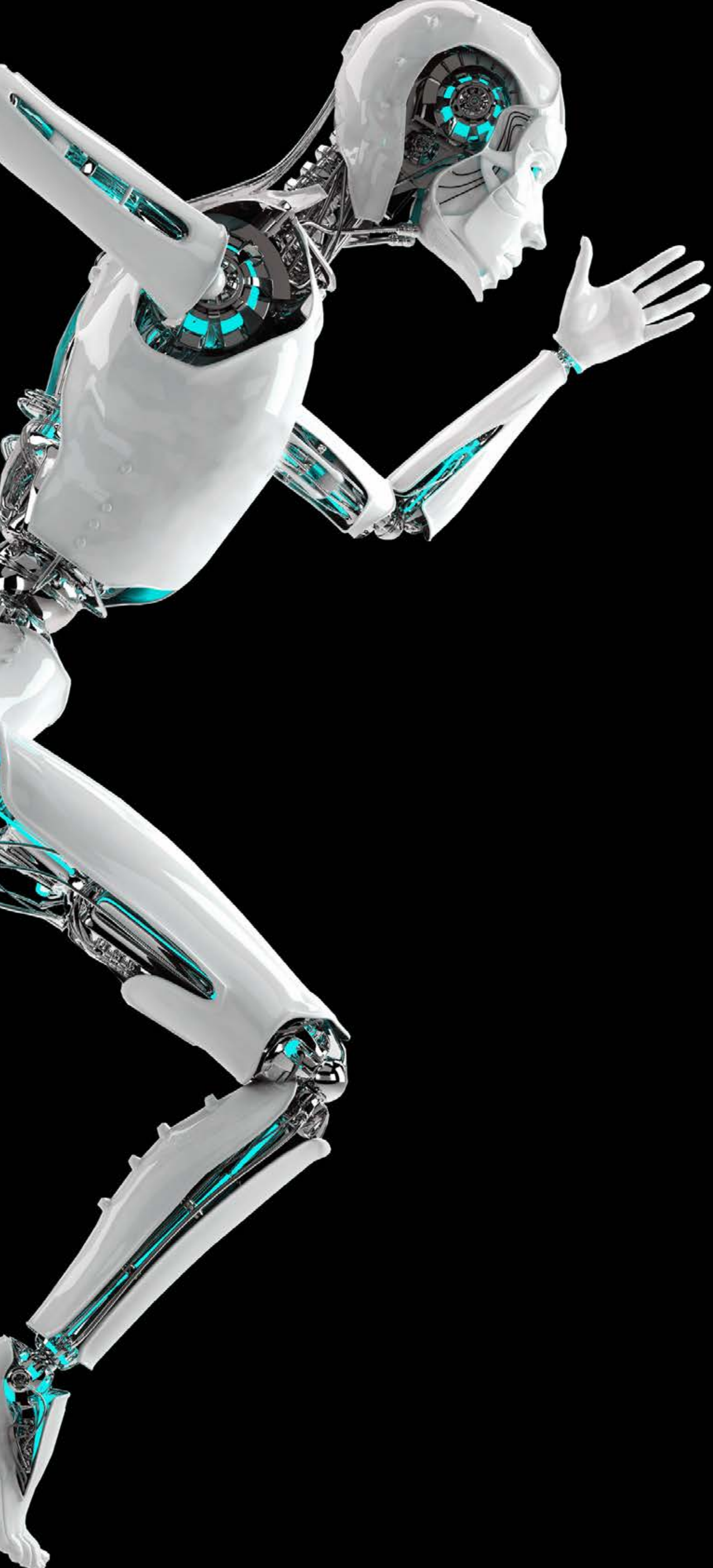
As we look toward the future, a best case scenario for Africa will be one that leads toward **an inclusive, sustainable growth path.** The twin key drivers of this best case scenario will be the ability to **connect markets** and polities within and beyond the continent — with emerging digital technologies being the critical catalyst in this regard — and the (related) **collaboration between the public and private sector**. In particular, especially to encourage and harness inclusive growth, and to create the social, market and political conditions and institutions, which will capture the potential demographic dividend.



Source: EY.

In a context in which the future is more uncertain than ever, it is critically important to shift the perception of disruption from that of threat to opportunity; to begin to embrace disruption to take advantage of the rapidly changing environment. At a time when there are so many unknowns and no easy answers, we believe we must ask better questions.

As people are becoming less afraid of disruption and more accepting of its inevitability, the better question becomes: how do you seize the upside of disruption?



What does this all mean?

Primary forces of disruption and implications for Africa	For businesses	For governments
Globalization ▸ Integration of African countries into the global economy has increased in recent years. ▸ Accelerating regional integration is key to promoting greater levels of regional investment and trade. ▸ This needs to be enabled by sufficient infrastructure development focused on connecting Africa with itself.	▸ As regional integration speeds up, any strategy around African growth opportunities must involve positioning oneself at key hubs. ▸ The strategies should involve thinking in less conventional ways, both below the country level and beyond the country level. ▸ Businesses could take advantage of the infrastructure gap in Africa, to ply their capital, innovation and expertise.	▸ Increased intra-Africa trade and the development of robust domestic markets will be key to sustainable growth, but this will require unprecedented collaborative leadership across governments to transform the promise of regional integration into a reality. ▸ Institutions such as the Africa Development Bank and the African Union, must take the lead in investing in cross-border infrastructure, such as connecting regional power systems, railway networks, air and maritime transportation. ▸ Governance must be tightened to help Africa compete globally for the capital required to support infrastructure development. ▸ Governments also need to learn from the challenges being experienced on current large infrastructure projects to identify the key areas of focus to ensure successful execution.
Demographics ▸ Africa's young and growing population can become a powerful growth engine globally. To achieve this potential, inclusive growth must be accelerated by promoting entrepreneurship and aggressively investing in education, health care and general welfare.	▸ The private sector should take a more proactive role in addressing the structural challenges to enhancing business services and providing opportunities for innovation and competition. ▸ For organizations genuinely committed to shared value and collaborative partnerships, the promotion of local content and enterprise development should be a key business priority.	▸ Productive dialogue and active collaborative partnerships with business and donor agencies need to become the operating norm across the continent in order to accelerate economic development and job creation. ▸ In order for entrepreneurship development and structural transformation across Africa to be successful, governments need to invest in education and vocational training programs, adopt more flexible labor market policies, improve the regulatory environment for businesses and make efficient use of the business incubator model to facilitate the growth of SMEs.
Technology ▸ Digital technologies offer an immediate transformative potential for Africa by helping to transcend many of the physical boundaries and barriers that currently hamper trade, commerce, communication, service delivery and human development.	▸ Businesses can capture tremendous upside from the digital opportunity in Africa, but they will need to be agile and flexible to do so. ▸ Digital technologies can help businesses in the continent improve productivity, enhance existing products and services, and develop new products. However, this may require collaboration with organizations from other sectors. ▸ Corporations and investors can play a key role in building a booming tech community across Africa through their support of local hubs and by eazing access to capital to tech-enabled businesses.	▸ African Governments and leaders will play a critical role in building a digital future for the continent. One obvious area is delivering citizen-centric services using technologies like cloud computing. ▸ They can also assist to promote the growth of tech-driven businesses across Africa by providing a skilled labor force, affordable internet access, a business-friendly environment and a culture of innovation.

EY in Africa has over 5,900 professionals based in 44 offices across the Sub-Saharan Africa region – 266 of whom are partners – who provide 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.

That is precisely the purpose that our EY people are committed to. We believe, and research shows, the power of purpose can drive greater success for our people, our clients and our communities. We understand our obligation to look beyond our self-interest and engage with the world.

We realize 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.

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