Doing business in Africa
From strategy to execution
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Five critical success factors

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The story of Africa’s ongoing growth and development is taking hold. Our annual Africa attractiveness survey, now in its third year, illustrates this point, with perceptions steadily improving and investments growing in a wide range of sectors. More anecdotally, we are fielding an increasing number of enquiries from our clients on opportunities for investing and expanding in and across the continent.

In the last few years, we have hosted hundreds of clients in our unique Cube facilities on and off the continent – a facilitated collaborative environment in which we leverage our Growing Beyond Borders™ toolset, knowledge base and pan-African network to critically evaluate African growth strategies.

A few of years ago, the majority of these conversations were focused on articulating the African growth story; on providing fact-based evidence to support our own positive outlook for the business growth prospects available across the continent. Increasingly the emphasis of these conversations is shifting from “why” Africa, to “where” and “how.”

An ever-increasing number of companies have been sold on the Africa investment proposition, and are now focusing on how to effectively execute a growth strategy in what remains an inherently complex environment to do business. Engaging with a range of clients as they develop and execute their growth strategies provides a privileged vantage point from which to observe successes, failures and lessons learned. And, of course, we are not merely observers; we ourselves are driving our own growth and integration journey – opening new offices in Cameroon, Chad and South Sudan last year, expanding our senior level capacity and capabilities in key markets such as Nigeria, Angola, Kenya and South Africa, and integrating our people across the continent into a tightly knit, coordinated pan-African network.

Although there is very little that can be considered definitive when doing business across Africa, through observation and experience we are able to distil some principles and insights that we feel are useful for anyone in expansion mode on the continent. This report builds on other thought leadership – our Africa Attractiveness surveys and Africa by numbers report – to offer some thinking on the strategic factors most critical to the effective execution of a growth strategy for Africa.

While there is certainly no “paint-by-numbers” approach to doing business in and across Africa’s many and diverse markets, we do hope that the framework provided here helps to further enhance confidence in your growth strategies for Africa, and to accelerate the transition from strategy development to execution mode.

Ajen Sita
Chief Executive Officer, Ernst & Young, Africa
Overview

Five critical success factors

African markets are increasingly open for business. Despite perceptions of elevated and uniform risk, in many ways, the continent is no different to others. Sound business practices enable well-run firms and funds to convert business strategies into actual results. Yet the continent’s rich diversity and undoubted complexity make it possible to identify five strategic critical success factors that will likely distinguish success from failure when executing an African growth strategies.

**Perspective**

**The eye of the beholder:** African business ventures can be risky, but no more so than those in much-hyped emerging markets in other regions. Giving substance to your Africa strategy involves a choice: one can emphasize a search for opportunities and then factor in risks accordingly, or take a “risks-first” approach and only weigh opportunities after first filtering for risk. Successful entities have tended to do the former.

**Planning**

**Patience and persistence = results:** while it is often said that rewards go to the bold, in African investing it is also true that patience is a virtue (and pays). Experienced foreign investors repeatedly note that nowhere else is there such a direct correlation between careful planning (and flexibility about plans once formed) and a successful outcome.

**Places**

**Seek platforms and hubs:** Africa’s hallmark is diversity; the barriers to creating bigger and deeper common markets and trade areas are considerable, but are arguably receding. Strategy making around African growth opportunities involves positioning oneself at key nodes; executing such strategies then involves thinking in less conventional ways, both below the country level (African opportunity as turning on various key cities) and beyond the country level (African opportunity framed in terms of regions and other potential groupings).

**Partnerships**

**Relationships matter:** perhaps more than in any other continent – fostering good, proper relations with all levels of government will continue to be vital to realizing strategic aims. Similarly, we believe that strong local partnerships are critical to success. There is much the scope for cooperative partnerships harnessing different players’ strengths.

**People**

**No strategy is self-executing:** sustainable success in Africa will increasingly turn on identifying, nurturing and retaining talented and committed local staff. Meanwhile, for firms focused on reaching Africa’s many underserved customers, effective strategy execution is people focused in another sense: not allowing top-down approaches (informing new consumers of their options) to obscure bottom-up receptiveness (being responsive to the needs and wants of Africa’s consumers).
Unlocking value and managing risk

The world’s emerging economies continue to grow more quickly than mature ones. For 2013–14, the International Monetary Fund (IMF) expects growth of 5%–6% across global emerging economies. This may be as much as four percentage points higher than growth in developed economies:

- Of those emerging economies, Africa is likely to provide the most consistent and robust rates of growth over the next 10–15 years.

- In 2011, more than 15 African economies registered growth rates higher than 5%, despite a slow recovery from the global recession and their exposure to the slowdown in developed markets.

Such performances and projections are now fairly familiar, explaining the considerable interest that firms and financiers — both within Africa and around the world — have shown interest in developing strategies to tap into Africa’s growth story and potential.

Indeed, for many, the question has moved beyond whether to have an Africa-wide strategy and what content it should have, to executing strategy in ways that unlock value, adjust to change, and safeguard assets and investments.

This growth story is real, but it is one that obscures the continent’s many intricacies and idiosyncrasies. These hold manifold risks, as well as opportunities, for Africa’s overall economic, social and political development — and for the role of commerce and industry in this process.

What critical success factors will determine success in the transition from strategy formulation to strategy implementation, and in the process of adjusting overarching strategy in light of changing conditions?

For the last five years, Ernst & Young and Oxford Analytica have collaborated in producing global and regional surveys and expert reports, exploring and analyzing the top 10 risks and opportunities for global businesses. Oxford Analytica brings unique expertise in identifying, understanding and tracking wider trends within African countries, regions and sectors, while Ernst & Young’s integrated pan-African model offers clients coordinated regional and country-specific solutions, tailored to individual firms facing both strategic and operational challenges.

This document summarizes the five macro factors that, together, we consider vital to maximizing strategic opportunities and minimizing strategic risks when doing business in and between African countries.

Risk management versus opportunity awareness

An important starting point is to acknowledge that sound African growth strategies do not assume that risk assessment and opportunity scoping are a one-time process, to be immediately followed by a distinct execution phase.

Instead, as investors move toward their overarching objective, encounters with new contingencies will demand a strategic recalibration and reconsideration of the pace and trajectory of strategy rollout.

At the same time, of course, too much emphasis on “risk management” approaches can overshadow “opportunity awareness”, narrowing the scope for taking advantage of the overall favorable and attractive settings that Africa’s various markets represent.

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1 Business Pulse: exploring the dual perspectives of the top 10 risks and opportunities in 2013 and beyond
2 World Bank, IMF, Oxford Analytica
A risk versus opportunity matrix provides a simple but effective framework for stakeholders to engage on risk appetite, and rationally assess and reassess the relative pros and cons of different markets on an ongoing basis. In our Africa by Numbers report, we have developed such a matrix by creating composite indices for both country risk and opportunity (using frequently referenced global references), and then plotting individual countries according to where they sit on the risk index (horizontal axis) and opportunity index (vertical axis), respectively. To illustrate, we have selected 18 African markets that are among the more popular Foreign Direct Investment (FDI) destinations, and are frequently referenced in our conversations with clients.
“Anti-fragile” strategies gain from - not just survive - Africa's challenges.

Awareness fosters agility

The 2008–09 global financial crisis highlighted “tail risks”: low-probability, high-impact risk events that often fall outside traditional risk management models. We tend to under estimate the risk of events that have not occurred recently: as it had been 75 years since a serious global financial crisis, the perception of its likelihood had diminished, even if the objective risk itself had not.

A related danger concerns “non-linear risks” — severe dangers that analysts agree are real and indeed often inevitable, but which are not costed or accounted for because:

- They are relatively difficult to model
- If the potential dangers involved were fully costed, they might disrupt business models

Political and social risks often fall into this category, yet it is precisely this type of risk that is responsible for recent events such as the Arab Spring uprisings.

The problems of modeling the unpredictability of political risk require a constant evaluation of the corporate risk profile, which in turn means scanning the horizon for new hazards. Strategic frameworks should be constantly challenged and tested.

Political shocks are hardly confined to emerging or rapid-growth markets, but surveys have shown that executives are considerably more worried about such shocks in these markets than in developed economies.

They can derail even the best-laid plans for a firm’s growth. Strategic plans cannot always account for such contingencies, and Africa is exposed to its share of shocks of this variety. Moreover, the formulation and implementation of corporate strategies for Africa occurs in the context – for better or worse – of wider geo-political and economic developments well beyond African control.

Despite these vulnerabilities, in going ahead with strategy implementation, it is important to understand the limitations of what we can know about the future.

Yet, rather than this fact making it futile to attempt long-term strategic planning, it instead means that a vital part of any strategic plan is the ability to adapt to new contingencies. After all, today’s risk may well hold the seeds of tomorrow’s opportunities.

Therefore, rapid strategic shifts such as democratization can, in principle, unfold huge opportunity for those firms that can correctly apply a robust risk framework that is open to contingency and subsequent adaptation. The ideal approach to risk management for Africa is to keep one eye firmly on the lookout for opportunity, even in the throes of adversity. This approach directly enhances the ability to execute strategy in an environment of potential external shocks.

Consider the practical applicability of the concept of “anti-fragility” to the process of transforming strategy into performance in Africa:

- Famous for his theory of “Black Swans” (defined as wholly unpredictable events which impact even the best-laid strategy), Nassim Nicholas Taleb has argued that we should go beyond simply ensuring that we reduce vulnerability to changed circumstances. Instead, we should foster a quality that he calls “anti-fragility”: strategies or systems designed to get better under pressure, not just resist it.

- African business operations or market expansion strategies that are formed and rolled out with such a mindset are more likely to encourage and enable staff to anticipate or recognize challenges, and to reposition the firm (or fund) to learn and gain from these. Firms that succeed in Africa will be those that find ways to prevail and to regenerate – not just endure – amid various likely difficulties. They will be those that probe alternatives and do not let errors go to waste, instead using these to adjust approaches.

Therefore, one should “expect the unexpected” as strategy rolls out. Yet, rather than trying to predict the unpredictable, firms should look to gain from such events when they do occur.

Companies that account for relevant threats will see enormous opportunity within the continent. The key to success is to find an objective, accurate picture of the risk factors in question, recognizing and understanding the challenges that exist, and executing one’s strategy despite these challenges.

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3 Business Pulse: exploring the dual perspectives of the top 10 risks and opportunities in 2013 and beyond
Africa is often perceived as a high-risk, difficult and sometimes dangerous place to do business. However, our own analysis and experience indicates that for example many African countries benchmark well on key risk-related factors relative to emerging markets in other regions. We are actually seeing a very positive risk/reward relationship in Africa, particularly for companies with robust systems of risk management that enable opportunity taking.

Jonathan Blackmore, Ernst & Young EMEIA Advisory Risk Leader
A relatively small number of macro factors will tend to shape a company’s ability to unlock value in Africa (as well as deepen and protect investments) as it moves from strategy to execution.

Plans will be exposed to the wider global geopolitical and economic forces described earlier, and Africa’s constraints – from energy reliability to transport infrastructure deficits – are well documented. Moreover, general business considerations and contingencies apply equally in Africa as elsewhere.

Yet Africa’s growth momentum and potential is undeniable. Effectively managing the following five key issues will, we believe, prove especially important in attempts to harness and contribute to this growth.

1. Perspective

One’s choice of perspective matters, both in developing an Africa-related strategy and in implementing it:

• Appetite: a mindset primarily oriented to opportunities aims to manage risks affecting sustainable realization of strategy.
• Attitude: a “risks-first” approach can distort or obscure viable opportunities.

Successful and experienced African investors consistently reveal a tendency to view risk as one factor in their overall approach - those who go looking for risks will surely find them. Yet success stories abound. Hence the significance of balancing an opportunity awareness mindset with a risk management approach.

Of course, some negative perceptions actually have some basis. Although some countries score very well (especially in certain sectors) on governance or competitiveness-related metrics – others continue to lag significantly behind in almost all such indices.

Figure 3 is a reminder that, although African countries rank highly in terms of the fastest-growing countries worldwide, some of those countries perception rank very poorly in terms of ease of doing business or corruption levels.

However, in terms of giving substance to Africa-related strategies over time, one approach is to avoid absolute rankings and “frozen in time” snapshots.

Experience suggests that the better mindset – at least for portfolio investors – is one that does not look for problem-free African markets, but tries to understand whether and where such problems are generally receding (or are becoming different types of problem sets that may be more manageable).

Moreover, African markets provide an opportunity to view risk and opportunity differently. Success can come from seeing the opportunities that are inherent in ostensible risks and constraints. For example:

• Infrastructure deficits and barriers to greater regional market integration are typically viewed as constraints or risks diminishing the attractiveness of African settings.
• Yet meeting the pent-up demand and backlog for infrastructure projects is, as many firms have found, also an opportunity; positioning oneself to gain from greater regional cohesion as prior constraints drop away also depends on adopting a perspective that tracks progress over time, rather than dismissing markets on the basis of current indices.

Africa’s countries and regions can be difficult to do business in, but both survey and economic data tell us that it is no more difficult than other parts of the world. Indeed, on some key indicators’ the much-vaunted BRIC countries or other rapid-growth markets can be seen as more risky or difficult than many important African markets.

“… are … companies right to assume that the challenges of the Angolan market constitute insurmountable obstacles? Those who cling to this assumption are choosing to forgo the rewards offered by a country that has a seemingly unlimited set of needs, and a willingness and ability to pay, that surpasses perhaps all its African counterparts”.

Stuart Kelly, “African Arguments”, January 2013
“We’ve been investing in Africa for over a century. We don’t do anything else. There isn’t a starting point that says, ‘shall I invest in Africa’?; we have nothing else to do all day! Grabbing opportunities while mitigating risk has been Lonrho’s approach to investing in Africa. As a result, there are very few markets we would not consider opportunities in. But it is critical to take time to understand the market, the opportunities, the regulations, the government, the people, the partnerships … if you take the time to build that understanding, most risks become far more manageable, and your primary focus can be on realizing the opportunity.”

David Armstrong, Finance Director, Lonrho

Figure 3: Growth rate versus ease of business: no one is saying Africa is risk free

<table>
<thead>
<tr>
<th>Ranking</th>
<th>Country</th>
<th>Estimated growth</th>
<th>Ease of doing business ranking</th>
<th>Corruption perception ranking</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>São Tomé and Principe</td>
<td>31.50%</td>
<td>160</td>
<td>72</td>
</tr>
<tr>
<td>2</td>
<td>South Sudan</td>
<td>19.85%</td>
<td>No data</td>
<td>No data</td>
</tr>
<tr>
<td>3</td>
<td>Guinea</td>
<td>16.27%</td>
<td>178</td>
<td>154</td>
</tr>
<tr>
<td>8</td>
<td>Libya</td>
<td>10.38%</td>
<td>No data</td>
<td>160</td>
</tr>
<tr>
<td>11</td>
<td>Rep. of the Congo</td>
<td>9.31%</td>
<td>183</td>
<td>144</td>
</tr>
<tr>
<td>12</td>
<td>Mozambique</td>
<td>9.29%</td>
<td>146</td>
<td>123</td>
</tr>
<tr>
<td>13</td>
<td>Zambia</td>
<td>9.24%</td>
<td>94</td>
<td>88</td>
</tr>
<tr>
<td>16</td>
<td>Ghana</td>
<td>8.92%</td>
<td>64</td>
<td>64</td>
</tr>
<tr>
<td>17</td>
<td>Ivory Coast</td>
<td>8.63%</td>
<td>177</td>
<td>130</td>
</tr>
<tr>
<td>19</td>
<td>Gambia</td>
<td>8.35%</td>
<td>147</td>
<td>105</td>
</tr>
<tr>
<td>20</td>
<td>Rwanda</td>
<td>8.23%</td>
<td>52</td>
<td>50</td>
</tr>
</tbody>
</table>

Source: Growth: Business Insider 24 October 2012 from IMF World Economic Outlook, estimates for 2013-2017 CAGR (world rankings). Doing Business 2012 rankings out of 185: the smaller the number, the easier to work in. Transparency Intl corruption perception index 2012: out of 176 countries; the lower the number, the “cleaner” the country.
Perspective matters. Media portraits of insurgencies and conflicts in some African countries belie the fact that some highly rated non-African investment destinations also face such problems, yet are not viewed with the same risk lens. For example, Turkey occupies a troubled neighborhood and has suffered a long-running separatist conflict, yet is rightly widely perceived as a viable investment destination. By contrast, some investors point to northern Nigeria’s security issues without accounting for the ways in which these may, conceptually, be no worse, or indeed less, significant than Turkey’s challenges. There is also a need to adopt ways of perceiving risk that look beyond country-level risk or opportunity rankings. Large expanses of relative stability exist in ostensibly risky African countries, just as pockets of instability exist in otherwise stable countries with low-risk ratings.

Figure 4: Best ranked African versus BRIC economies: no more risky, perhaps a lot less so

1. Chile
2. Mauritius
3. Malaysia
4. Botswana
5. Qatar
6. South Africa
7. South Korea
8. Poland
9. United Arab Emirates
10. Saudi Arabia
11. Czech Republic
12. Rwanda
13. Thailand
14. Namibia
15. Ghana
16. Turkey
17. Colombia
18. Mexico
19. Tunisia
20. Zambia
21. Brazil
22. India
25. China
39. Russia

Source: Ernst & Young Africa by numbers 2012

“Strategy is often easily expressed in broad terms, but an understanding of the key drivers underpinning a strategy is required before venturing into Africa as a new investment destination. Moving to execution is sometimes cumbersome, frustrating and slow. As Africa emerges as the ‘growth’ continent, investors need to remain patient, adaptive and committed in order to achieve meaningful and profitable results.”

Fradreck Shoko, Co-Head, Africa Corporate Finance, Standard Bank
“Tullow’s success in Africa has not happened overnight; it has been very much about perseverance. It does take time. Preparation and planning is critical to success. You may also not necessarily succeed first time around. We use the ‘T’ word: TENACITY; with any frontier, you have to be prepared to try, and try again.”

Brian Glover, Strategy Director, Tullow Oil
2. Planning

It is axiomatic that Africa's complexities and challenges, combined with increasing competition to access its many opportunities, put a premium on both planning in the strategy formation phase and flexibility during implementation. Continuously monitoring and evaluating one's strategy and planning for contingencies is particularly crucial.

Indeed, a macro factor for successful strategy-execution transitions in African settings is to avoid viewing strategy and planning in a static fashion. Firms whose strategic approaches emphasise patience, persistence and pragmatism, together with a looping or continuous learning process, have proven most adept at flourishing in dynamic African settings.

As some investors have discovered, there are rarely any shortcuts to succeeding in Africa. Many features of the continent make it a difficult place to operate:

- Infrastructure gaps. Transport networks and electricity, in particular, are lacking across the continent.
- Bureaucratic bottlenecks. The number of processes required to negotiate much of the continent's bureaucracy means Africa is a tough place to plan ahead.
- Undeveloped consumer demand. Demand across sectors and countries has not reached the levels of sophistication seen elsewhere in the world.

These are undeniably challenges, yet they are all issues that also reward flexible, innovative and unconventional approaches.

Much is made of Africa’s mobile phone revolution and the range of financial products (along with other services) that now use mobile platforms.

The opportunity is to position one’s firm to make similar leaps, as this sector did, to bypass well-known constraints and move to unlock potential, whatever the sector. A degree of “planned pragmatism” goes far.

Unreliability of data

Completion of strategy rollout means learning to live with complexity. This is illustrated clearly in relation to the paucity of reliable and accurate official data from most African countries.

“The Nigerian legal and regulatory landscape is fluid and constantly changing, and ignoring its complexities could lead to disaster.

Red tape, a slow judicial process and a high cost of compliance all mean that, from the very outset, firms should find an experienced and competent local counsel, with specialist knowledge and expertise in the areas they need help with.”

Colin Egemonye, Egemonye Associates
Although new entrants must work with what data is available, many existing investors rely more on their own monitoring and reporting processes. Much of the available intra-firm data points unequivocally to the potential for highly profitable and sustained business ventures in countries where official datasets are poor.

From the perspective of those entering African markets, using this unreliable data is an unavoidable necessity. However, a careful eye must be kept on quality control at all times. The ability to critically think around a data set, and measure it against recent economic and geopolitical events, is particularly crucial.

Maintaining an objective, qualitative approach, in addition to quantitative analysis of the statistics, can shed some light on whether a given data set is reliable or not.

Additionally, as Ernst & Young’s Africa Business Center™ shows with its Growing Beyond Borders toolset, there is a fast-improving ability to make sense of Africa’s data deficits and produce workable numbers. Despite Africa’s data problems, it is possible to put together reasonable indicators or proxies and plan on the basis of these. Using both qualitative and quantitative tools of this type, one can still execute an effective strategy despite imperfect information.

“The demand for African macroeconomic statistics, for all sorts of purposes, remains strong, despite the inadequacies of the supply.

A new approach is needed. In terms of quantity, more countries need to complete the basic tables of the national accounts, and to reduce the publication time lag, which sometimes exceeds seven years.

In terms of quality, there is a need for a new pan-African institution to organize statistical experts to evaluate the quality of statistics.

Bona fide users would be greatly assisted by the introduction of a grading system that distinguished soundly based numbers from the unsound.”

Professor John Toye, Institute of Development Studies, University of Oxford, and Oxford Analytica Region Head
Growing Beyond Borders™

In identifying and prioritizing markets for investment, there should be a thorough process of fact-based due diligence, including sector-specific tax, legal and regulatory factors (which are often material enabling or constraining factors in the African context).

A key challenge in such a process is the apparent scarcity of information. However, once one starts digging a bit, there is actually a large quantity of Africa-related data available. The challenge more often is that data is fragmented across various sources, and so can be difficult to collate and present in a coherent and meaningful way. We therefore developed Growing Beyond Borders™, a map-based interactive software tool, with a twofold capability to help our clients address this challenge.

First, it provides an information portal, aggregating a range of indicators, indices and other data from various sources together for easy access. Second, we have found that the visual presentation of the information via the map-based interface is intuitive for most people, and provides a commonly understood reference point for strategic discussion on investment decisions.

A composite “heat map” from Ernst & Young’s Growing Beyond Borders™ tool, showing relative market attractiveness (from green being more attractive to red being less attractive) across a range of indicators of opportunity and risk.
3. Places

If there is one word for Africa's 50+ countries, it is “diversity.” Understanding the local perspective on business environment and regulatory issues, infrastructure provisions and the labor market are obvious factors to prioritize when setting a strategy for entering a market. The wider consideration involves identifying key regional nodes as platforms from which to expand further. Regional integration – the lack of which has, for so long, been the biggest disincentive to many global firms and brands – could create new pooled and networked markets.

Effective prioritization and emphasis on the places in and from which one seeks to grow will likely prove a decisive macro factor in tapping African opportunity:

- Light footprint? Familiar debates about the merits of regional investment gateways or hubs, such as South Africa, Kenya or Nigeria, have led some to question the concept. Depending on the sector, it is true that it may be possible to skip the supposed necessary first step of establishing a foothold in a “gateway” destination.
- Strong springboard. Working with the gateways or hubs may not always be a requirement, but executing a strategic decision to grow strongly and sustainably on the continent will typically continue to involve judicious use of gateway settings and services.

The challenges associated with multiple jurisdictions create opportunities to think of less conventional regional market groupings, including urban corridors and clusters, cultural affinity and market growth patterns, in search of investment synergies.

If further progress is achieved on freer, faster intra-African trade, and on the regional integration agenda more broadly, then one of the principal constraints on investment in Africa would become a catalyst for rapid transformation. An example of regionalism that is often overlooked in Anglo-centric approaches to Africa is the 14-country West and Central African CFA franc-zones, the single currencies of which are pegged to the euro. Both CFA franc-zone blocs have proved remarkably enduring and stable, and are undergoing a concerted institution-building agenda designed to ensure their greater resilience to any further external shocks. The greater financial sector integration within markets suggests that it is at least conceivable that various “unmapped” settings will become more attractive.

“Developments elsewhere in the world over the last 20 years, particularly in developing Asia, provide strong evidence of how to overcome obstacles and succeed in the development race. Even in the absence of local data, Africa can use the experience of others to demonstrate what it might achieve. What might emerge in a decade’s time will not be identical to China, for example, but it will be the unique foundation for an orderly and integrated pan-African economic system.”

Vanessa Rossi, Oxford Analytica Region Head
Sub-Saharan Africa investment destinations: stimulating debate

Financial services
1. South Africa
2. Mauritius
3. Nigeria
4. Kenya
5. Ghana

Wildcard
? Ivory Coast

South Africa’s robust sector will remain by far the biggest. Nigeria’s post-2009 consolidation continues; along with Kenya and Ghana, it looks set to register strong financial sector growth, including retail banking.

• Is it surprising that Mauritius ranked too highly?
• What are Abidjan’s prospects as a regional center?

Agriculture
1. Nigeria
2. Ethiopia
3. Zambia
4. Mozambique
5. Angola

Wildcard
? DRC

Tanzania could easily make this list. Before 1975, a major producer with 35 million hectares cultivated, Angola’s inclusion is arguable for long-term investment plays: almost half Luanda’s food requirement is imported.

• Shouldn’t one include DRC if looking long term?
• What about Madagascar or the Mano River countries?

Power
1. South Africa
2. Nigeria
3. Tanzania
4. Kenya
5. Ethiopia

Wildcard
? Mozambique

Eskom’s a major player, particularly in Southern Africa. Despite renewable, nuclear or shale bids, private contribution to South Africa’s overall capacity remains small – for now. Nigeria’s ambitious prioritization plans are well under way. Ethiopia: hydropower; Kenya: geothermal?

• Is Ghana’s gas-to-power plans proceeding smoothly?

Transport
1. Nigeria
2. South Africa
3. Kenya
4. Tanzania
5. Ethiopia

Wildcard
? Ghana

Although Nigeria has had success with port successions, it still lacks good road and rail links. South Africa has ambitious infrastructure spending plans but clarity is still required about the role of the private sector financing. Kenya is attractive as part of a wider East Africa infrastructure growth outlook.

• What impact do emerging regional transport corridors have on this ranking?
The East African community (EAC) is frequently hailed for its progress in reducing barriers to creating a more attractive pooled common market. One lesson from the EAC is how chambers of commerce or other industry-specific groupings have not necessarily waited on inter-governmental processes, but have led the integration of their own mutual interests, in a way that government can later follow with regulatory recognition.

For example, if private tourism operators in three to four different countries can negotiate flexible “code-share”-style arrangements, this could prompt governments to act on the idea of a regional tourist visa that minimizes hassle for foreign travelers. The same sort of advance — where industry leads government, rather than being passive recipients of reform — is no doubt possible in a wide range of sectors.

Measuring progress on regional trade

The example of one border post illustrates both the need to plan for positive contingencies (easier cross-border trade), and the procurement opportunities arising as funding is increasingly directed to unlocking key infrastructure bottlenecks.

Zambia is a crucial node in central-southern Africa trade and supply routes, from Durban to Dar-es-Salaam, while resource-rich southern DRC cannot rely on Atlantic-facing export and import routes.

• Before. Prior to the construction of Kasumbalesa border facility, truckers exporting mineral cargoes from the DRC’s Katanga province, or importing mining equipment and other goods from east African seaports, took an average of seven days to clear the border.

• After. The 25 million dollar border post, which opened in 2011, has cut transit times to four hours, and now services some 500 trucks a day.

Moreover, it is notable that the project resulted from private sector-led proposals, not state-led competitive tenders. On its performance, the private contractor has since secured tenders to build six more Zambian border crossing points.

Executing long-term macro-strategy thus requires seeing the scope for current constraints to become avenues of opportunity. Meanwhile, Kasumbalesa shows how rapid transformation can be when it does occur in African markets. The challenge is to identify physical and commercial bottlenecks, whose alleviation could scale-up prospects for strategic success.

In the next decade, the more agile and adaptive firms will be found thinking in less conventional ways, looking below and above the country level to focus strategy at the city and regional level. Of course, one can tap into growth in niche sectors, or a particular city or country, without having to roll out across the continent: an “Africa strategy” could prove unwieldy.

The pressure within firms to find ways not to miss out on Africa’s growth can distort implementation of their Africa strategy. Some places are genuinely more attractive than others: consolidation in these places is as legitimate a tactic for tapping African growth as expansion.

Due to the challenge and high cost of marketing through traditional media channels in Africa, many blue chip companies have moved toward strategies of ‘experiential marketing.’ By using roadshows, companies have been able to expose their brands to a higher number of consumers in some off-the-beaten-track locations.”

Matthew Fitzsimons, co-founder, Big Eye Branding
4. Partnerships

In almost every sector, success in translating strategy into execution will depend on effective partnerships with all levels of government (from local authorities to regional secretariats). This process is often as difficult and time-consuming as it is vital:

• **Context.** Governments are under increasing pressure to demonstrate improvements in local quality of life and skills-transfer, deriving from the presence of foreign business. Some firms will hope that the narrow pursuit of their business objectives suffices in the eyes of host governments; however, those that conceive of a longer-term strategy will, within what is reasonable for their size and sector, see and articulate their objectives, as designed to help the local and national development and aspirations of their host country.

• **Convention.** Some firms will continue to complain about poor quality regulators and government counterparts, without acting on the problem; more dynamic firms will re-think conventional distribution of roles, helping government officials in appropriate ways that, in turn, make it easier to conduct business. Some firms will poach the best government officials to work in-house; firms with the longer term in mind might see the value of refraining from emptying government of its more effective officials. Unconventional mindsets like these could alter ease of doing business in the longer term.

From pre-country entry planning to day-to-day operations, business will find many (if not all) African governments increasingly pragmatic and receptive to engagement. Of course, closer government relations carry regulatory and reputational risks: it is possible (and, as a matter of principle, preferable) to do well at fostering good government relations, while also doing good by avoiding exposure to potentially damaging corruption processes.

Cooperation or competition?

There is another sense in which partnerships will prove decisive. The debate in recent years on Chinese and other “new” players in Africa’s extractive, construction and retail sectors has tended to view such issues only in terms of strategic and commercial competition. This obscures the potential for judicious collaboration in many sectors:

• **Sharing.** For example, it is widely thought that Chinese and French firms must be vying for influence in French-speaking West African countries. This overlooks the emerging reality: while Chinese construction firms build or revamp some of the region’s ports, French firms tend to run the logistics and management of these facilities. Joint bids for such setups will become more common. The deal between Chinese search engine Baidu and France Telecom/Orange to build a basic search facility into lower-end smart phones is another example of the reality of collaboration, despite the prevailing narrative focused purely on competition.

• **Saving.** In the extractive industries, as the realities of the burden of infrastructure construction and financing materialize further in certain “newer” producing countries, firms that prosper are likely to be those that seek to partner with ostensible competitors on issues of mutual interest, such as shared power generation and water supply investment.

Meanwhile, the focus on external players also obscures the significance of engaging local partners, including parastatals and state-owned enterprises. Depending on the market, caution will always be needed, in case one’s choice of preferred local partner carries immediate or latent risks, in terms of political or governance issues. Nevertheless, in most cases, seeking a local partner with an understanding of the local market, regulations, business environment and so on, is likely to improve rather than diminish the chances of achieving one’s strategic aims.

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“Working closely with governments as they reform and strengthen structures to facilitate capital inflows is critical ... sluggish growth elsewhere offers us opportunities to produce sound policy reforms, attractive incentives and favorable business environments to accelerate FDI inflow – and for investors to take advantage of these moves to achieve strategic growth aims.”

Mustafa Bello, CEO, Nigerian Investment Promotion Commission
5. People

Strategies are not self-executing. Boardroom-level strategy-making can map out the most exciting opportunity matrices and solid risk-mitigation measures across the continent – but their actualization inevitably turns on staff in the countries of operation. Firms that are serious about seeing through their African investment in the longer term have found – and will continue to find – that genuinely investing in people can bring significant rewards. In addition, in many settings, firms encounter large labor surpluses co-existing with shortages of skills.

In the future, success in many sectors and settings will tend to turn on the ability to put human resource development, especially for middle and lower management or team leaders, at the heart of strategy execution. Sustained achievement will depend to a very large extent on finding, training, retaining and supporting good people, in particular, local staff. Relationship networks around staff and their families, as well as host communities, have particular salience in many African contexts.

Specifically, a people-centered approach will mitigate risk in three key areas:

- **Social license to operate.** Approaches that seek to foster a wider sense of community and derivative enterprise around the firm can give the firm a social license, helping to mitigate disruption and reduce reputational risk. The risk is that executives may underestimate the degree to which members of these networks do not necessarily see clear distinctions between categories of people associated with or impacted by a firm's operations.

- **Relevance to the African consumer.** There is continuing (and growing) focus on the African consumer at all levels, especially the scope for further innovation of high-volume, low-value transactions. In a climate of increasing competition from local and foreign providers and manufacturers, a people-centered approach will add value to consumers. This is particularly true, given the potential for adverse reactions to imported goods or services associated with certain foreign policy considerations.

- **Brand management.** A people-centered approach will help companies to project their brand as being in touch with its environment. Firms will find many opportunities to strengthen their businesses and brands, while also empowering female participation in the workforce.

Misunderstanding the nature of the challenges in this area carries with it several hazards. In particular, one risk is the temptation to adopt proactive top-down approaches that prevent the reception and application of bottom-up impulses. Africa's emerging consumer base may not necessarily have a well-developed sense of what specific goods and services appeal to it. However, the continent's millions of potential buyers and users are the ones most familiar with their environment, and as such are likely to have a good idea of what will work best for them. Rolling out consumer-facing strategies across Africa should not see customers as simply being on the receiving end of a firm's products, but as collaborators in producing better, more tailored goods and services.

Additionally, the centrality of the consumer puts a premium on local knowledge and awareness, and firms that are able to unlock the right mix of, for example, local and foreign associations in brand management, will reap rewards. Other such priorities include calculations of where to place products on the cost-quality spectrum, and how flexible firms need to be when providing their goods and services. For all of these considerations, knowing how people within the local market perceive your product is crucial when looking to unlock value for the consumer.
“We are excited and very positive about Africa. We are optimists, but we are realistic optimists – our perspective is deliberately a glass half full, rather than a half empty one. This is mainly because we believe that it takes a positive mindset to succeed in Africa. If you set out expecting difficulty and risk, you will find it. However, ours is not a point of view informed by anecdotes and wishful thinking – the numbers speak for themselves.”

Ajen Sita, CEO, Ernst & Young Africa
Conclusion

The size, diversity and inherent complexity of doing business across the continent will continue to test even the best-laid corporate strategies for growth in Africa. Yet the rewards to be had are very real, and African governments and communities will continue to welcome responsible and committed investment.

Indeed, the same issues that are often cited as barriers to greater interest or success could prove to be those that, especially over time, create scope for realizing strategic growth aims. Greater regional integration and infrastructure development hold the prospect of a more connected continent, while the paucity of data or well-developed services is a situation that forces companies to think for themselves and decide what key performance indicators matter, or not, to their own performance and outlook.

Within an overall context of strategic flexibility, the five P’s framework we have outlined in this report is intended to assist in supporting decisions on, and responses to, the factors that we believe are most critical to effective strategy execution in Africa. This is not offered as a recipe for success - there is clearly no such thing. However, through our experience and observations, these factors are most consistently evident in strategies that have been successfully (and sustainably) executed over time in Africa.
Ernst & Young Africa

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

To further support our activity on the continent and in strategy co-development with businesses, the Growing Beyond Borders™ software is an Ernst & Young developed and owned software that visually maps data through the lens of the world’s geography, in a highly intuitive manner. It helps to navigate the challenges and opportunities in doing business across the globe. Publicly available data, as well as our own surveys, are depicted in heat maps, competitive footprint views and comparison tables across the map, to help companies make business decisions and grow beyond their current borders.

Africa Business Center™

Although the risks in investing in Africa may appear high, risk can be managed, and the rewards can be great. That is why we are investing in growing our integrated Africa presence and capacity to serve our clients who are also investing in and across the continent.

We now enjoy an integrated representation in 33 countries across Africa, described in the media as “one of the biggest changes in the accounting profession in more than 100 years.”

Today, we are able to navigate successfully through the complexity that our clients are experiencing across the geographies, and the diversity of market sizes and sophistication.

We do this through our Africa Business Center™: Its sole purpose is to assist clients in making their investment and expansion decisions in Africa.

Our Africa integration benefits our clients through:

- A network of people across Africa and the rest of the world, enabling us to coordinate our resources to provide clients with a single point of contact
- Pre-eminent thought leadership and events such as the Africa Attractiveness Survey and Growing Beyond series
- The unique Growing Beyond Borders™ software – an interactive map-based tool that visually maps data through the lens of the continent’s geography
- A proven methodology for supporting the development of growth strategies for Africa

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Our Africa footprint

- 163 years in Africa
- 5 integrated operating models
- 33 countries
- 263 African executive partners
- 5100 staff

Ernst & Young office
- No Ernst & Young office, but support available
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Invest in Africa is a partnership of companies successfully operating in Africa, that have come together to challenge the misconceptions around doing business in the region, by demonstrating Africa as a credible business destination.

By driving more sustainable investment into the continent and fostering partnerships with local firms, Invest in Africa is working to improve the business environment, support enterprise and provide a leading platform for the private sector in Africa.

Launched in 2012 by Tullow Oil Plc, Invest in Africa is also collaborated with Ernst & Young, and agribusiness and infrastructure provider Lonrho Plc. These and future founding partners are bound together by a code of conduct that outlines their shared vision and belief in sustainable investment, that delivers jobs and ensures the transfer of knowledge and skills to local firms.

Companies already operating in the region are overwhelmingly positive about Africa’s potential, but those without a presence on the continent are surprisingly pessimistic. By harnessing the first-hand experience of its partners, Invest in Africa works to tackle this gap between the perception and reality of doing business in Africa, by demystifying the investment process and creating new partnerships that drive both business growth and wider development. In 2013, our focus will be on launching the following initiatives:

- **Developing local content capacity**
  Working with other investors, indigenous firms, local communities and governments to improve the quality and quantity of local suppliers – particularly around transparency, sustainability and the credibility of anti-bribery and corruption measures. This will be delivered through the “African Partner Pool.”

- **Commitment to sustainable investment**
  Bringing together firms who already work in Africa and have a shared belief in the long-term positive impact of driving greater sustainable investment within the economies in which they operate – delivering jobs, growth and economic diversification. This will be realized through our Sustainable Investment Code of Conduct (SICC).

- **Improving the business environment**
  Coordinating with governments and communities to convert shared investor challenges into opportunities that will improve the business environment, and further demonstrate to the international investment community that Africa is truly “open for business.”

These initiatives will initially be launched in Ghana, followed by Kenya and Uganda. While these are the priority markets, our operations on the continent will grow in parallel with our expanding membership.

There is compelling evidence that investment is the most effective way to create jobs and expand prosperity and opportunity. With the rapid growth of African economies and increasing demand for goods and services, we are convinced there has never been a better time for businesses to invest in Africa.

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