HAVAS HORIZONS STUDY

FINANCING AFRICA'S GROWTH ON THE HORIZON OF 2022: PERCEPTION OF INTERNATIONAL INVESTORS

AGRICULTURE FOCUS

MAY 2017

havas paris

-INSTITUT-
CHOISEUL

CONTENTS

For the third consecutive year we are pleased to present our study on the financing of the African economy. In line with previous editions, we called on representatives of the banks and financial institutions that are most actively involved in Africa to share their vision of the future that lies ahead for the continent and offer an analysis of the main challenges facing the nations themselves and the different sectors of the economy.

Once again, the outcomes of this report are particularly enlightening. They provide a comprehensive and insightful overview of the challenges ahead, as well as the pitfalls and dangers to be avoided. They also highlight the numerous opportunities and promises Africa has to offer.

Over and above their ability to provide valuable observations and analysis, international investors have a critical role to play in the future of Africa. Their perception of the risks involved in investing in Africa will determine the resources available to the continent for transforming its economies. After all, it is international investors who provide the financial capabilities for funding the infrastructure projects that Africa so dearly needs. And it is they who support the financing of major pan-African firms, as well as local small and medium-sized businesses (SMEs), and entrepreneurs and start-ups across the continent.

The unfaltering optimism these major players show with regard to Africa is a great source of hope for everyone engaged in developing and spurring growth across the continent through innovative business models and transformative projects.

We hope you enjoy reading the report!

Jean-Philippe Dorent, vice president, Havas Horizons,
and Pascal Lorot, president of Institut Choiseul

AFRICA, LAND(S) OF OPPORTUNITY

After 15 years of sustained growth across the continent as a whole, averaging at around 5%, Africa has entered a more sluggish period in the last few months. The slowdown in growth that began in 2015 continued in 2016. According to the latest estimates by the main international institutions, the continent experienced growth of around 1.6% in 2016 — the lowest for 20 years.

This overall slowdown is partly explained by an accumulation of external factors which have curbed the dynamic growth of recent years. A decline in global trade, faltering economic performance in the emerging economies with which Africa has developed strong ties, weak raw materials prices — especially oil, despite recent encouraging signs — have combined to have a major impact on African growth.

The continent's largest economies have been particularly affected, especially those that export oil and gas, which have seen their income hit by the economic factors outlined above. This is the case of Angola (+1.3%) and especially Nigeria (-1.5%), which went into recession in 2016. South Africa just avoided slipping into recession (+0.2%) but, according to some estimates, the leading power in sub-Saharan Africa is said to have lost its spot as Africa's second largest economy, overtaken by Egypt.

These poor performances by Africa's leading economies inevitably had a significant impact on the final calculation, resulting in a sharp drop in the continent's GDP.

However, following a particularly sluggish year in 2016, 2017 should enable Africa to recover the levels of economic performance seen in recent years. Economic growth in Africa is expected to be around 3% in 2017. Furthermore, this growth is forecast to continue in 2018, driven by the expected upturn in global trade and a rise in oil prices following the agreement reached at the end of 2016 by OPEC members to cut crude output in the years ahead.

Above all, short, medium and long-term growth projections are based on a number of internal factors which are boosting business activity across the continent. Among the reasons which point to a rapid return to sustained growth are the diversification of several African economies, a growing middle class, the development of intra-continental trade, the strengthening of regional integration, a relatively low level of public debt, a continuous increase in foreign investments, and a number of sectors which are expanding rapidly, such as services, energy, telecommunications and agriculture.

Furthermore, the current slowdown has had less of an impact on countries that do not rely heavily on raw materials, which very often benefit from a more diversified economy and a strong domestic market. Countries such as Ivory Coast, Kenya, Senegal, Tanzania and Rwanda, for example, managed to maintain growth of over 6% in 2016.

However, several African countries continue to be hampered by a number of obstacles, including difficulty in accessing markets, a sometimes tense business climate, volatile exchange rates, and security threats, which, combined, tend to stifle the potential of these often very promising economies. Nevertheless, this 'new' Africa – a continent with so many challenges but also so many opportunities for those ready to take them on – appears to be firmly on the road to growth and development.

This is in any case what the numerous international investors who replied to questions for our latest study seem to think. Let us hope that the future will prove them right and that this new economic dawn will bring opportunities for everyone, allowing Africa to at last achieve its full potential and take its rightful place in the global economy.

We would like to thank all the international investors (senior analysts, chief financial officers, directors for Africa and senior company executives) from international financial and banking institutions who contributed to this study by answering our questions:

Abakus Advisors, ACP, Advent International, AfrAsia Bank Limited, African Development Bank, African Export-Import Bank, African Risk Capacity, Ardian, Business Partners International, CDG Capital Private Equity, Crédit du Maroc, Danone, DEX Capital, Ecobank, Euromena, Euromena Funds, FCCA, Fusion Capital, Gabonese Sovereign Wealth Fund, Golden Palm Investments, Goldman Sachs, GreenWish Partners, Group Castel - BGI, Helios Investment Partners, ICBC Paris, Investisseurs & Partenaires (I&P), Islamic Trade Finance, Kusuntu Partners, Livelihoods Venture, Meridiam, Messier Maris & Associés, Natixis Global Asset Management, Okan, One2five Advisory, Proparco, Qalaa Holdings, Qatar National Bank, Saham Group, Saint-Gobain, SmartPhorce Holding, Société Générale, The Beige Group, Verod Capital, Wendel, Wendel Africa, Yearling Advisors.

GROWING OPTIMISM

We began by asking international investors how optimistic they were about the economic outlook for Africa in 2017 and looking further ahead to 2022. The outcomes were unequivocal and extremely encouraging for the continent.

- A very high level of confidence for 2017.
- With regard to the next five years, none of the investors lack optimism.
- Optimism is greater than last year.

International investors optimistic
about the economic outlook for Africa

2022
98%

2017
8.8%

The main reason behind this optimism among foreign investors is the robust, sustained growth observed in several African economies. The factors contributing to this growth point to strong economic performance in the countries that succeed in seizing the opportunities offered by this particularly favorable economic climate.

Last year, just 75% of respondents had said they were optimistic. The slowdown in growth that had begun in 2015 and uncertainty surrounding the outcome of the numerous important elections scheduled in 2016 had slightly dampened the enthusiasm of investors.

This year's study found that almost 90% of them were confident about 2017. Most elections had passed off without incident, which is a good sign and clearly shows that the continent is firmly on the way to better governance. This is reassuring for all observers and of course for international investors. In addition, a number of decisive factors have emerged to make people more inclined to be optimistic, such as the increase in crude oil prices, which should enable the main oil-producing economies in Africa to get back on the growth path, and the diversification of non-oil economies, which have proved more resilient to fluctuations in raw materials prices.

The high level of optimism regarding the period up to 2022 amounts to a strong case for investing in Africa: none of the respondents said that they were not optimistic about this period, compared with 9% last year.

INCREASED INVESTMENTS

The next two questions focused on the level of investments earmarked for Africa in 2017 and in the coming five years. The replies reveal a clear correlation between the high level of optimism and a growing interest in investing in Africa.

- Investment forecasts for 2017 among most investors are higher than in previous years.
- No investor intends to reduce investments over the coming five years.
- Projected investments are stable compared with last year.

INVESTMENTS

2017			2022		
Strengthening	Maintaining	Reducing	Strengthening	Maintaining	Reducing
+	=	-	+	=	-
65%	25%	6,1%	84%	10%	0%

Apart from a slight drop in 2015, investments in Africa have risen continuously for the past 15 years. According to the African Development Bank, investments exceeded $220 billion in 2016, compared with less than $25 billion in the early 2000s. Amounting to approximately $60 billion in 2016, direct foreign investments make a significant contribution to the funding of African growth. According to respondents who took part in our study, these investments should further increase this year. Among these foreign investors, 65% of them wish to strengthen their presence in Africa in 2017, compared with 6.1% who intend to reduce their presence, which reflects the findings of last year's study. None of the investors who replied said that they intended to reduce investments over the period up to 2022.

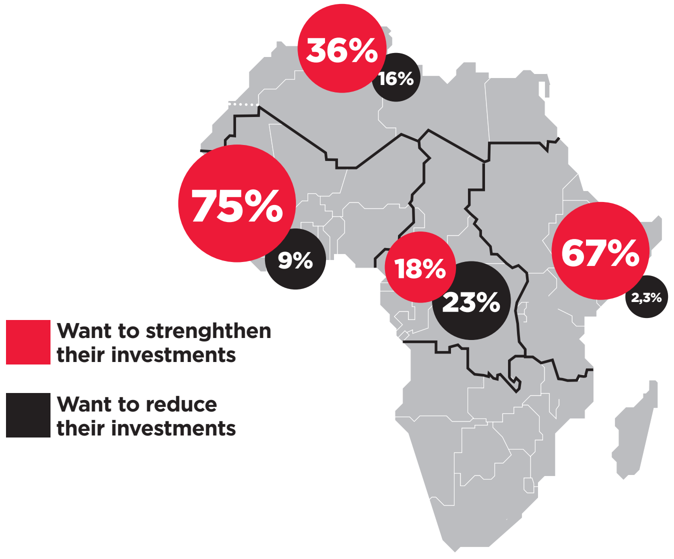
In addition, investments are expected to be further stepped up following the arrival of a large number of newcomers which intend to strengthen their market share, including the United Arab Emirates, Turkey, and especially China. While the United Kingdom, France and the United States continue to be the main investors, this is likely to change in the years ahead.

Furthermore, though still marginal, intra-African funding has increased year after year, thanks mainly to the emergence of major African financial players. This has enabled manufacturers to switch to local funding. This trend is expected to grow as economic areas in Africa become better structured, facilitating both trade and multi-partner projects.

DIFFERENT PERCEPTIONS REGION TO REGION

Investors were asked about the geographic areas in which they intend to reduce or increase their investments. Several strong patterns emerged, which reflect widely shared perceptions of performance in the major regions of Africa.

- Western Africa is a priority investment region.
- Eastern Africa will not see a reduction in foreign investments.
- Central Africa is experiencing a decline in investments.



The 'Cape to Cairo' common market is now taking shape. This structured free trade bloc is intended to make it easier to trade goods and reduce the barriers between the 27 countries involved today and between all African countries in the future. Ultimately, the aim is to establish a continent-wide common market. In the meantime, Africa currently counts a multitude of exclusive trade areas, monetary systems, legal frameworks, and bilateral and multilateral trade treaties. Leaving aside these different areas, respondents to our study gave us their perception of the commonly accepted five main geographic areas.

Western Africa is a preferred area for all investors. 75% of respondents said they intend to step up their investments there, compared with just 9% who intend to reduce them. Part of the explanation for this enthusiasm is the 3.7% growth achieved in French-speaking western Africa in 2016.

Eastern Africa also emerges as a key focus for investments. 67% of respondents said they intended to increase investments, compared with just 2.3% who plan to reduce the commitments. Economies in this area are among the most resilient and most diversified in the continent.

Despite its potential, northern Africa gets a rather disappointing rating, with 36% of investors planning to increase their commitment, compared with 16% considering a reduction. Instability in this area is one of the factors in this relative lack of interest.

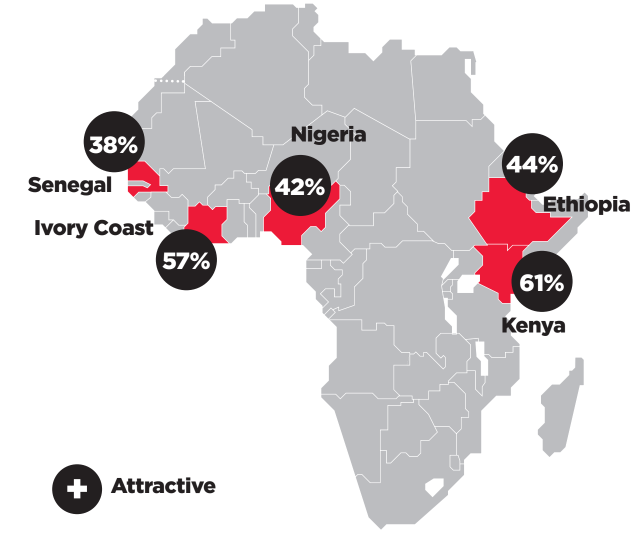
Sub-Saharan Africa trails behind the other areas, with 22% of investors looking at an increase and 20% seeking to lower their commitment. This poor performance must be seen in the light of South Africa's strong economy, which impacts heavily on the area.

Central Africa is the only area where a majority of respondents intend to reduce rather than increase investments (18% vs. 23%). This is due to continuing dependency on raw materials and a large number of domestic conflicts.

VARYING DEGREES OF ATTRACTIVENESS

Like all economic areas, the African economies are heterogeneous. The perception of how well they may perform in the future or the risk that they might represent is one of the key factors in international investment decisions. Respondents to our study revealed their 'top five' countries, together with the five countries they consider to carry the most risks.

- The continent's three largest economies are not included in the top three.
- Western and Eastern Africa countries dominate the top five.
- All of the countries said to represent a risk are currently experiencing major internal conflicts.



Despite the influence of the major areas in which they are located, each African economy has its own set of specifics and growth dynamics. Situations change from year to year, with certain factors either boosting or undermining economic performance. With regard to 2017, respondents said they had a positive attitude towards the following countries: Kenya (61%), Ivory Coast (57%), Ethiopia (44%), Nigeria (42%) and Senegal (38%). In contrast, they consider that the following countries represent a significant risk when it comes to investments: Democratic Republic of the Congo (42%), Nigeria (36%), Somalia (28%), Sudan (26%) and Mali (24%).

It is interesting to note that Nigeria repels as much as it attracts. Africa's largest economy, which has been a focus of our studies since the outset, is for the first time viewed with a high level of skepticism. With a population of over 175 million, a dynamic economic capital (Lagos), and significant agricultural potential in the north of the country, the Nigerian market offers major opportunities. But investors are worried about the fall in income due to the drop in oil prices, the collapse of the Nigerian currency, and the presence of Boko Haram in the north-east.

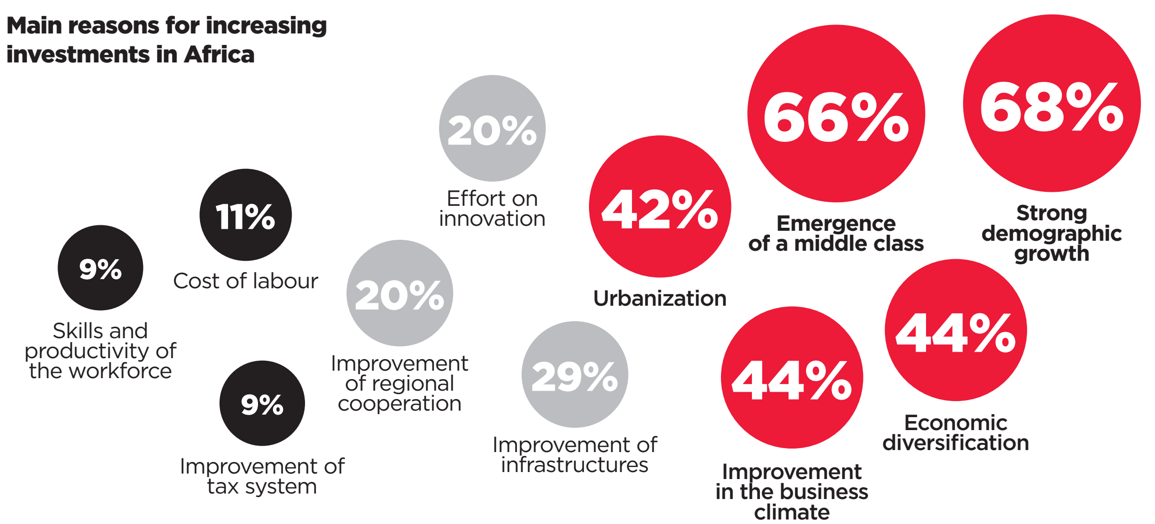
Aside from Nigeria, the countries favored for investment are not reliant on raw materials. The four other countries pinpointed by investors all have economies that are undergoing rapid diversification and act as economic engines in the region. They also seem to have achieved political stability.

On the other hand the countries considered to be the most risky are those that are prone to chronic instability due to both internal and external conflicts, major economic difficulties, lack of infrastructure, and governance issues. All of these factors have a significant impact on the perception of these markets by international investors.

COMMITMENTS SUBJECT TO CERTAIN CONDITIONS

To get a clear understanding of the factors behind international investment decision-making, the next set of questions examined the main reasons for either increasing or reducing investments in Africa.

- The two main reasons for investing are related to demographic matters.
- The business climate is perceived by some investors as an advantage, and by others as a threat.
- The main impediments are related to political, economic and physical risks.



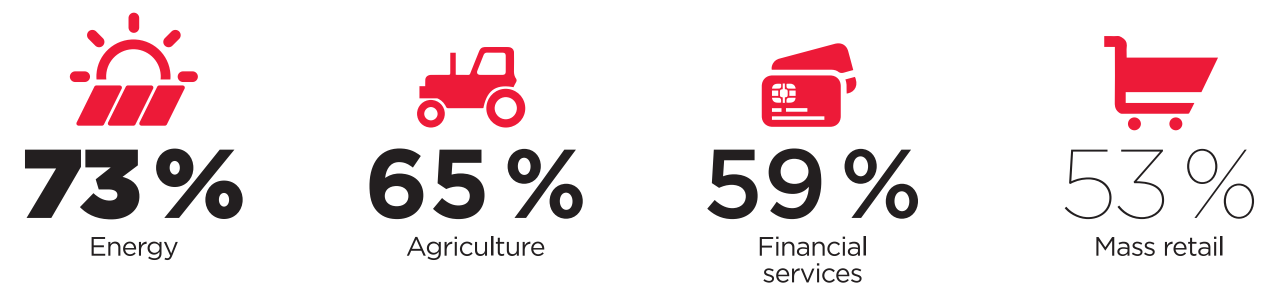
Investors' perceptions are strongly determined by a number of factors that characterize the different markets they are engaged in. Africa must contend with specific features as well as a number of challenges. Nevertheless, the continent also offers a wealth of benefits which encourage investors to step up their commitments. The first two reasons put forward are related to demographics: strong demographic growth is cited by 68% of respondents and emergence of a middle class by 66%. According to forecasts by UNICEF, by 2050 one-quarter of the world's population will live in Africa. Growth in domestic demand is expected to rise, driven in particular by an emerging middle class who aspires to consume more — and better. Other significant opportunities include economic diversification (44%), an improvement in the business climate (44%), and urbanization (42%). These will enable the African economies to stabilize their models, become less dependent on external markets and achieve a level of maturity on a par with the world's most powerful economies.

In contrast, however, the reasons for certain investors wanting to reduce their commitments are mainly linked to problems of governance, a lack of openness, and major difficulties when it comes to planning and anticipating. Respondents said that the main hindrances to investments are political instability (41%, corruption (31%), and security issues (27%). This is followed by more economic-related factors, namely uncertainty regarding return on investments (20%) and the drop in raw materials prices (17%).

HIGHLY PROMISING SECTORS

Several sectors are currently emerging and offer particularly attractive growth potential. International investors pinpointed the sectors that they consider to be the most promising.

- Energy and agriculture are the central focus of priorities for the future.
- Financial services and mass retail are experiencing strong growth.
- The health sector is seen as less attractive despite its potential for expansion.



Economic diversification is enabling several countries to shift towards more value-added sectors. Instead of only extracting raw materials, there is a clear desire to actually process the products required to meet demand in Africa and also to develop exports. As well as helping to achieve a better trade balance, this alleviates the risks inherent in the poor trade terms that many African economies still have to contend with today. Diversification has been propelled in order to offset the volatility of raw materials prices and it has been made possible by the inflow of foreign capital.

Asked about the economic sectors which they believe offer the greatest potential, investors put sectors related to primary needs top of the list. Energy (73%) is their first choice. The main challenge today is to enable the people of Africa to light and heat their homes, and benefit from modern facilities to improve their everyday lives. The second choice is of course agriculture (65%). The challenges and opportunities in this vital sector are numerous: feed the population, make the transition from the family-based agricultural model which still accounts for 60% of jobs across Africa, and overcome uncertainty regarding climate change.

Next come the economic sectors associated with the emerging expectations of Africa's growing consumer middle class: financial services (59%), which provide innovative payment methods to facilitate trade and transactions between economic agents, as well as mass retail (52%), which provides the means for these new consumers to quickly and easily access products.

These sectors address people's current needs. They are helping to structure the markets and lay the foundations for a new consumer society in which Africans meet African needs and where there is less dependency on imports.

CLOSE-UP ON AGRICULTURE

AGRICULTURE, A PROMISING AREA FOR INVESTMENT

To hone our analysis of Africa's agricultural sector, we asked investors whether they considered it to be a sector with promise. Once again, their response was unequivocal: Africa's agricultural sector offers enormous potential.

- Almost all respondents see agriculture as a promising sector.
- None of the investors believe that agriculture does not offer investment opportunities.
- One-quarter of respondents do not intend to strengthen investments in agriculture

Promising sector
90%

Strengthening investments
61.2%

The agricultural sector today accounts for more than 60% of all jobs across the continent. It provides a subsistence income for seven in ten Africans. 60% of the world's unfarmed arable land is in Africa. The African agricultural model is one of the least productive in the world. In light of these facts, the sector offers huge investment potential.

Furthermore, respondents unanimously agree that agriculture offers investment opportunities. More than 61% of them also plan to invest or strengthen their investments in this sector in the future.

Over and above Africa's strong potential regarding agriculture, one of the biggest challenges is to ensure sufficient food supply for the continent's constantly growing population and at the same time to reduce Africa's dependency on foreign imports. Priority must be given to domestic production and the production of finished goods locally.

The mechanization and rationalization of production, processing and transport processes are major markets for everyone involved in the agricultural sector. According to the World Bank, demand for agricultural products and byproducts is expected to increase from $330 billion 2015 to more than $1,000 billion by 2030. Developing an integrated agri-food industry is therefore the only way forward. This will enable the countries of Africa to meet the needs of their people, control the entire supply chain and create more added value.

MAJOR CHALLENGES OF AFRICAN AGRICULTURE

Aside from their interest and willingness to invest, we asked investors to tell us how they see the major challenges facing African agriculture. Their replies offer insight into these major challenges and also point to the opportunities available in this sector.

- A lack of infrastructure hampers the sector's development potential.
- Soil management and agricultural training are major concerns.
- Climate change-related challenges are given less consideration.

~~**Les grands défis du secteur**~~

69% Infrastructure

48% Market access

42% Transformation

According to respondents, the three major challenges facing African agriculture are rooted primarily in its ecosystem. Top of the list is infrastructure (69%), followed by market access (48%), and transformation (42%). The second set of major challenges concern productivity and resource management: irrigation (39%), soil management (39%) and training (39%).

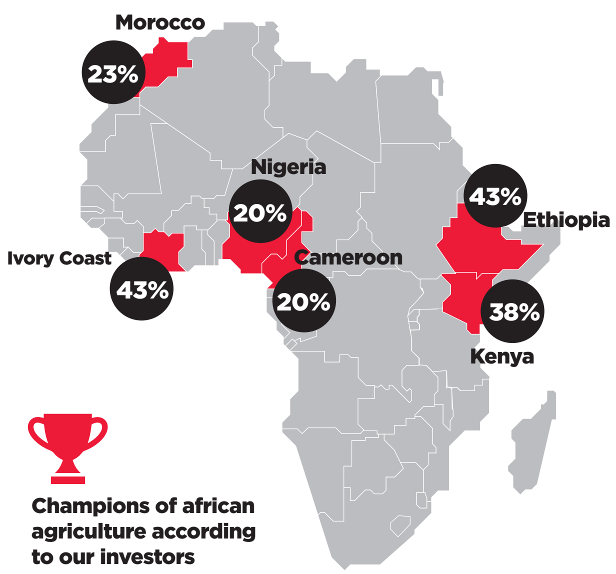
Improvements in all these areas would enhance the entire production value chain, increasing performance and better meeting market needs. Agricultural productivity in Africa lags behind that of India and China, despite sharing fairly similar features.

Over and above the issue of productivity, there is a need to better structure the industry and invest in essential infrastructure, including energy, irrigation, transport and storage. Market access is another key issue, and tariff and non-tariff barriers must be rapidly removed in order to encourage regional and intra-African trade. The issue of transformation is linked to Africa's ability to meet its own needs. Africa currently imports twice as much food as it exports; this model is not sustainable in the long run.

CHAMPIONS OF AFRICAN AGRICULTURE

Pursuing our study of African agriculture, we asked international investors to tell us which countries they consider capable of best meeting the challenges facing the sector.

- Eastern Africa, seen as the spearhead of African agriculture.
- A group of «top 10» countries, indicative of the current balance across the continent.
- Central Africa, driven by Cameroon.



According to investors, three countries clearly emerge as the best positioned for meeting these challenges: Ethiopia and Ivory Coast (43%) and Kenya (38%).

In Ethiopia, agriculture accounts for 45% of GDP, 65% of exports and 85% of jobs. As well as being the world's second biggest maize producer and fifth largest coffee producer, Ethiopia's extensive land mass also means that it is home to Africa's largest livestock population.

Ivory Coast is the largest producer of cocoa, the biggest exporter of cashew nuts and the seventh largest producer of rubber in the world. The country is currently implementing a strategy to support the development of food processing firms.

In Kenya, agriculture accounts for 24% of GDP and more than 70% of the working population depend directly on agriculture. Like Ivory Coast and Ethiopia, the country has a number of structured agricultural subsectors, including livestock farming, tea production and horticulture.

After these three main countries come Morocco (23%), Nigeria (20%), Senegal (16%), South Africa (13%), Egypt (13%) and Ghana (13%). This breakdown reflects the current economic trends in Africa in terms of both the balance between its main geographic areas and the spotlighting of economies that are driving growth. Once again, apart from Cameroon (20%), which figures in the top five, central Africa is seen less favorably than other areas.

WHAT DOES THE FUTURE HOLD FOR AFRICAN AGRICULTURE?

Lastly, we concluded the study by asking investors whether they feel that Africa is capable of emerging as an innovative player on the international agricultural scene, whether they consider that the continent has the ability to develop its own agricultural development model, and how they would best define the future ahead for the sector.

- Innovation is one of the major strengths of African agriculture.
- Africa has the capacity to develop its own agricultural model.
- The vulnerability of Africa's agricultural sector represents a major challenge.

79.1%

think that Africa is capable of emerging as **an innovative player in the agriculture/agri-business** sector

67.4%

think that Africa Africa has the capacity to develop **its own agricultural model.**

Agriculture in Africa is:

39.5%	34.9%	25.6%
Innovative	Vulnerable	Smart/Green

Innovation is a pivotal component in the future of agriculture in Africa and a top priority for international investors. Among them, 79% believe that Africa can become a key player in terms of agricultural innovation and a 39% of them see African agriculture as «innovative».

Undoubtedly, the ability to innovate will be one of the key components in the agricultural development model that Africa must implement — which is seen to be within its reach as far as 67% of respondents are concerned. Furthermore, this model must seek to reduce the sector's vulnerability to climate change and to the other difficulties outlined above (34% of respondents point to the sector's vulnerability regarding the future), and must help it make the shift to more environmentally compatible solutions (25% of respondents believe that African agriculture must become both greener and more digitally enabled). Environmental issues must remain a central focus of efforts to develop agriculture in Africa, which should not be pursued to the detriment of the continent's ecosystems.

To support this development, Africa can rely on the creativity and innovative thinking of local farmers and enterprise. This study also shows that Africa can also count on the optimism of international investors, who are ready and willing to strengthen their engagement. Combined, these strengths will enable Africa to achieve its ambitious goals.

– **Havas** est l'un des plus grands groupes mondiaux de communication. Basé à Paris, il est aujourd'hui présent dans plus de 100 pays. Avec un business model unique, Havas est le premier groupe de communication capable d'optimiser la relation des marques avec leurs publics, en mobilisant l'excellence créative, l'expertise digitale et le meilleur des médias. Le Groupe est présent dans tous les secteurs et dans tous les métiers de la communication : le digital, la publicité, l'achat d'espace et la stratégie média, la communication santé, le marketing direct, la communication institutionnelle, l'événementiel, les ressources humaines, le marketing sportif, le marketing musical, les relations publiques.

HAVAS WORLDWIDE PARIS

29-30, quai de Dion-Bouton
92817 Puteaux Cedex, France

www.havasworldwideparis.com

– **L'Institut Choiseul** est un think tank indépendant parmi les plus influents dédié à l'analyse des questions économiques et internationales, ainsi qu'aux enjeux liés à la gouvernance économique mondiale. Au service des entreprises, à travers sa filiale de conseil Choiseul Associates, l'institut accompagne étroitement les groupes et les institutions dans leur bonne compréhension des environnements économiques, politiques, institutionnels et réglementaires des pays émergents – avec un focus fort mais non exclusif sur l'Afrique, ainsi que dans la définition de leurs stratégies de développement, d'implantation et d'acquisition dans les régions concernées.

INSTITUT CHOISEUL

16, rue du Pont-Neuf
75001 Paris, France

www.choiseul.info

Illustrations : thenounproject.com