The Economist Corporate Network

Dampened growth, resilient optimism
2016 African Business Outlook Survey

Preface Page

Dampened growth, resilient optimism is an Economist Corporate Network (ECN) report. It is based on a survey of 120 executives with responsibility for Africa-based commercial operations. The ECN performed the research and wrote the report independently. Herman Warren, ECN Africa Director, was the author of the report. Edwyn Mayhew was responsible for design.

Special thanks are extended to all survey respondents.

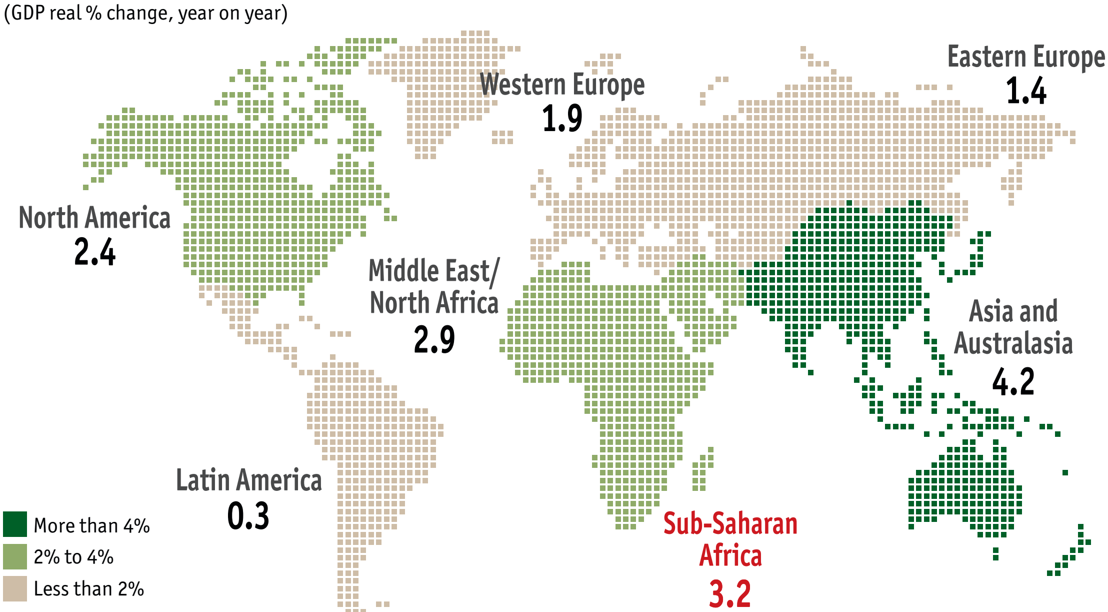
March 2016

Contents

Executive summary

Sub-Saharan Africa remains one of the world's fastest-growing regions. In 2016, despite economic headwinds of soft commodity prices, US monetary tightening, El Niño-induced drought, infrastructure deficits, terrorist threats and political unrest in some countries, seven of the world's fastest-growing economies will be in Africa. Although a deceleration from previous years, at 3.2% the region's GDP growth will still be the world's second fastest, behind only Asia.

World economic growth, 2016
(GDP real % change, year on year)



Source: The Economist Intelligence Unit.

The commercial operating conditions, in many ways more difficult than the context that informed the *2015 African Business Outlook Survey, Africa is the horizon*, present a challenging array of factors that Africa-based executives must navigate in order to grow and maintain their firms' operations.

The Economist Corporate Network (ECN) surveyed over 120 Africa-based executives for the 2016

African Business Outlook Survey. Their responses indicated that Africa continued to feature in their firms' growth and investment plans. But they are also realistic about the challenges they face, which, in many ways are more severe than at the time of our 2015 survey. In particular, they cited issues such as bureaucracy, corruption, difficult regulatory environments and infrastructure deficits. Some respondents indicated that these and other issues were concerning enough for their firms to reconsider operating at all in certain African jurisdictions within the next two years.

Nonetheless, respondents, in the main, reported that business in the region was worth doing. The majority (69%) indicated that profit margins were the same or higher than their firms' global averages. Well over 50% of respondents reported that their firms' expectations of growth were realistic. However, around 47% cited their firms' level of investment to be too low to achieve targeted growth expectations.

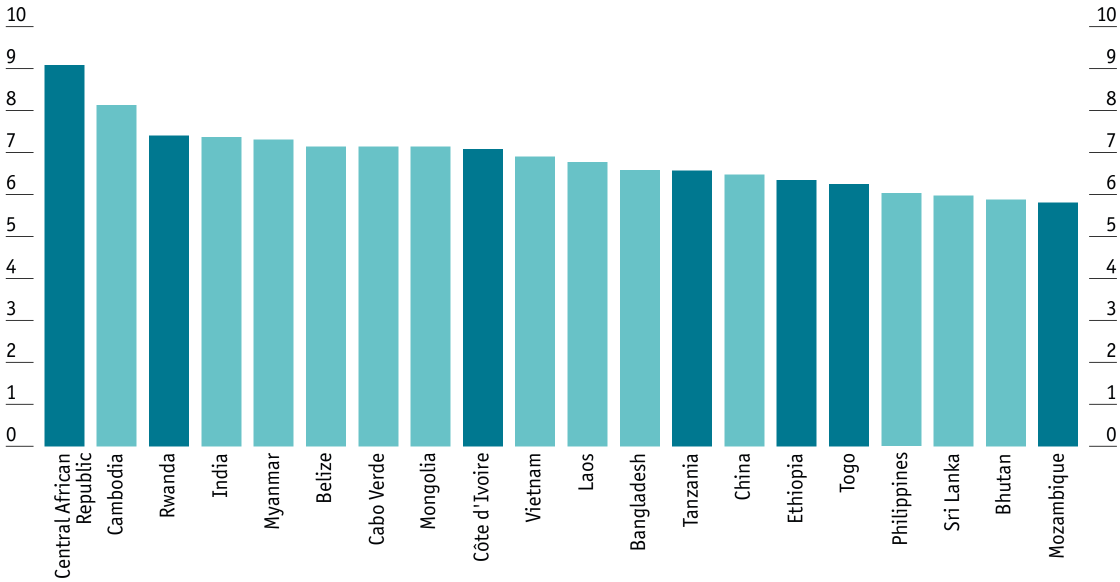
Respondents reported that their firms' growth and investment expectations are weighted to East, West and Southern Africa. Executives indicated that their top three markets in 2015—South Africa, Nigeria and Kenya—would remain their key markets for at least the next six years. However, they anticipated that Nigeria would surpass South Africa as the top market by 2021. Given the near-term challenges faced in South Africa and Nigeria, the executives' ranking suggested that they are looking through the current economic cycle, as well as seeing the commercial importance placed of Sub-Saharan Africa's two largest economies.

Economic growth in Sub-Saharan Africa may have slowed relative to recent rates, but the resilience of many of the region's economies and the still-favourable medium-to-long-term prospects for business suggest the region cannot be ignored.

It is clear from the executives' input that Africa-based operations are expected to play an increasingly important role in the revenue, profitability and investment mix of their firms in the years ahead.

The regional economic context

World's 20 fastest-growing economies, 2016
(% growth in GDP)



Source: The Economist Intelligence Unit.

Seven Sub-Saharan African countries feature among the economies expected to grow the fastest in 2016. Their inclusion in this cohort of fast-growing economies points to the prospects of the African region overall, even though their number is a slight decline on the nine countries that featured in the top 20 in 2015.

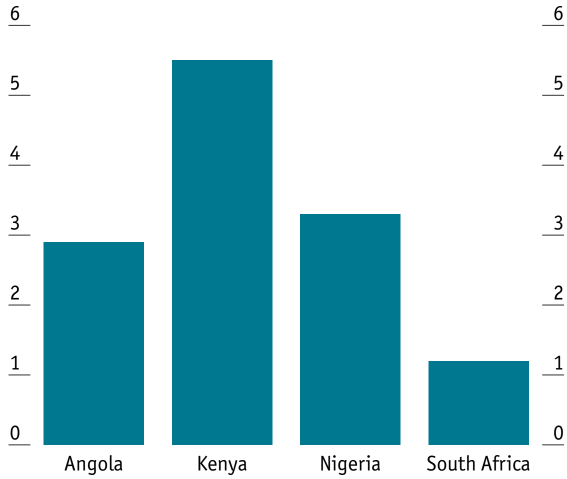
However, some of the shine has come off the growth story. In the words of Mo Shaik, an international finance executive at the Development Bank of Southern Africa, a South African state-owned bank specialising in economic and social infrastructure finance: "The Africa rising story is going to right size a little."

At the time of the publishing of the 2015 African Business Outlook Survey, the Economist Intelligence Unit (EIU) expected Sub-Saharan Africa to grow by 4.5%.

Fast-forward to early 2016, and the EIU forecasts a deceleration in growth to 3.2%, still rapid by global standards, but well down on recent years.

Four economies in Sub-Saharan Africa contribute around three-quarters of the region's GDP: Nigeria, South Africa, Angola and Kenya. Among these four there are only two—Kenya and Nigeria—with economies that are expected to grow faster than the 2016 Sub-Saharan average of 3.2%.

Large Sub-Saharan African economies' GDP growth rates, 2016
(% growth in GDP)

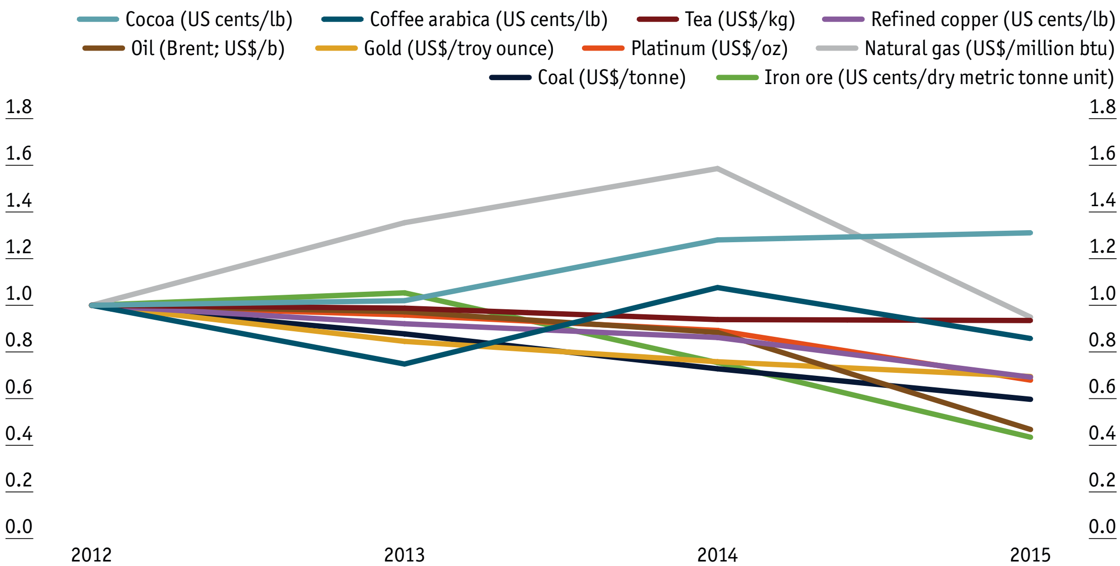


Source: The Economist Intelligence Unit.

Headwinds: Contributing factors to slower growth

Subdued commodity prices

Commodity Price Index 2012-15



Source: The Economist Intelligence Unit.

Most Sub-Saharan African countries rely on commodity exports for a significant share of their foreign-exchange revenue and to fund government expenditure.

But the commodity super cycle that fueled the region's growth in recent years appears to be over.

China has historically been a major consumer of the region's commodity exports, but that country's shift away from an investment-led growth model to one based on private consumption is resulting in its tertiary sector being a primary driver of its economic activity. In addition, tepid economic growth in Europe and Japan, as well as the US turning into a net exporter of oil, among other reasons, has dampened the demand for a range of commodities.

Across the basket of commodities analysed by ECN (see chart above), only cocoa showed compound annual growth in 2012-15 in its US-currency price. The US-currency price of the other commodities analysed declined on average per year by 12%.

Oil, an important export commodity to a number of African countries, is significantly off its early 2015 price levels. The EIU forecasts that the oil (Brent) price will average around US$57/b over the next two years. This compares with around US$100/b as recently as 2014. The lower market price of crude is putting significant pressure on the public finances of Angola and Nigeria, for example.

Nigeria: Crude choices

Nigeria came through 2015 with a successful national election under its belt, and for the first time in that country's history an incumbent president, Goodluck Jonathan, was removed peacefully via the ballot box. Muhammadu Buhari was elected as president of Nigeria last year with an overwhelming majority. Expectations of Mr Buhari have been high, with many Nigerians pinning a large part of their hopes for material improvement on his administration.

The price of oil, however, looms large in Mr Buhari's ability to fund and deliver on his election promises. The Nigerian economy is resilient and diverse; nonetheless, oil has historically accounted for 90% of foreign-exchange earnings and funded around 70% of the government's budget.

Nigeria's economy grew by less than 3% in 2015 and is forecast to grow by around 3.2% in 2016. These rates of growth are significantly lower than the average 6.8% growth rate in the decade to 2014.

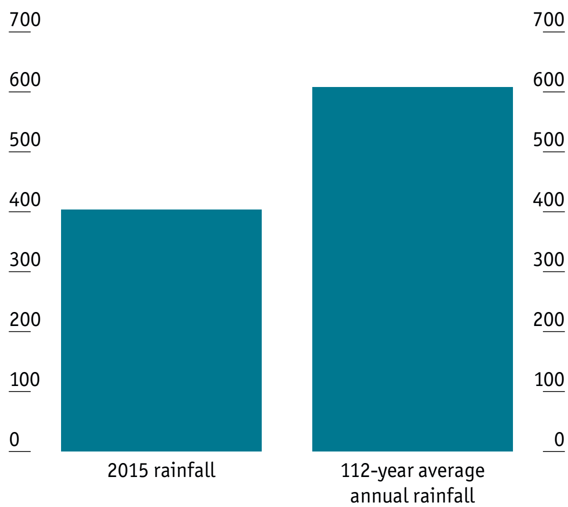
Given the prominent role oil plays in financing government's budget spending, the mounting pressures on the current-account balance and the poor short-term price outlook for the commodity, Nigeria approached the World Bank and African Development Bank for US$3.5bn in emergency loans in January 2016.

El Niño, a minor that's major

"Niño" is the Spanish word for a minor. It is also a word associated with a weather pattern that occurs every few years and alters the normal weather pattern of the tropics: El Niño.

The result of an El Niño may trigger increased rainfall in some areas, for example resulting in flooding. In other areas the weather pattern may result in drier conditions, producing droughts. The El Niño currently impacting on the tropics is resulting in vast swathes of Southern Africa experiencing the latter. South Africa, for example, will have to import one-half of its average maize crop, after 2015 was the driest year in over a century.

Annual rainfall in South Africa
(mm of precipitation)

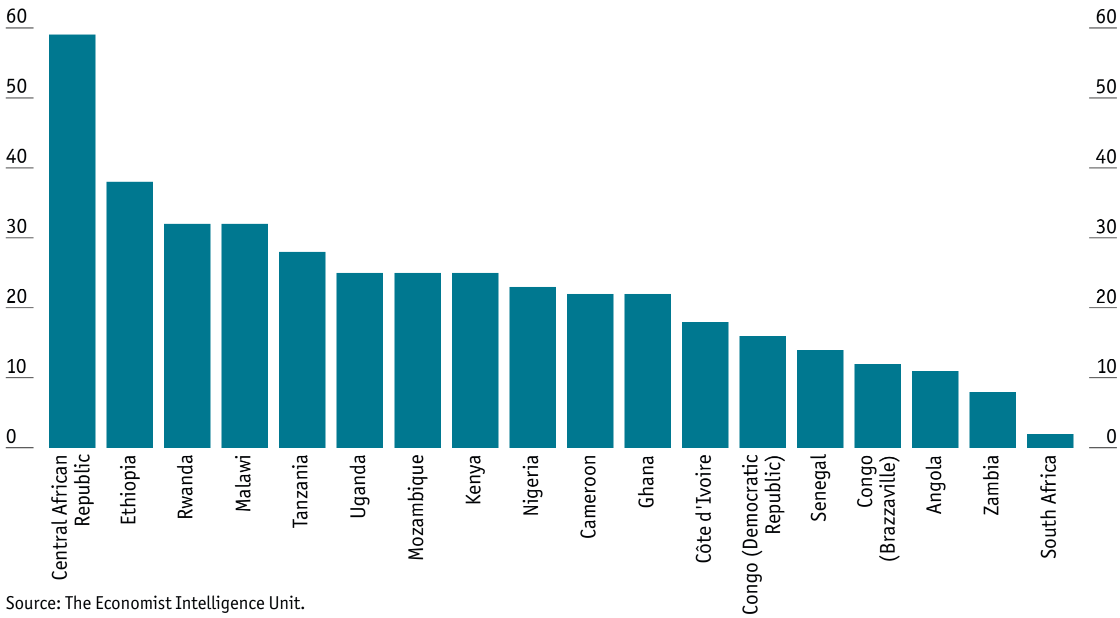


Source: South African Weather Service.

The drier conditions are also creating havoc in a number of South Africa's neighbours. Water levels in Zimbabwe and Zambia are so low that hydroelectric plants are generating far below their design capacity and thus requiring regular and lengthy periods of load shedding.

The weather pattern with "minor" in its name is having a major impact within and across countries in the region.

Agriculture's contribution to GDP
(% of GDP)



Source: The Economist Intelligence Unit.

Given the high level of agriculture's contribution to GDP across a number of Sub-Saharan African countries, including some of the larger economies, the impact of El Niño and lower commodity prices are having a negative impact on economic growth in the region.

South Africa faces headwinds

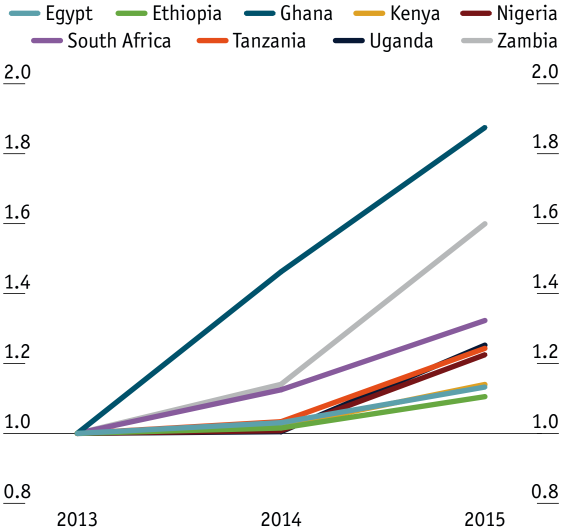
The South African economy is the most diversified and sophisticated in Sub-Saharan Africa. The country's economy is also the second largest in the region. Nonetheless, while its regional neighbours have managed high single-digit growth over the last decade or so, South Africa has not been able to emulate their performance. South Africa has been caught in a low-growth trap for much of the last decade. Between 2009 and 2014 the country's GDP growth vacillated between -1.5% and 3%.

The prevailing drought, stubborn structural unemployment, lower commodity prices, slow economic growth, lower-than-anticipated tax revenue, inflationary pressures eroding consumers' purchasing power, an increasing burden on the public purse and potential downgrades to the country's credit rating present the ruling African National Congress (ANC) with a range of choices that may be unpopular at anytime but particularly in a year where local elections are scheduled.

US monetary policy

A number of Sub-Saharan African currencies have been hit hard not only by softer commodity prices, but also by currency weakness as concerns about emerging-market growth prospects and tighter monetary policy in the US draw capital away from the region to the US in particular. This "flight to quality" is also raising the cost of borrowing for many emerging markets, including those in Sub-Saharan Africa.

Local currency: US$ index 2013-15
(2013=1)



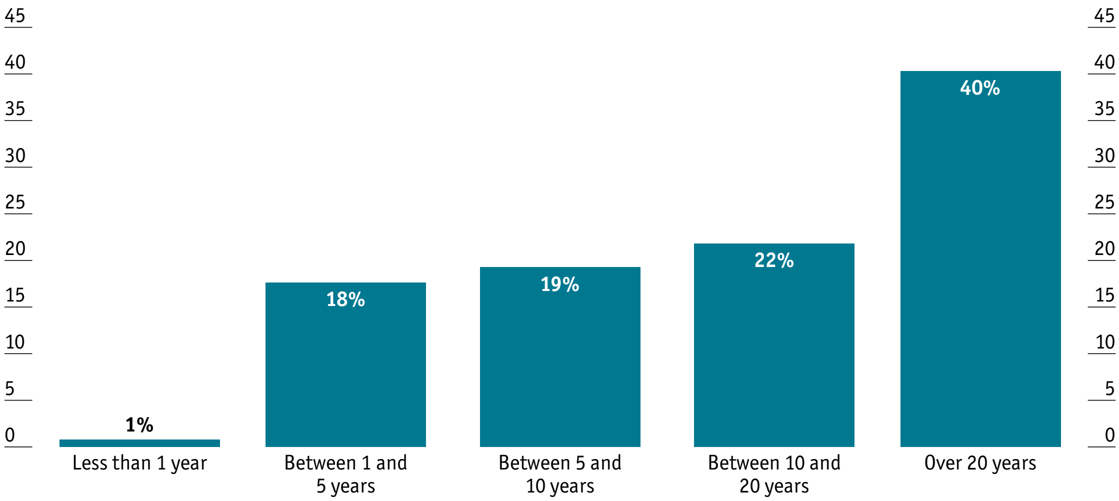
Source: The Economist Intelligence Unit.

Resilience in the face of adversity

Despite the challenging economic environment, one should not lose sight of the fact that Sub-Saharan Africa is still growing and doing so at a considerably faster pace than most of the world's other economic regions. Moreover, the region's above-average rates of growth are anticipated to continue in the medium term as infrastructure improves, cities expand, the middle-class population grows and many countries move up the value chain in terms of agriculture and industry. All this underscores the resilience and increasing diversification of the region's economies.

Assessing revenue and profitability

How long has your firm been operating in Africa?
(% of respondents)

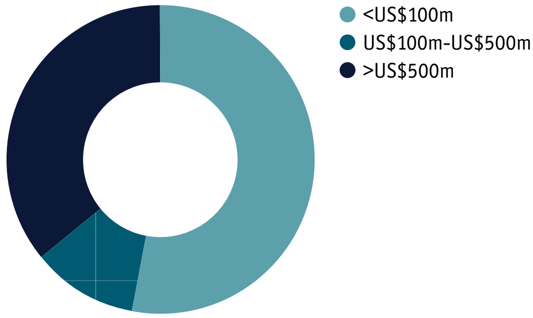


Source: 2016 African Business Outlook Survey.

Over 62% of respondents indicated that their organisations have been operating in Africa for over ten years. Less than 1% of respondents indicated that their firms have operated in Africa for less than a year. However, around 18% indicated that their firms have operated in Africa for between one and five years.

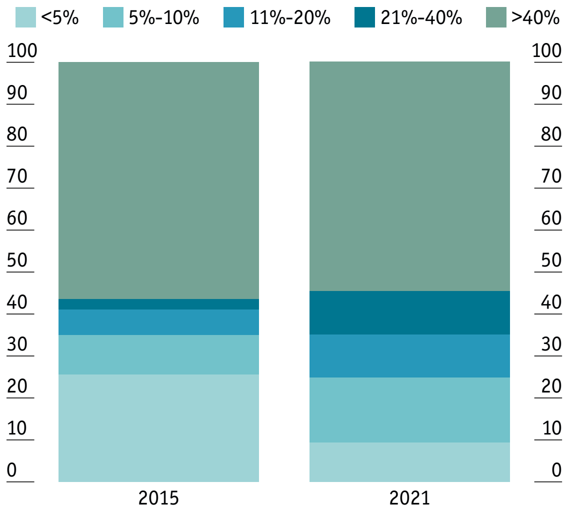
Revenue profile

Size of firms
(% of respondents)



Source: 2016 African Business Outlook Survey.

What percentage of your firm's global revenues come from Africa? 2015 vs. 2021
(% of respondents)



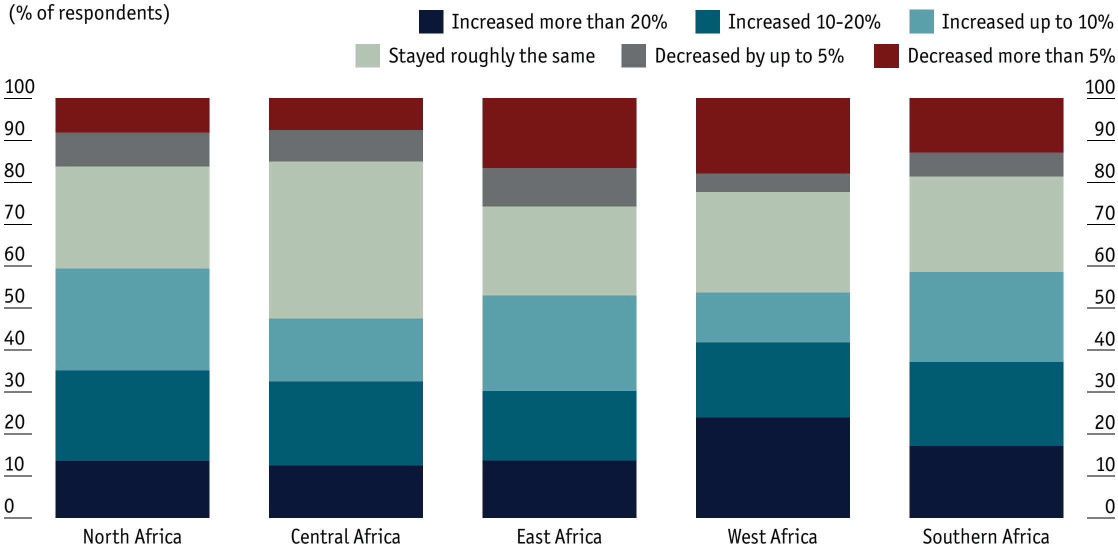
Source: 2016 African Business Outlook Survey.

Around one-half of the respondents reported that their organisations had revenue in 2015 of at least US$100m. The majority of these respondents' firms had revenue greater than US$500m.

Firm size informs, to a degree, the percentage of Africa-sourced revenue: smaller firms tend to have a higher percentage of revenue sourced in the region. Notwithstanding, in 2015-21, respondents expected a significant increase in Africa-sourced revenue. Respondents reported the largest increases would occur in the categories between 5% to 40% of total revenue sourced from the region. Within these categories, executives reported the highest expected increase in the category of 21%-40%, which is anticipated to grow around fourfold from 2.6% to 10.3%.

2015 revenue performance

How did your sales in Africa perform relative to 2014?
(% of respondents)

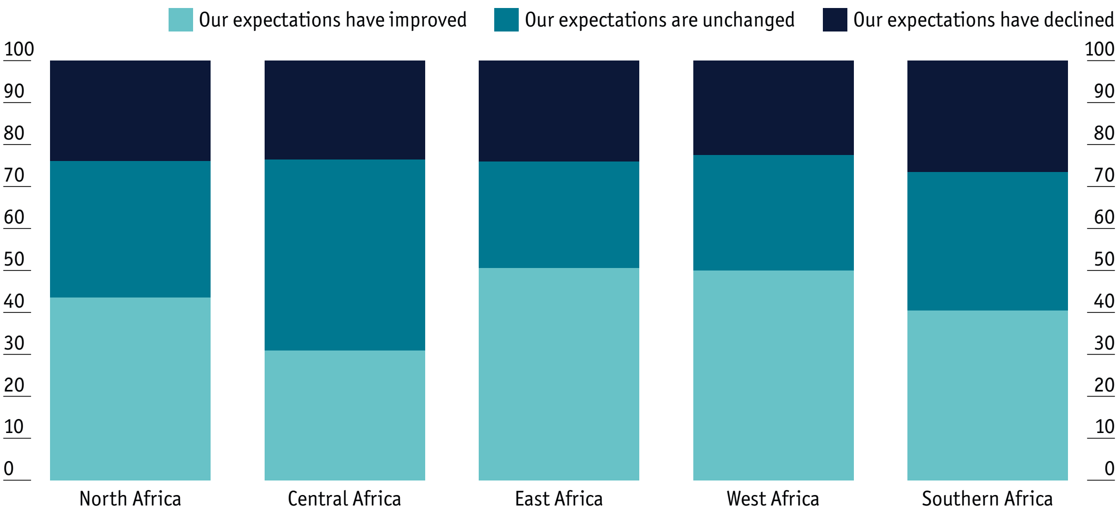


Source: 2016 African Business Outlook Survey.

Across regions, the majority indicated that their firms achieved year-on-year sales growth. Executives reported that their firms' operations in West and Southern Africa achieved the highest percentage of sales growth above 10% relative to the other regions. Ironically, respondents indicated that their firms' West Africa operations also had the second-largest percentage of flat to declining year-on-year sales. Unlike what was reported in the 2015 survey, respondents' North Africa-based operations experienced the highest percentage of growth in year-on-year sales and the lowest percentage of sales decreases over the period.

2016: How have firms' revenue changed?

Over the past year, have your firm's expectations for revenue growth in Africa improved, declined or stayed the same?
(% of respondents)



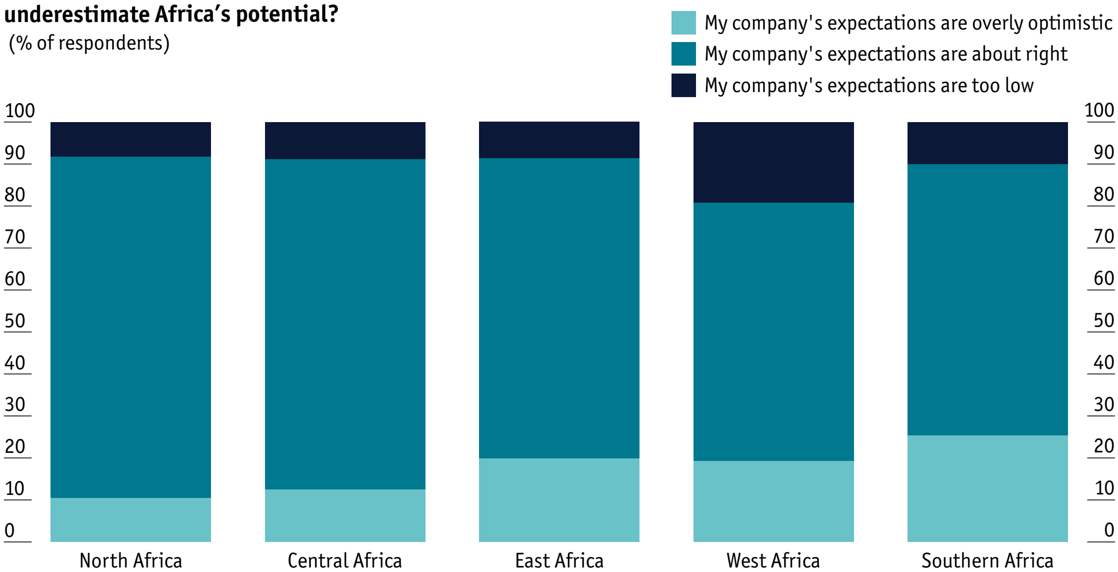
Source: 2016 African Business Outlook Survey.

Around three-quarters of respondents indicated that their firms' revenue growth expectations have either improved or remain unchanged. On a regional basis, executives reported that they expected their firms' Southern African operations to have the highest level of declining expectations for revenue growth: around 27% versus an average of around 24% across the other regions.

Realistic 2016 expectations?

On average around three-quarters of executives reported that their firms' regional expectations for growth are about right. However, there is some divergence by region. For West Africa, executives were evenly split between the 19% that indicated that their company's expectations were too low and the 19% that indicated their company's expectations were too optimistic. While around two-thirds of executives reporting on Southern Africa indicated that their firms' expectations were about right, and one-quarter of executives indicated that their firms' expectations for this region were overly optimistic. Most executives (72%) reported their firms' expectations in East Africa were about right.

In your opinion, are your firm's expectations for growth in Africa over-optimistic, about right, or do they underestimate Africa's potential?
(% of respondents)



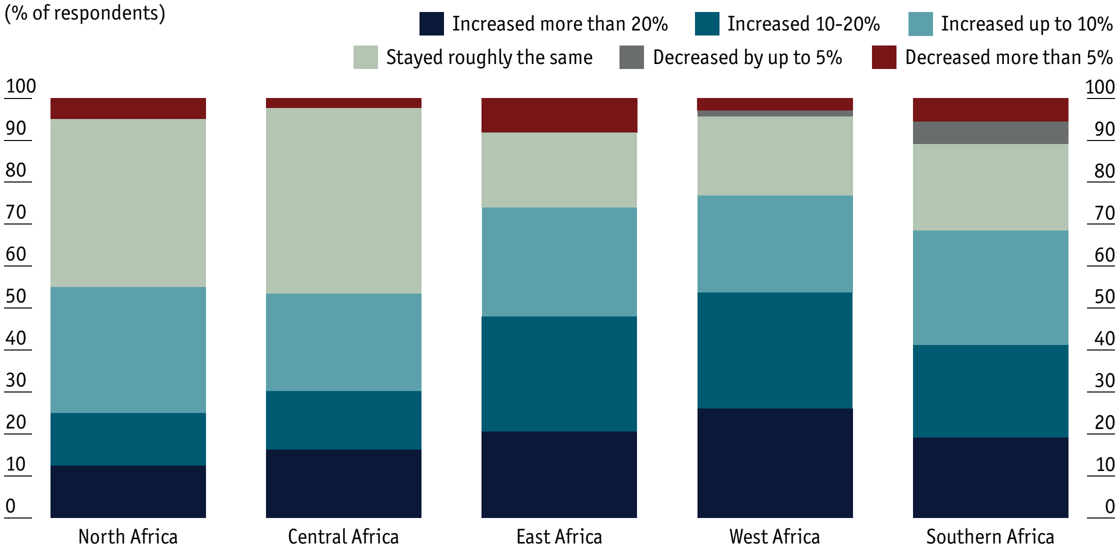
Source: 2016 African Business Outlook Survey.

However, one out of five, indicated that their firms' expectations were overly optimistic.

Around 90% of respondents reported that their firms' expectations in North Africa were about right or too low.

2016: What revenue growth is targeted?

What are you expecting for your Africa sales performance in 2016, relative to 2015?
(% of respondents)



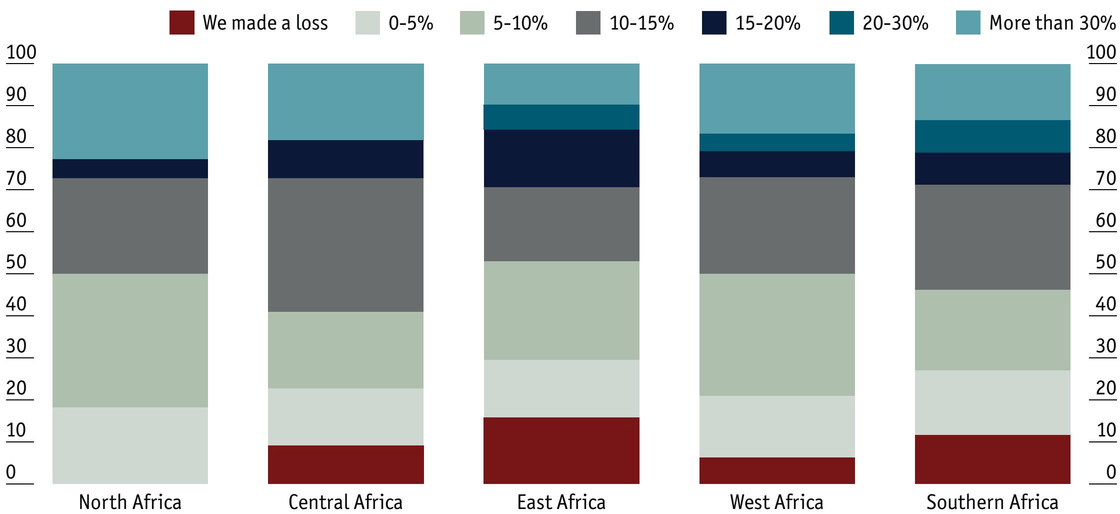
Source: 2016 African Business Outlook Survey.

Executives reported that fewer of their regional operations would experience sales declines in 2016 relative to 2015. Moreover, executives expected the highest sales growth to come from their West, East and Southern Africa-based operations respectively. However, around 40% of the respondents whose firms have North and/or Central Africa-based operations indicated that they expected sales to remain relatively flat.

Profit performance

Sales performance is important, but ultimately profit margins must be sufficient to support commercial viability.

What were your operating profit margins in 2015?
(% of respondents)



Source: 2016 African Business Outlook Survey.

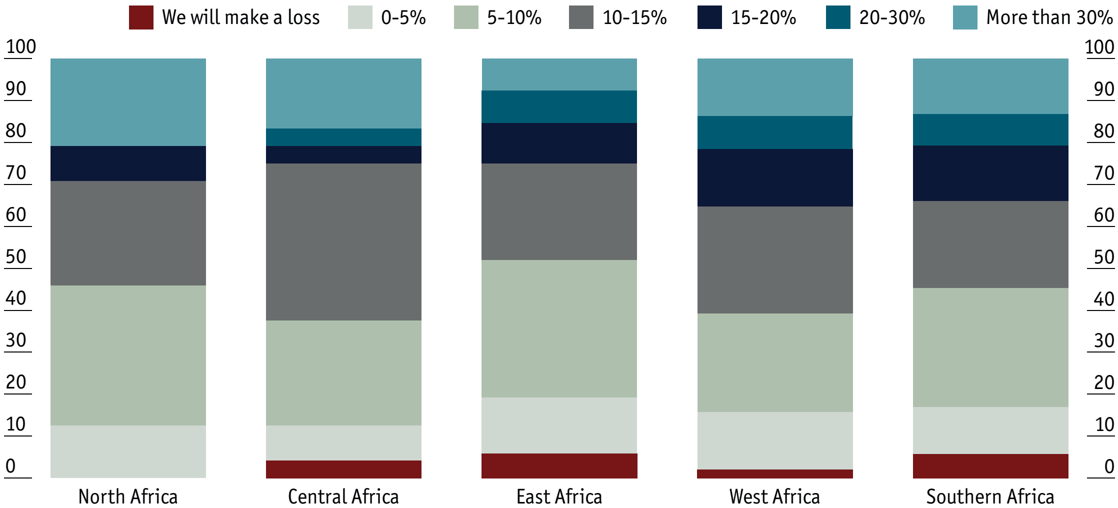
2015 operating margins

The two regions with the highest reported operating margins above 10% were Central and Southern Africa. Well over one-half of respondents for both regions indicated that their firms generated at least a 10% operating margin. North Africa has the highest percentage of operations with a margin above 30%. Around one-quarter of executives whose firms do business in North Africa reported that their operations there generated a margin of at least 30%.

Ironically in view of the weakness of South Africa's economy, executives reported that their firms' Southern Africa-based operations also had one of the highest percentages of marginally profitable and loss-making outcomes in 2015 compared to other African regions.

2016 operating margins

What do you expect your operating margin to be in 2016?
(% of respondents)

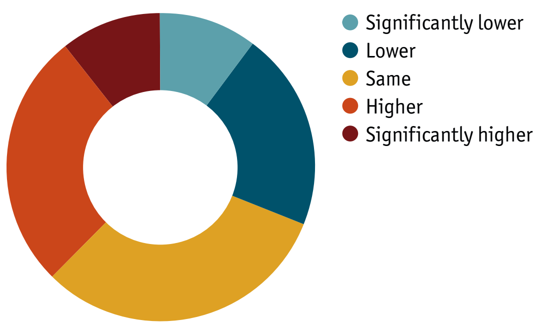


Source: 2016 African Business Outlook Survey.

In 2016, executives expected marginal- and loss-making-business operations to shrink and operating margins above 10% to grow. In 2016, executives reported that Central Africa would have the highest percentage of business operations generating a margin above 10%. Executives expected West Africa-based operations' margins to grow significantly: 50% of executives reported a margin of 10% or more in 2015, and over 60% of executives expected margins at this level or better in 2016.

Africa-based profits versus firm's global average

How do your operating profit margins in Africa compare to your company's global average?
(% of respondents)



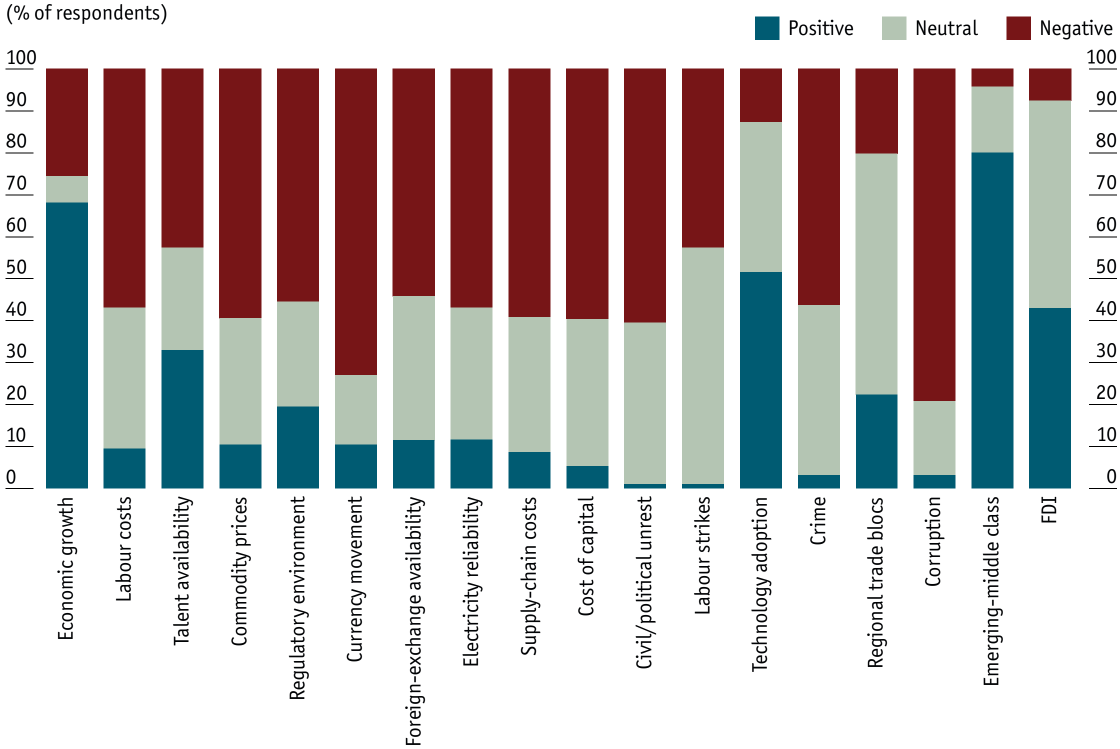
Source: 2016 African Business Outlook Survey.

Notwithstanding the competitive and other challenges of doing business in Africa, the executive's feedback suggests operating commercially is worthwhile.

Around one-third of executives reported that their Africa-based operations' profit margins were at the same level to their firms' global averages. Over 37% of the respondents reported that profit margins were higher or significantly higher than their firms' global averages.

Profit-impacting factors

What impact are changes in these conditions having on your profitability?
(% of respondents)



Source: 2016 African Business Outlook Survey.

Factors that contributed to profitability

Executives were asked to indicate among a number of factors which ones had a positive impact on their firms' Africa-based profitability. Three factors were identified as being overwhelmingly positive:

1. Economic growth
2. Emerging-middle class
3. Technology adoption

Mobile phone subscriptions in Africa, 2014
(cellular subscriptions; m)

Source: International Telecommunications Union.

The infrastructure deficit in Africa is estimated by the World Bank to lower productivity in Africa by 40% and GDP growth by a full 2% per year. Infrastructure gaps are acute across a number of categories that include transportation, water and sanitation and power. A category of infrastructure that has performed exceptionally well is communications.

In 1995, Thabo Mbeki, the then president of South Africa, indicated there were more telephone lines in Manhattan than Sub-Saharan Africa. However, over the last 20 years the build-out of international bandwidth and mobile phone infrastructure have radically improved access to telephony and ICT-based services in Africa.

The International Telecommunications Union reports that mobile phone subscriptions in Africa as at the end of 2014 totaled around 900m, equating to a penetration rate of around 75%.

Moreover, according to TeleGeography, International bandwidth in three of the largest Sub-Saharan African economies–Nigeria, South Africa and Kenya–is expected to grow on average by 530% between 2015 and 2020.

Negative factors that impacted profitability

Eight factors were identified by respondents as having a significantly negative impact on their firms' profitability:

1. Corruption
2. Currency movement
3. Commodity prices
4. Supply-chain costs
5. Labour costs
6. Regulatory
7. Foreign-exchange availability
8. Crime

"Forty out of the region's 46 countries show a serious corruption problem", according to Chantal Uwimana, director for Sub-Saharan Africa at Transparency International, a non-governmental organistion that campaigns against corruption. In addition, three of the bottom ten countries in Transparency International's 2015 Corruption index are from the Middle East and North Africa region.

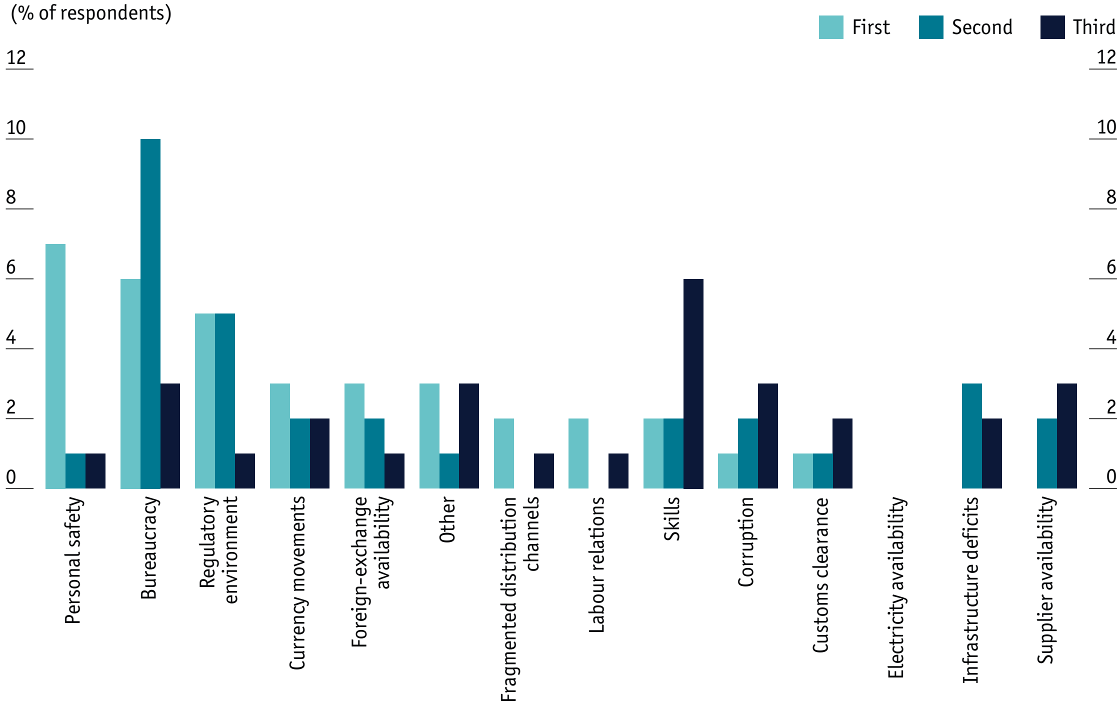
Survey respondents reported that among three Sub-Saharan Africa regions–East, Central and West Africa–corruption ranked among the top two operational challenges.

For North Africa, corruption did not feature as highly relative to personal safety, bureaucracy and the regulatory environment.

The executives who reported operational challenges related to foreign-exchange availability, currency volatility and commodity prices reflect the challenges faced by emerging-market based executives. Last year marked the first time since 1988 where emerging markets suffered from net outflows: US$735bn, according to the Institute of International Finance, a global association for the finance industry.

North Africa

What are your top operational challenges? - North Africa
(% of respondents)

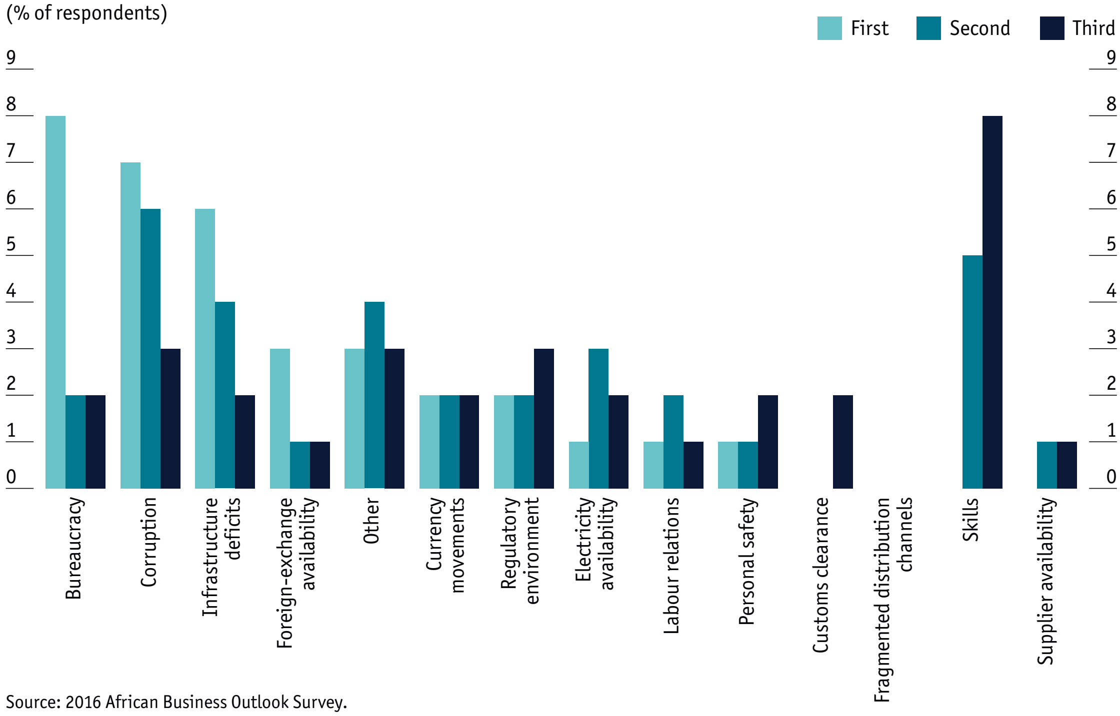


Source: 2016 African Business Outlook Survey.

Personal safety, bureaucracy and the regulatory environment feature highly among the operational challenges highlighted by executives for their firms' North Africa-based operations.

Central Africa

What are your top operational challenges? - Central Africa
(% of respondents)

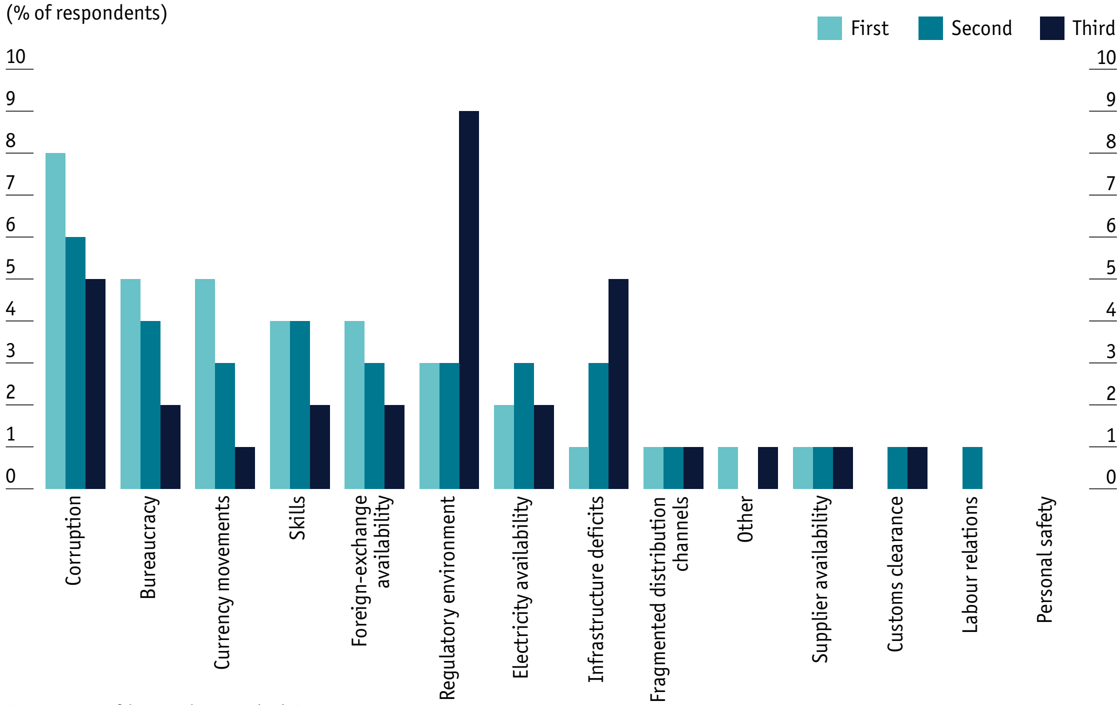


Source: 2016 African Business Outlook Survey.

Corruption and skills availability are two of the standout challenges reported by executives for their Central Africa-based operations.

West Africa

What are your top operational challenges? - West Africa
(% of respondents)

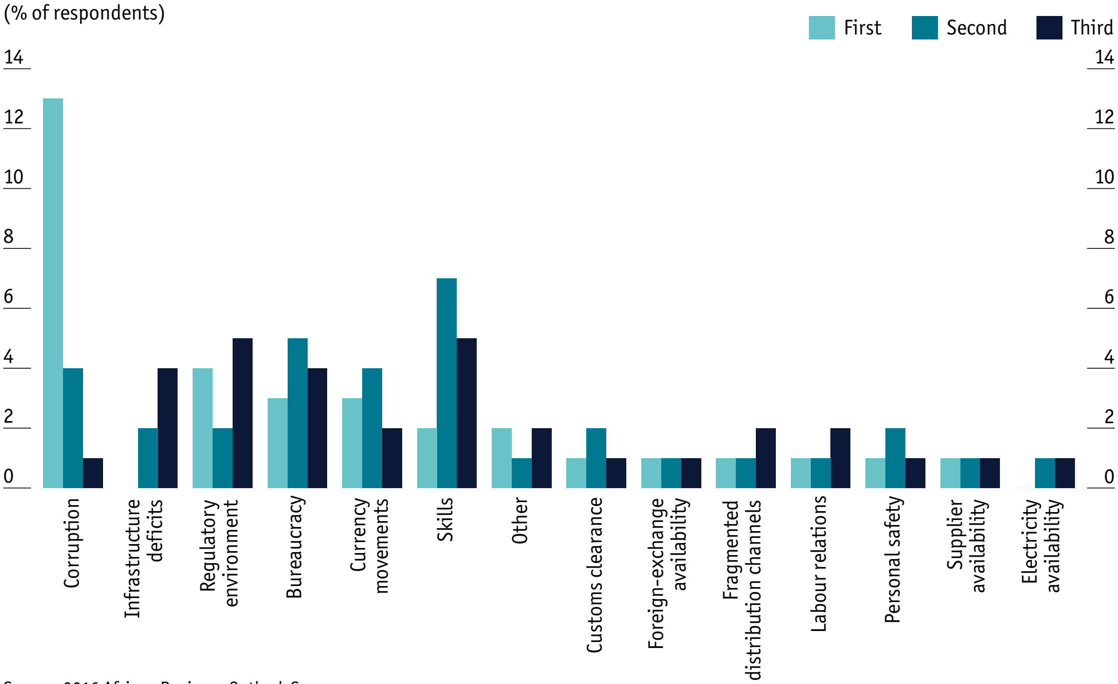


Source: 2016 African Business Outlook Survey.

Corruption, skills, bureaucracy and the regulatory environment were standout factors reported by executives for their West Africa-based operations.

East Africa

What are your top operational challenges? - East Africa
(% of respondents)

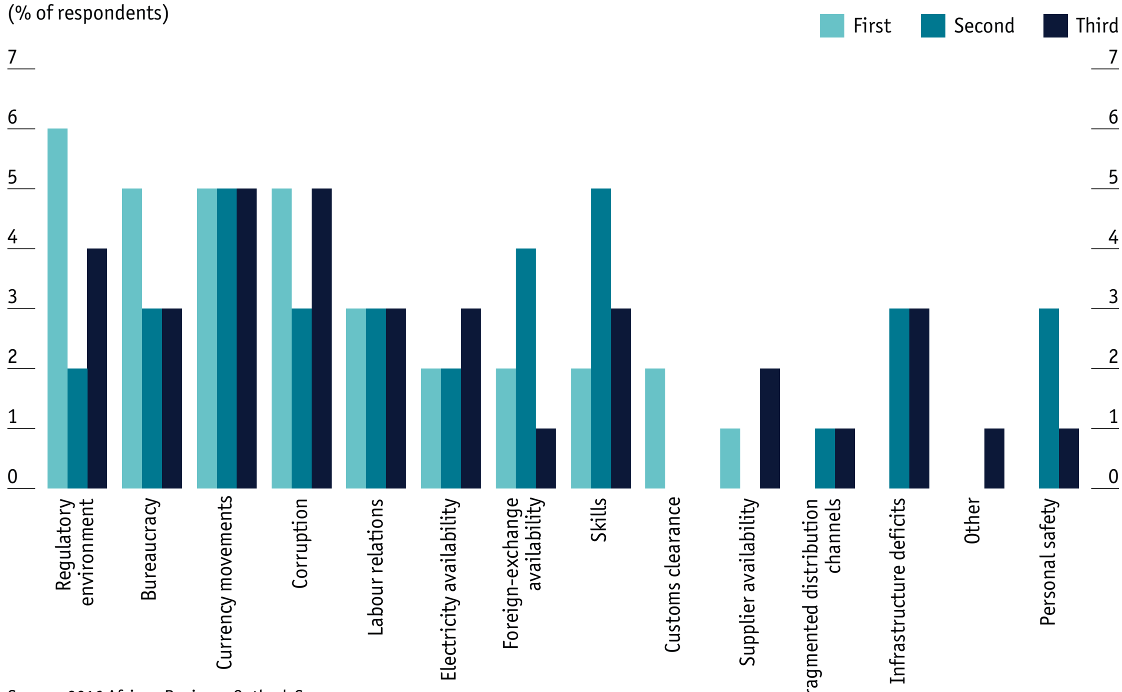


Source: 2016 African Business Outlook Survey.

Corruption and skills availability are two of the most prominent challenges highlighted by executives for their firms' East Africa operations.

Southern Africa

What are your top operational challenges? - Southern Africa
(% of respondents)

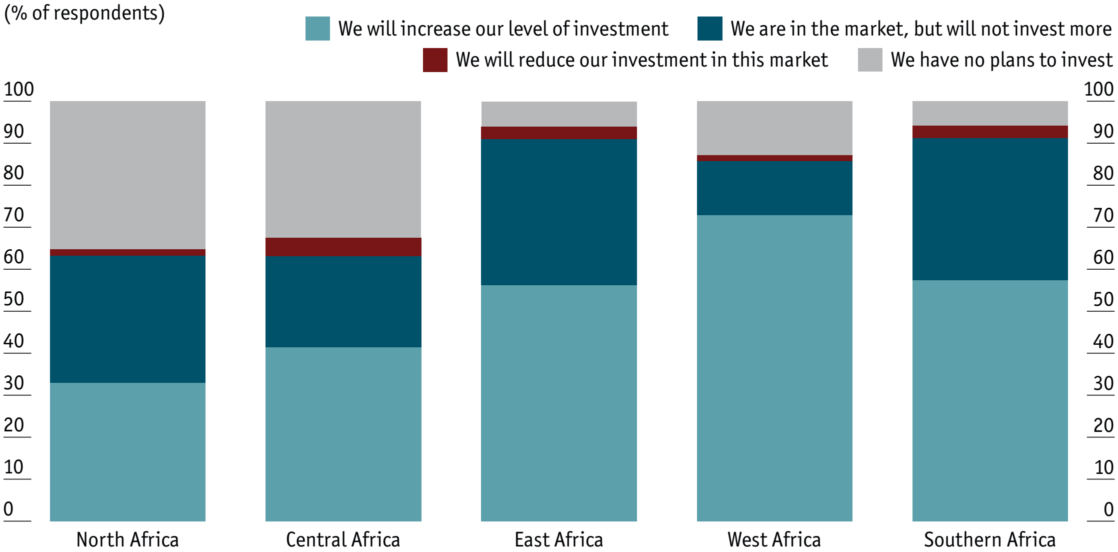


Source: 2016 African Business Outlook Survey.

The regulatory environment, bureaucracy and currency movements feature as the top-three challenges reported by executives for their firms' Southern Africa operations.

Investing in the region

How will your investments in the following markets change during 2016?
(% of respondents)

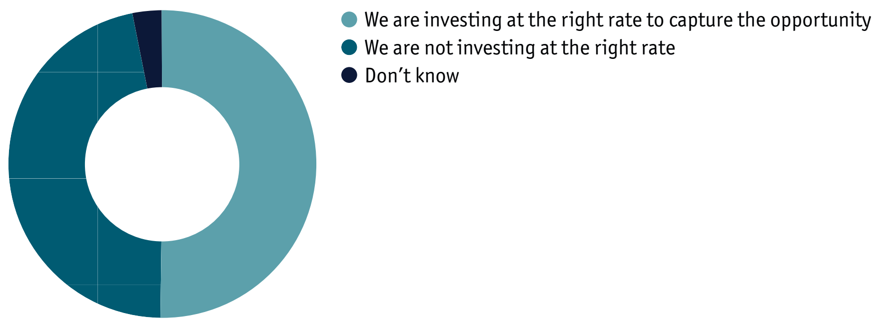


Source: 2016 African Business Outlook Survey.

Executives reported a clear intent on the part of their firms to increase the level of investment in West, East and Southern Africa. Around 40% of the executives whose firms have operations in North and Central Africa indicated that their companies would reduce their level of investment or have no plans to invest in these two regions in 2016.

Are the right levels of investment being committed?

In your opinion, is your firm investing in Africa at the right rate to achieve your growth expectations?
(% of respondents)



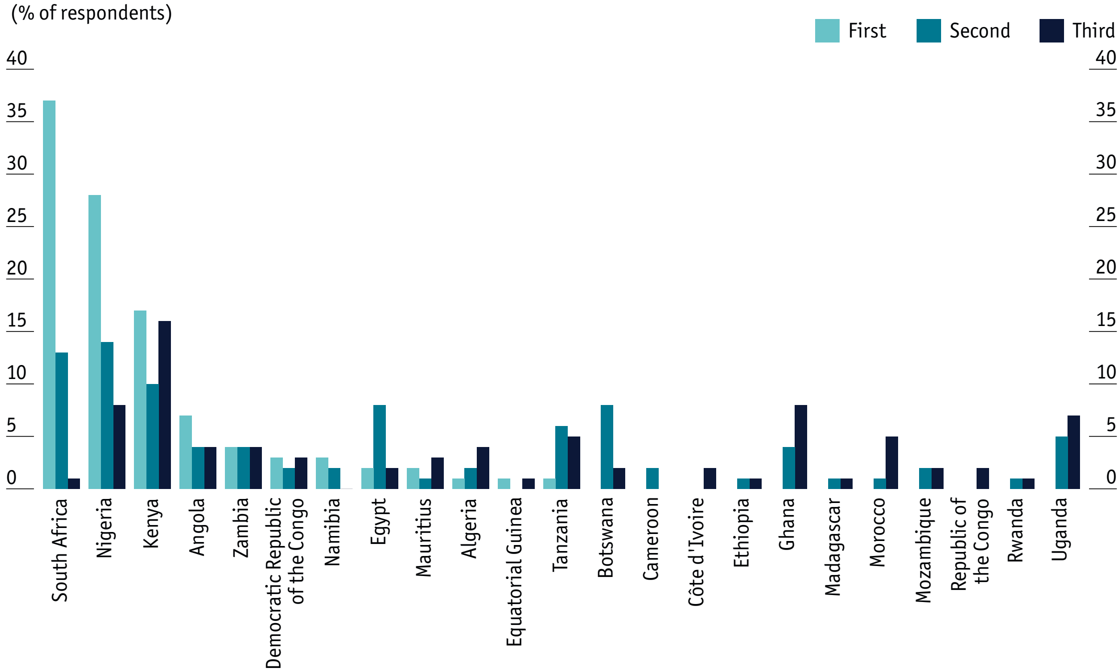
Source: 2016 African Business Outlook Survey.

A sizeable minority (47%) of executives reported that their firms are not investing at the appropriate level to support their firms’ growth expectations. This is up significantly on the 33% of executives who shared the same view in 2015.

Market focus

2015 priority markets

Top African markets by revenue, 2015
(% of respondents)

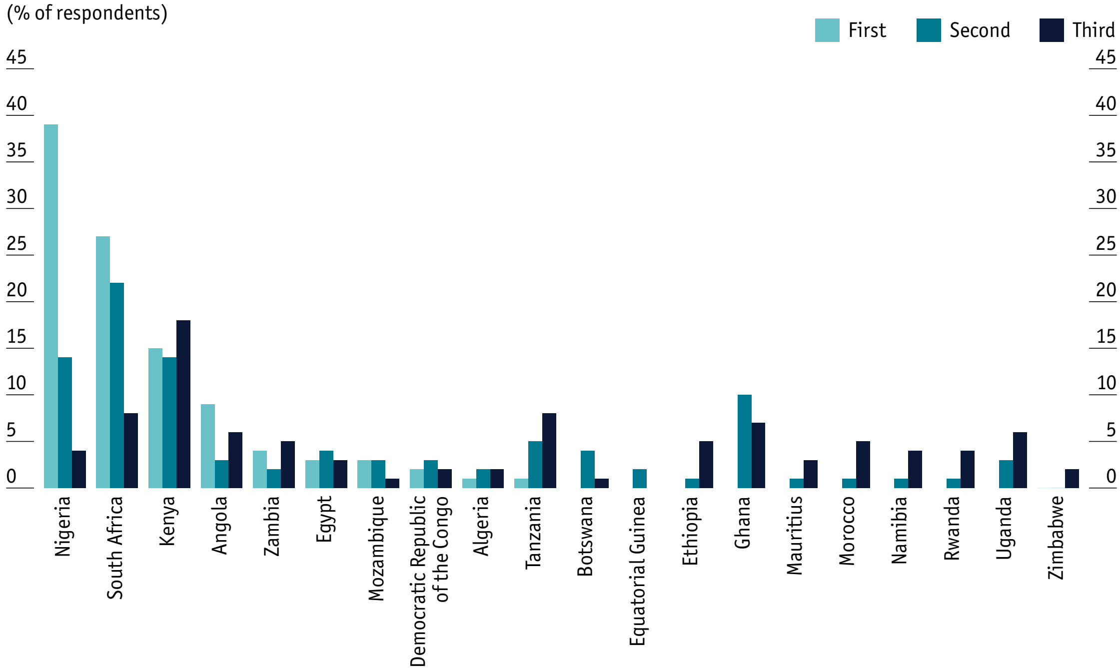


Source: 2016 African Business Outlook Survey.

South Africa was reported to be the top market by most respondents in 2015. Nigeria and Kenya were a distant second and third respectively. Angola, which has one of the largest but least diversified Sub-Saharan economies, maintained its place in the 2016 survey as the fourth most attractive market. However, with the Angolan economy highly dependent upon oil in a manner, for example that the more diverse Nigerian economy is not, its attractiveness has declined significantly in year-on-year terms.

2021 priority markets

Top African markets by revenue, 2021
(% of respondents)



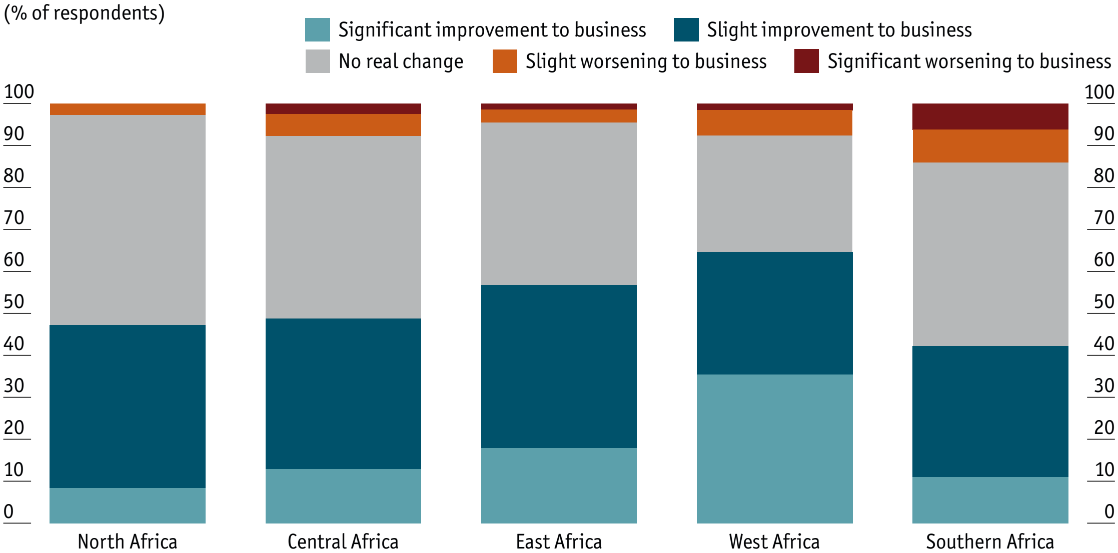
Source: 2016 African Business Outlook Survey.

The oil outlook has not dimmed respondents' view of the potential of the Nigerian market. The highest number of respondents expected that Nigeria would be their top market in 2021. By 2021 South Africa, which has been stuck in a low-growth rut for the past three years, is expected to occupy a secure but greatly reduced second-place position.

Economic and political reforms

Impact over the next year

Many parts of Africa have launched major economic- and political-reform programmes in recent times. What impact do you expect these reforms to have on your business over the next year?
(% of respondents)

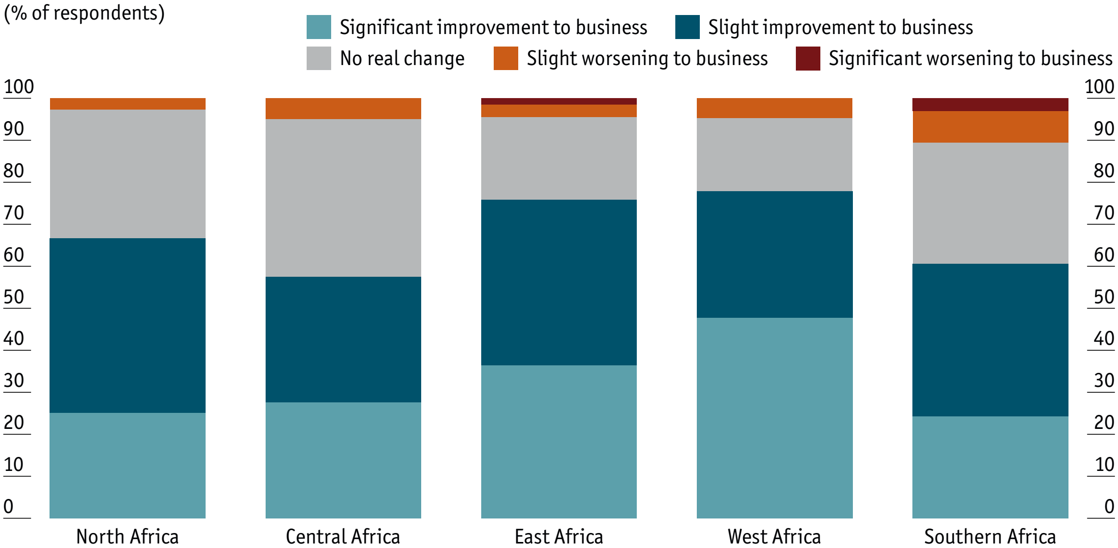


Source: 2016 African Business Outlook Survey.

Executives reported that across most regions economic and political reform programmes would have a positive impact on business over a one-year period.

Impact over the next three years

Many parts of Africa have launched major economic- and political-reform programmes in recent times. What impact do you expect these reforms to have on your business over the next three years?
(% of respondents)



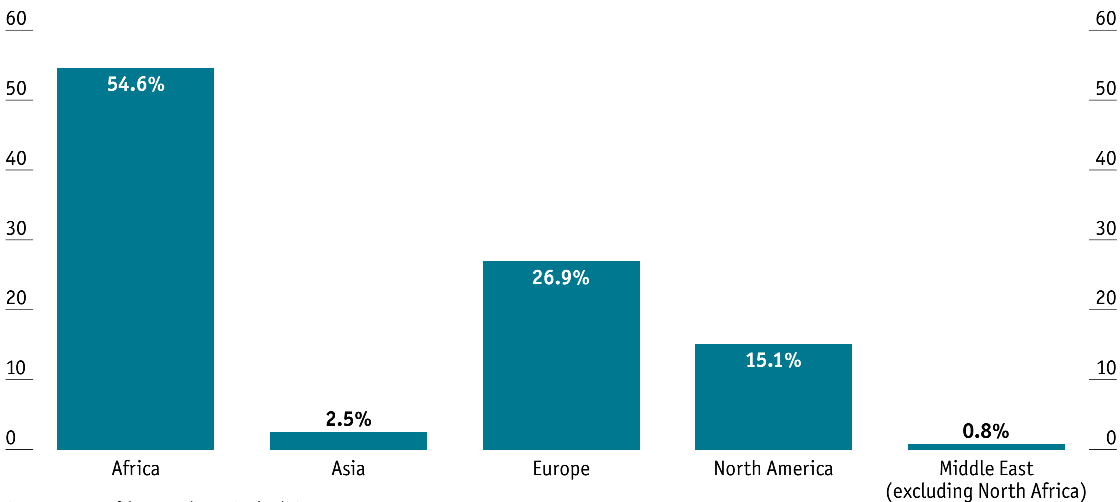
Source: 2016 African Business Outlook Survey.

Over a three-year period, executives reported that economic- and political-reform programmes are expected to gain traction, benefitting business. Of particular note is the increase in the percentage of executives that reported "significant improvement to business" as a result of reforms, most notably in North, Central, East and Southern Africa.

Operational insights

Where are firms headquartered?

Where is your firm's global HQ?
(% of respondents)

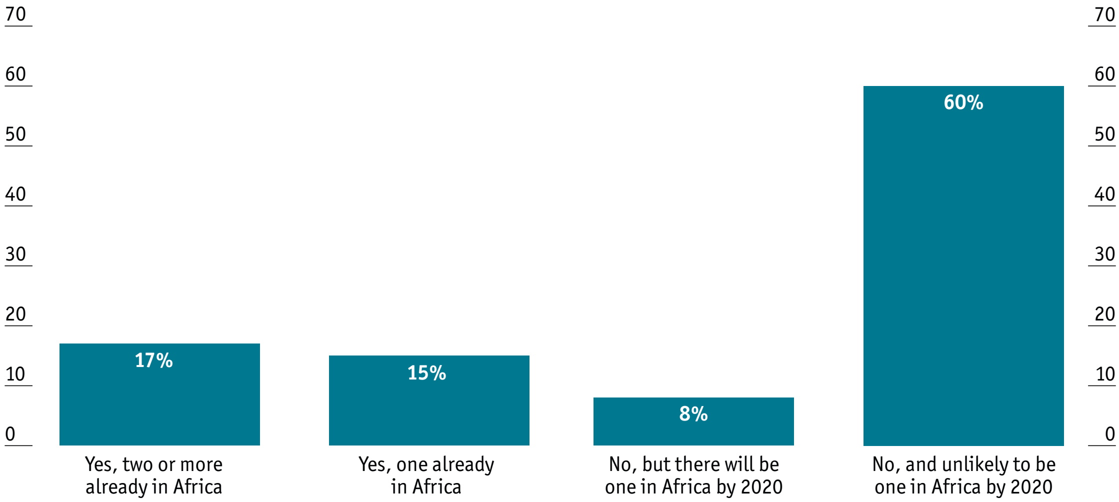


Source: 2016 African Business Outlook Survey.

Over one-half of all respondents' firms were based in Africa. Europe- and North American-based companies accounted for 42% of respondents' firms. Given the increasing level of trade and investment, particularly between China and Africa, it may be somewhat surprising that so few Asian firms featured. China is Africa's largest trading partner and has in recent years been the largest source of development capital to fund Africa-based infrastructure projects. In 2013, China-based development capital institutions approved over US$13.4bn for Africa-based infrastructure projects, according to *Infrastructure Consortium for Africa Report 2013*. Moreover, a number of Chinese companies, such as a carmaker, FAW, have established production facilities in various African jurisdictions.

An absence of Africa-based board members

Are any members of your company's main board of directors based in Africa?
(% of respondents)

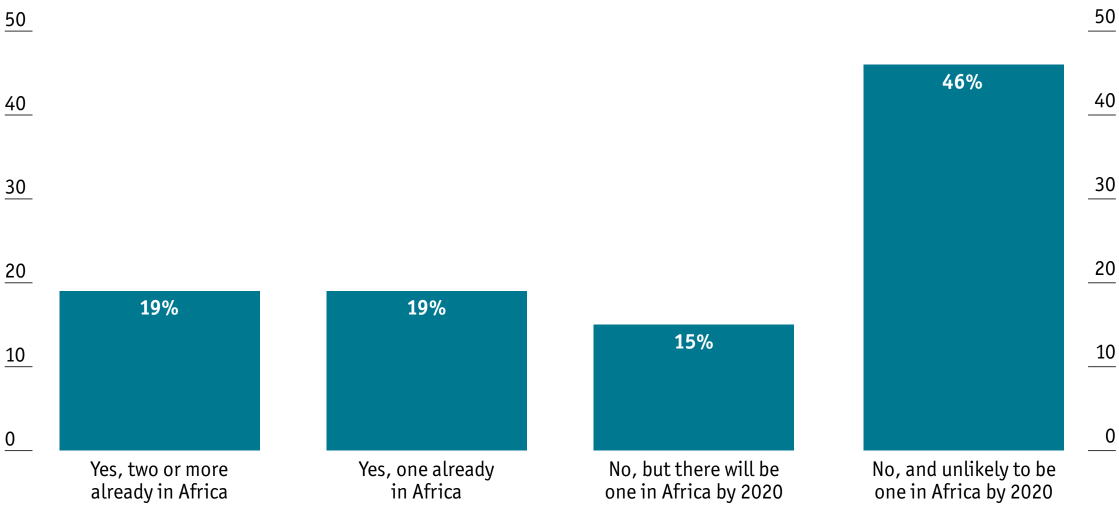


Source: 2016 African Business Outlook Survey.

Around 68% of respondents whose firms are based in other regions indicated that none of their company's main board of directors is Africa-based. This suggests that, while Africa's contribution to revenue was expected to increase, over the next five years the majority of firms has not prioritised non-executive representation from the region. A significant minority of respondents (32%), however, has at least one Africa-based director. Eight percent of respondents expected that there would be an African-based director in place by 2020.

Global heads increasingly being based in Africa

Are the global heads of any of your firm's business units based in Africa?
(% of respondents)



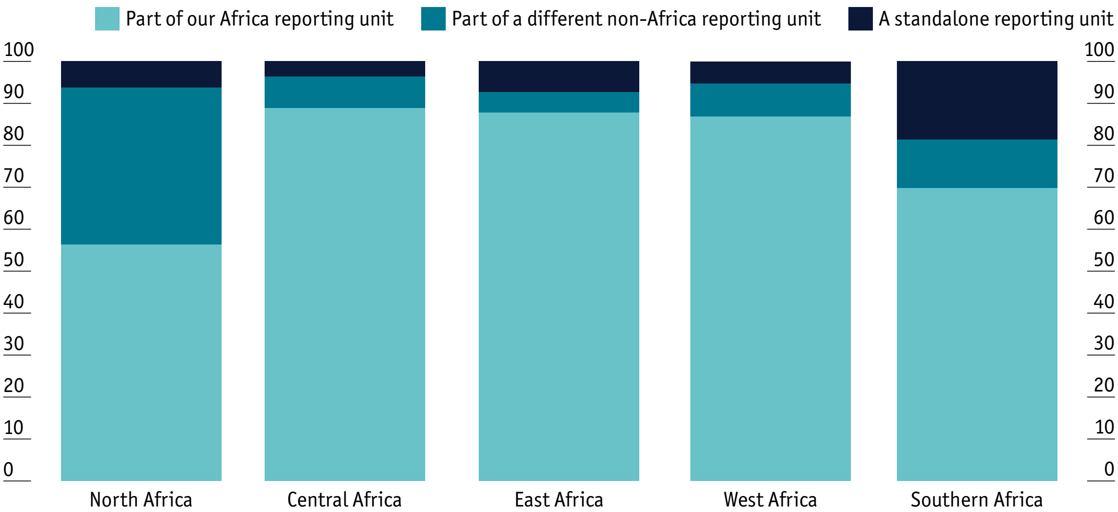
Source: 2016 African Business Outlook Survey.

Around 54% of respondents indicated that they have or will have within the next five years at least one global head of their firms' business units based in Africa.

This indicates that, while companies may not have prioritised representation of Africa-based non-executive directors, there appeared to be a growing focus on, and perhaps recognition of, the increasing importance of Africa-sourced business. To fully take advantage of this vein of growth, an Africa-based senior presence was warranted.

Reporting lines

Which of the following regions are included in your "Africa" management or reporting unit?
(% of respondents)

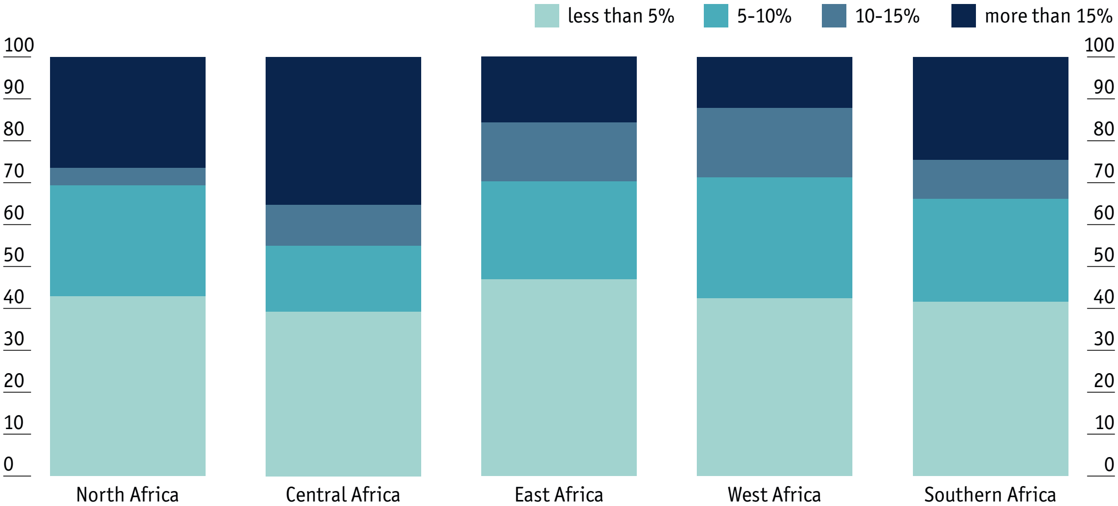


Source: 2016 African Business Outlook Survey.

The vast majority of Sub-Saharan Africa operations were included in respondents' Africa-based management or reporting unit. Operations in Southern Africa reported the highest percentage (21%) of stand-alone-reporting units. Operations in North Africa, not surprisingly, were reported as the highest percentage (40%) forming part of a non-Africa-reporting unit.

Modest staff churn

What is your staff turnover ratio (% of total staff that must be replaced each year)?
(% of respondents)



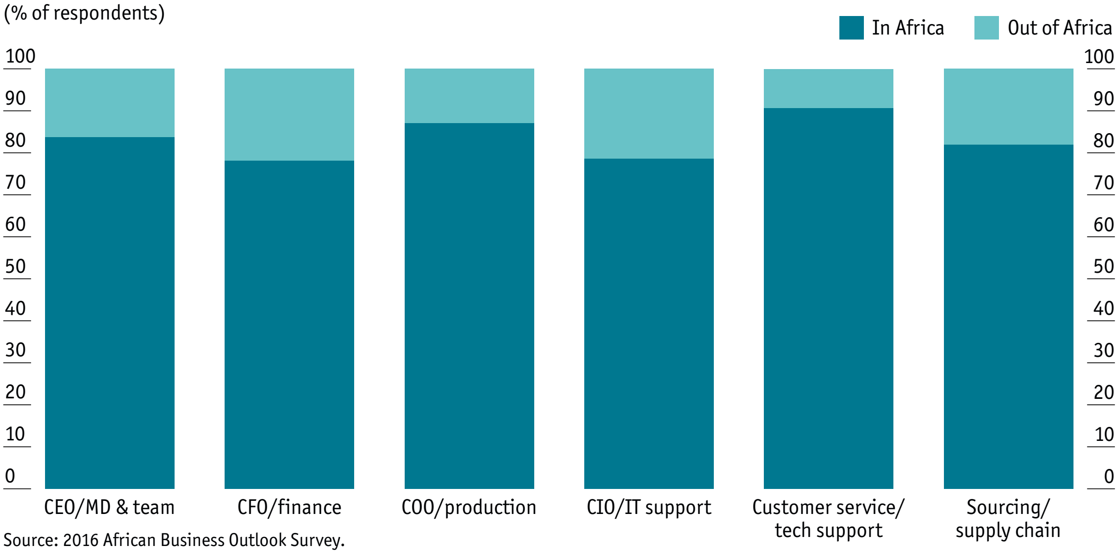
Source: 2016 African Business Outlook Survey.

In the 2016 survey Southern Africa remained the region with one of the highest reported cases of staff turnover. Around 30% of respondents reported a turnover rate of at least 10% per year. However, Central Africa surpassed all regions in reported staff turnover, with around 45% of executives reporting annual staff attrition of at least 10%.

Notwithstanding, the vast majority of respondents indicated that staff churn was under 10% per year.

The location of regional functions

Currently, where does the majority of your management and talent for the following regional functions sit?
(% of respondents)



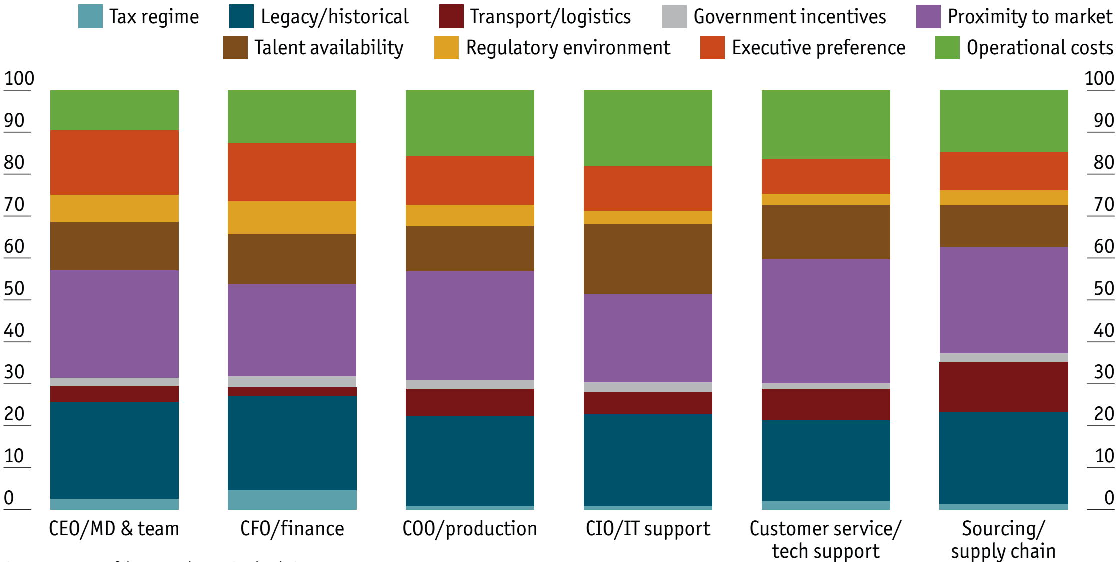
Source: 2016 African Business Outlook Survey.

The vast majority of respondents reported across regional-functional areas that staff sat in Africa.

Rationale for the location of regional functions

Please pick up to three of the most significant reasons you have based operational functions where you have for Africa

(% of respondents)

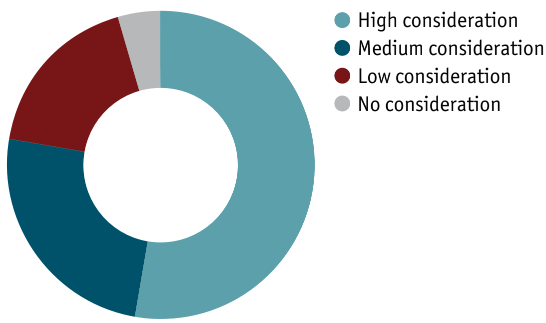


Source: 2016 African Business Outlook Survey.

Proximity to market was cited as an important consideration across all functional areas. Notwithstanding, the three areas that showed the highest percentage of staff not sitting in Africa were broadly functions that may rely on global synergies. These three areas were sourcing/supply chain, CIO/IT support and CFO/finance.

Africa-centred products and services?

To what extent are your global product/service offerings designed with an Africa-based customer in mind?
(% of respondents)

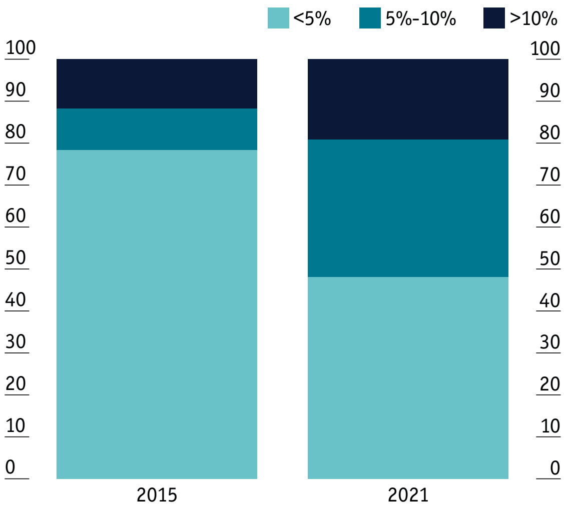


Source: 2016 African Business Outlook Survey.

Around 80% of respondents indicated that their product and service offerings moderately-to-highly considered an Africa-based consumer. Less than 5% of respondents indicated that Africa-based consumers were not considered at all.

R&D

What percentage of your firm's global R&D expenditure is in Africa today and what do you expect it to be in 2021?
(% of respondents)



Source: 2016 African Business Outlook Survey.

While respondents' firms have heavily factored their Africa-based customers' needs and priorities in product and service offerings, research and development (R&D) expenditure in 2015 in the region was low: around 80% of respondents reported that less than 5% of their firms' global R&D spend took place in Africa. Respondents expected R&D expenditure based in the region to increase over the next six-year period. Around one out of five respondents expected over 10% of their firm's global R&D expenditure to be based in Africa. A number of large international firms have announced African-based research and development initiatives. Nonetheless, over 80% of respondents did not expect the proportion of Africa-based R&D expenditure to exceed 10% within the next six years.

IBM investing in Africa-based R&D

IBM is an example of a company that is investing in Africa-based R&D.

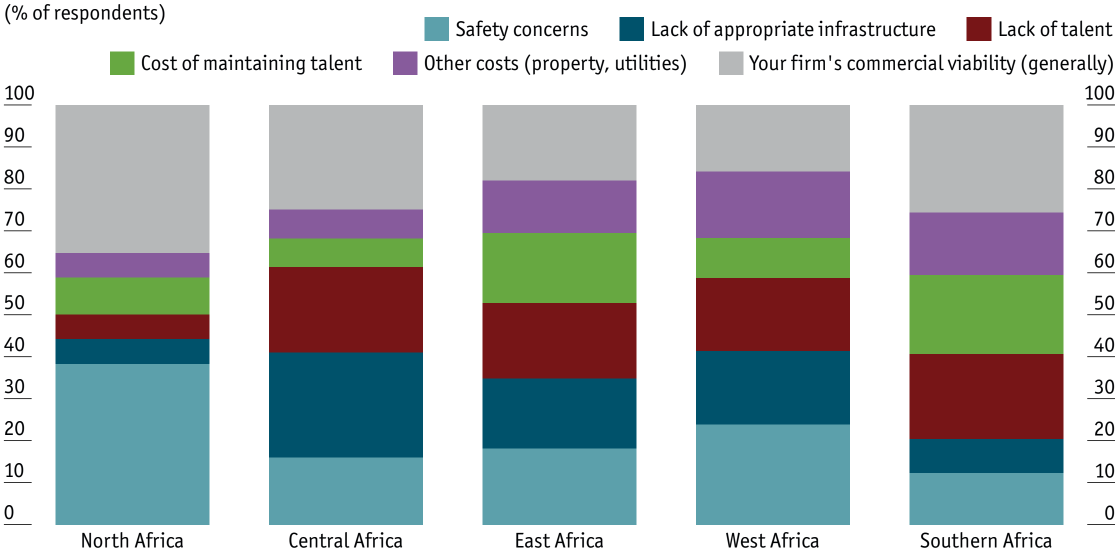
IBM has had an on-the-ground presence in Africa for over six decades and operates in 20 countries across the region.

To further enhance the company's scientific and technology base in Africa, IBM Research, its R&D division, has opened labs in Kenya and South Africa. Africa is IBM's 12th global laboratory and the first commercial technology research facility in the region conducting both applied and exploratory research.

IBM Research's Africa-based initiatives are focused on areas such as water, agriculture, transportation, healthcare, financial inclusion, education, energy, security and e-government.

Are firms considering leaving the region?

Are any of the following issues serious enough for you to consider relocating operations from, or reducing headcount in, any of these locations in the next two years?*
(% of respondents)



Source: 2016 African Business Outlook Survey.
*59 respondents to this question.

Around one-half of the total survey respondents cited that their firms would consider relocating or reducing headcount across the region. Safety concerns featured across the region. However, safety was cited most prevalently as an area of concern in two regions: North and West Africa. Civil unrest and acts of terrorism that played out in a number of North African and West African countries may have influenced executives' assessment.

Not surprisingly, commercial viability was cited as an area that may lead to relocation and/or reductions in head count. Respondents who commented on North, Central and Southern Africa registered the biggest concern regarding their firms' commercial viability.

Lack of talent was cited as a noticeable concern by respondents for their operations in Central, East and West Africa. Talent availability featured as a significant concern across all regions with the exception of North Africa.

Lack of appropriate infrastructure was cited as one of the significant impediments to business viability in Central, East and West Africa.

Conclusion

Africa's economic growth, although slower than in recent years, still outpaces that of most of the rest of the world. This growth and the opportunities presented have captured the attention of many firms.

The 2016 African Business Outlook Survey results confirmed many of the findings of the inaugural survey. Navigating business environments endemic to the region can be a challenge. Infrastructure deficits, regulatory shortcomings, corruption and other factors present a complex tapestry of issues to manage and avoid.

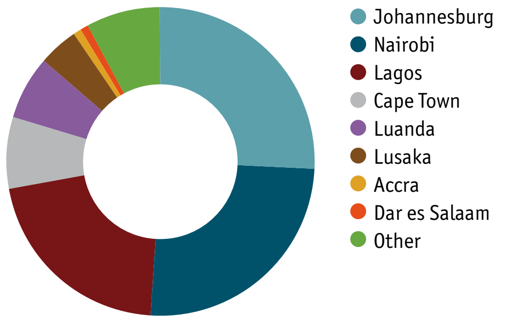
However, the rewards for those committed to carving out a commercial niche were apparent: 69% of executives surveyed cited operating margins to be equal or greater to that of their firms' global averages.

Over the next six years it is likely that Africa-based revenues and profits will garner a greater share of corporate profits. The larger markets of Nigeria, South Africa and Kenya are likely to retain their dominant positions as the most favoured for corporate growth. The relative ranking, however, of the three markets in the medium term is likely to change: Nigeria is the highest-priority growth market for most executives' firms. Given the consensus view, Nigeria's operating environment will become more competitive, and it will be imperative for firms to thoroughly consider their approach to competitively and profitably serve this market.

The headwinds faced by the continent are real and may take some time to subside, but the resilience shown by the region's economies underscore that the general sense of optimism and "staying the course" reported by executives surveyed is warranted.

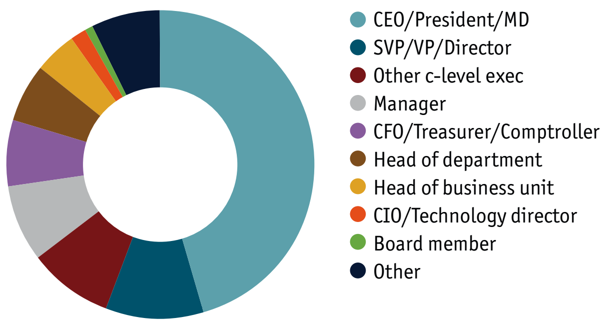
Appendix

Where are you based?
(% of respondents)



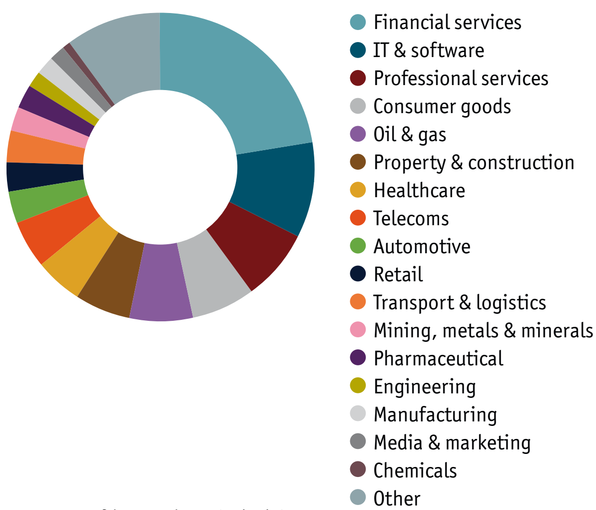
Source: 2016 African Business Outlook Survey.

Which of the following best describes your title?
(% of respondents)



Source: 2016 African Business Outlook Survey.

What sector do you operate in?
(% of respondents)



Source: 2016 African Business Outlook Survey.

About Economist Corporate Network

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