Carlson School of Management and GW-CIBER

Doing business in Sub-Saharan Africa: Why, Where and How

April 22\textsuperscript{nd} 2015
Outline

► Why Sub-Saharan Africa?

► How to execute growth in Sub-Saharan Africa?

► Where to execute growth in Sub-Saharan Africa?
Why Sub-Saharan Africa?
Why Sub-Saharan Africa?

► Africa’s rise is real
  SSA GDP nearly quadrupled in a decade

► Africa’s growth is set to continue
  One of the highest GDP growth regions over the next 5 years

► Africa’s growth is diverse
  Increasingly driven by a rapidly urbanizing, growing consumer class

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<thead>
<tr>
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<th>2003-07</th>
<th>2013</th>
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<tbody>
<tr>
<td>Technology, media &amp; telecom</td>
<td>14%</td>
<td>20%</td>
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<tr>
<td>Retail &amp; consumer products</td>
<td>12%</td>
<td>17%</td>
</tr>
<tr>
<td>Financial services</td>
<td>12%</td>
<td>15%</td>
</tr>
<tr>
<td>Business services</td>
<td>6%</td>
<td>12%</td>
</tr>
<tr>
<td>Metals &amp; mining</td>
<td>13%</td>
<td>2%</td>
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<tr>
<td>Coal, oil &amp; natural gas</td>
<td>11%</td>
<td>3%</td>
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Share of extractive sectors in FDI projects in Africa reached an all-time low in 2013.

Source: FDI intelligence

► Sound macro-economic management
► Reforms improving business environment
► Political reform entrenching democracy
► Regional integration and infrastructure investment
► Mobile technology and growing internet access a catalyst for further growth
► Demographic dividend
► Steady progress in human development indicators
Why Sub-Saharan Africa?

► Africa increasingly attractive
   *Second only to North America*
   
   Improvement in Africa’s relative attractiveness

   - 2011: 1
   - 2012: 2
   - 2013: 1
   - 2014: 1

   Source: EY’s 2014 Africa attractiveness survey (total respondents: 653)

► SSA share of FDI rises
   *Shift in momentum since 2007*

   Share of SSA in FDI projects in Africa reached an all-time high in 2013.

   - 2007: 52%
   - 2009: 65%
   - 2011: 75%
   - 2013: 83%

► Intra-African investment grows
   *Africans demonstrate confidence in their continent*

   Share of intra-African projects in the continent reached an all-time high in 2013.

   - 2007: 8%
   - 2009: 16%
   - 2011: 17%
   - 2013: 23%

► Urban hubs and clusters
   *Emerging investment hotspots*
Renewed interest in Africa from US investors
US-Africa Leaders Summit, August 2014 - $33b potential financing

New investments proposed by major US companies in Africa include:

► US$5 billion PE partnership between Blackstone and Dangote Group for investment in energy infrastructure projects across Sub-Saharan Africa
► US$5 billion PE venture between Carlyle and Dangote Group to invest in Nigerian oil and gas ventures and other sub-Saharan projects
► US$5 billion investment commitment by Coca-Cola up to 2020
► US$2 billion investment proposal by General Electric for new plant development and skills training
► US$2 billion of additional investment proposed by IBM

“...we kind of gave Africa to the Europeans first and to the Chinese later but today its wide open for us.” – Jeff Immelt, CEO of General Electric

“The great explosion in private equity if it is going to occur anywhere in the world in the next couple of years, is probably going to be in Africa, particularly sub-Saharan Africa” – David Rubenstein, CEO of The Carlyle Group
But perceptions about Africa remain...

Africa is the most attractive destination in the world

Respondents established in Africa

 Respondents not established in Africa

Africa is the least attractive destination in the world

Source: EY’s 2014 Africa attractiveness survey (total respondents: 503)
Africa is not a country…
Africa is an inherently complex and challenging environment

The sheer **size** and **complexity** of the continent, combined with the relative underdevelopment of many of its markets, makes Africa and inherently **challenging** place to do business

- Land mass greater than USA, Europe, China and India combined
- 54 sovereign states with different regulatory regimes
- Over 2000 languages and diverse cultural dynamics
- Few individual markets provide scale to be commercially attractive in themselves
- Inadequate infrastructure in many markets

Source: Kai Krause
Africa has real challenges
Structural and external issues

**Structural challenges:**
- Harnessing the demography
- Improving productivity
- Inclusive growth
- Strengthening health systems
- Infrastructure development
- Regional integration

**External challenges:**
- End of the commodity super-cycle
- Insurgency and conflict
- Exchange rate volatility
- Slowing growth in China
Africa is diverse
No ‘one size fits all’ approach

► Perception of risk is often overstated
► BRIC countries can be more risky or more difficult than many important African markets
► 16 African countries rank ahead of India on the World Bank’s Ease of Doing Business Index
► 20 African countries rank ahead of China on the World Bank’s Strength of Investor Protection Index
► 22 African countries rank ahead of Brazil on the WEF Quality of Overall Infrastructure Index
► 34 African countries rank better than Russia in terms of Transparency International’s Corruption Perception Index
How to execute growth in SSA?
“If you go through the high grass where the elephant has already gone through, you do not get soaked with the dew.”

– African proverb
Lessons from growth leaders
Growth leaders entrenching their advantage

► Include some of the largest and most admired companies in the world as well as several home-grown African multinationals

► Investing in new opportunities, creating jobs and executing growth strategies in Africa

► Embracing Africa’s uncertainty, complexity and volatility, understanding that these are common challenges across most emerging markets

► Establishing strong competitive positions in key markets and poised to benefit from the anticipated growth over the next decade

► What can we learn from them?
Lessons from growth leaders
EY’s 7P’s model for effective strategy execution in Africa

Source: EY; Africa Business Center™.
Where to execute growth in SSA?
Choosing where to grow in SSA

Source: EY; Africa Business Center™
Choosing where to grow in SSA
It depends…

► Purpose
  ► What’s driving our interest in Africa?
  ► What are our core capabilities and how can we leverage them in these countries?
  ► What is our unique value proposition that will be the basis of our competitive positioning?

► Planning
  ► Have we done a thorough analysis of opportunities and risks?
  ► Have we spent meaningful time on the ground in markets we are considering entering?
  ► What are our non-negotiable business principles, policies and processes – and where can we be flexible?

► Portfolio
  ► Have we identified a portfolio of countries that spreads risk and balances revenue/profit generation with growth potential?
  ► Can we be No.1 or 2 in the markets we choose to enter?
  ► Can our portfolio provide enough critical mass to generate financial results that matter?
Choosing where to grow in SSA
8 countries of focus

These 8 countries represent:
- 73% of SSA GDP
- 53% of SSA population

Source: Oxford Economics
Choosing where to grow in SSA
Some macro opportunity lenses…

Sources: Oxford Economics; EY Growing Beyond Borders
Choosing where to grow in SSA
A composite view…

Population, GDP per capita, and GDP Growth (Equally weighted)

Population, GDP per capita, and GDP Growth (Weighted towards GDP growth)

Source: EY Growing Beyond Borders
Choosing where to grow in SSA
Looking deeper… what is important to my business?

Choosing where to grow in SSA
A composite view…

Urban Population, Quality of Infrastructure and Labor relations (Equally weighted)

Urban Population, Quality of Infrastructure and Labor relations (Weighted towards Urban Population)

Source: EY Growing Beyond Borders
Choosing where to grow in SSA
Some macro risk lenses…

Perception of Corruption
Ease of Doing Business
Strength of investor protection

Source: Transparency International, World Bank
Choosing where to grow in SSA
Bringing it all together…

Composite of all 9 factors examined (Equally weighted)

Composite of all 9 factors examined (Weighted towards GDP Growth forecast)

Source: EY Growing Beyond Borders
Conclusion
Purpose, Portfolio and Planning

► Your PURPOSE will determine what factors are important in making choices about your PORTFOLIO

► The rest of the day provides an opportunity to drill deeper into the specifics of each country as part of your PLANNING process

► The Trade winds program later in the year provides the opportunity to get on the ground and see the reality for yourself – a critical part of the PLANNING process
“The best time to plant a tree is twenty years ago. The second best time is now.”

— African proverb
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