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Africa: Now Open for Business

Weighing the Opportunities and Risks

INSIDE:

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When it really matters.



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opportunities abound for companies seeking to share in Africa's rapidly growing markets. The International

Monetary Fund projects that over the next five years, 12 out of the 20 fastest-growing national economies will be on the African continent.¹ With economies at home relatively flat, U.S. companies cannot afford to overlook the potential for expanding growth presented in Africa (and in other dynamic developing regions). While the challenge of development in many African countries should not be underestimated, the rising middle class and ensuing breadth of needs across industries including power generation and distribution, transportation, telecommunications, agribusiness, oil and gas, financial services,

healthcare, education, housing, and consumer goods provide an array of prospects for foreign investment. Although the region's legacy of political instability and corruption continues to be a concern, economic gains have gone hand-in-glove with improvements in governance and security in many of the countries in Africa.

Nevertheless, companies that are seeking to invest in Africa should conduct risk-based due diligence as part of their decision making process. It is also important for companies to give early consideration to potential post-closing compliance programs and internal controls enhancements that can help mitigate structural, third-party, and other potential risks.

Perceptions and the Strategic Importance of Africa

Our sense is that many within the international business community have not fully realized this evolving picture or have not found the strategies that may allow them to benefit from it. A considerable gap persists between stereotypical perceptions of Africa as a single place of prohibitive risks and the evolving reality of the rising potential within an extraordinarily diverse and vibrant continent. In order to inform a process to bridge this gap,

we asked senior executives at multinational companies about their business objectives and experiences in Africa.

Our survey group was comprised of chief operating officers, general counsel, and other senior executives who are responsible for legal, compliance, and corporate business development. They came primarily from U.S. companies with annual revenues of

¹ International Monetary Fund, Regional Economic Outlook, October, 2012, <http://www.imf.org/external/pubs/ft/reo/2012/afr/eng/sreo1012.pdf>

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\$250 million or more (more than a third had revenues of \$10 billion or more). Accordingly, the survey results do not purport to present a “world view.” On the contrary, we recognize from our own experience and client work that in a number of respects, the U.S. business and legal communities have lagged behind others in reorienting their perspectives of the business opportunities in Africa. Now is a chance to catch up.

In conducting this survey, we hoped to better understand the extent to which senior

executives were aware of opportunities in the region and to identify any concerns they had. We wanted to determine whether companies were already investing in Africa, and if so, in which countries. We also sought to identify industries that viewed Africa as strategically important and assess the attractiveness of markets in Africa, relative to other regions. We asked participants how well they understood Africa’s business cultures and their risks, and to identify factors that might increase their likelihood of investing there. Here is what they had to say.

Industry Insights and the Attractiveness of Africa

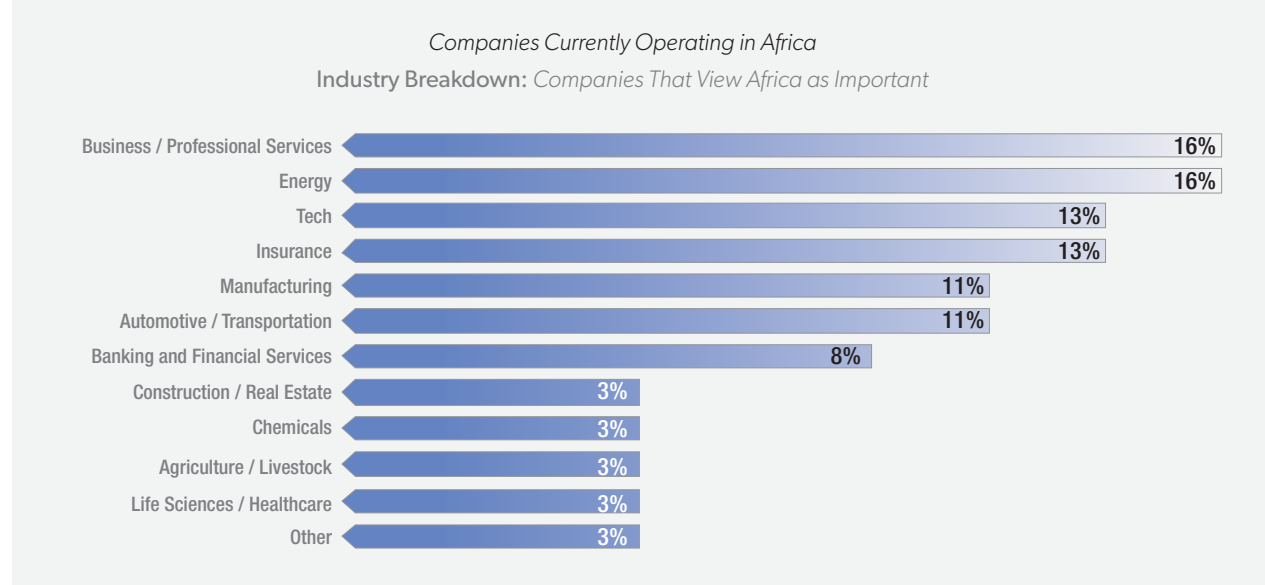
According to our survey, many companies have yet to enter Africa. More than two-thirds (68%) of respondents indicated that their companies are currently not doing business in Africa. Of those that are doing business in Africa, however, nearly 60% said it was important to their overall businesses. Within this group, business and professional services (16%), energy (16%), and technology (13%) companies indicated that the region is critical to their businesses. Conversely, companies in chemical (3%), real estate/construction (3%),

and healthcare/life sciences (3%) said that Africa was not important strategically.

We wondered which countries were perceived as the most attractive among respondents doing business in Africa, particularly in light of the fact that African markets are diverse and at various stages of economic development. South Africa ranked the highest among our respondents—72% indicated they did business there. Egypt came next, followed by Nigeria, Kenya, and Ghana.

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FIGURE 1: BUSINESS SERVICES, ENERGY, AND TECHNOLOGY COMPANIES SAID AFRICA IS IMPORTANT



We were also interested in assessing the attractiveness of doing business in Africa relative to other parts of the world.

Participants were asked to compare Africa with growth regions such as Asia, Latin America, and the former Soviet Union. Nearly a third

of respondents that did business in Africa indicated that this region was as or more attractive than both Asia and Latin America. More than half (52%) said that doing business in Africa was as or more attractive than the former Soviet Union.

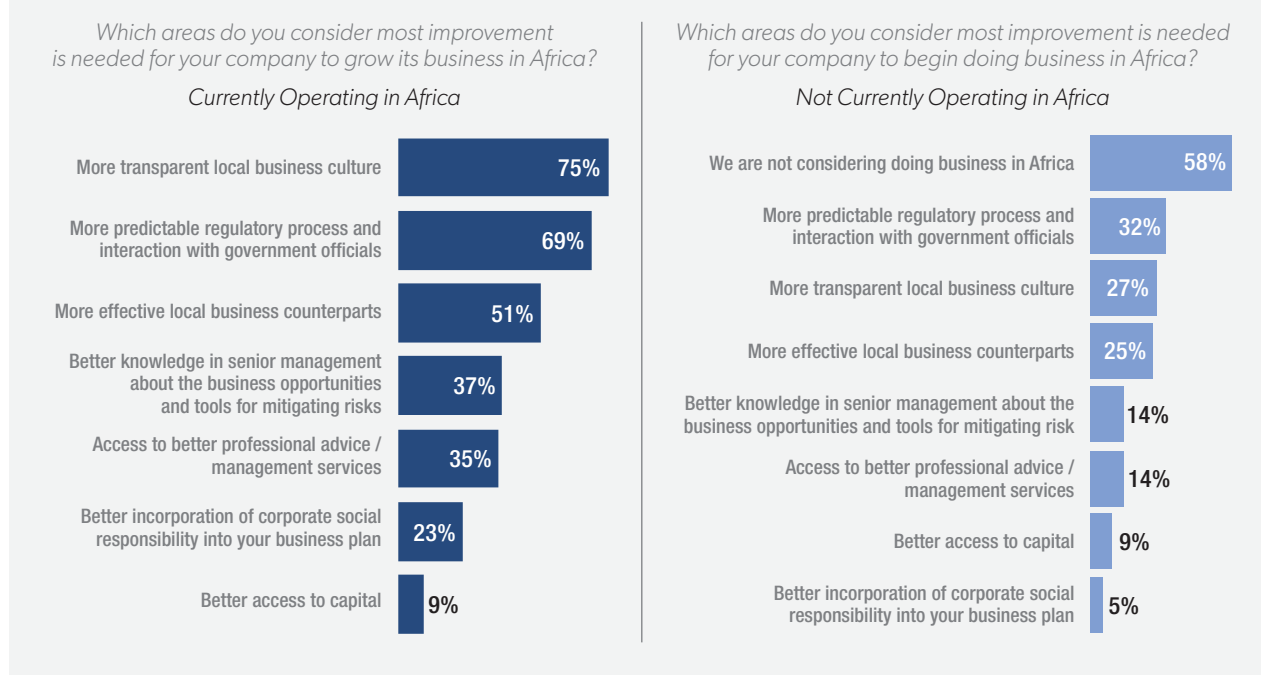
Identifying the Challenges Facing Multinationals

Given that a majority of respondents indicated that their companies do not operate in Africa, we wanted to know why. What prevented them from doing business there? What concerns did they have? Perhaps more

importantly, we wondered what changes or improvements within African countries might increase their likelihood of doing business there.

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FIGURE 2: IMPROVEMENTS IN TRANSPARENCY AND REGULATORY PROCESSES ARE NEEDED TO INCREASE BUSINESS IN AFRICA

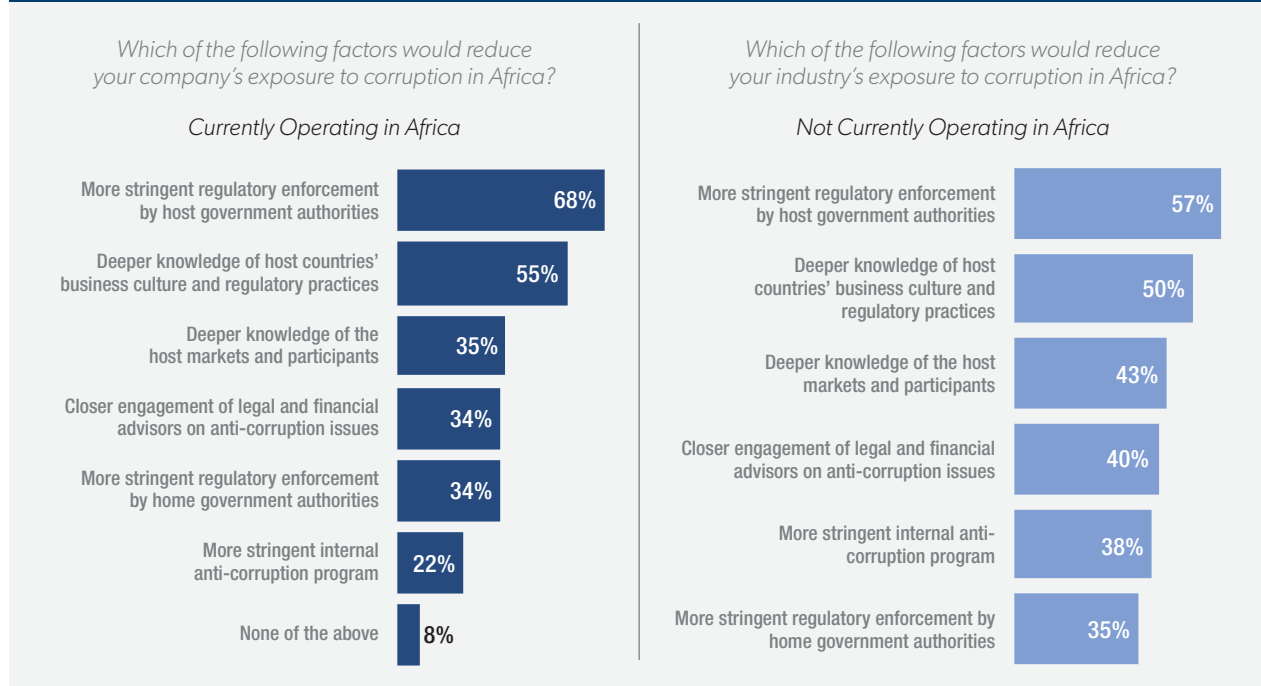


Companies that do not operate in Africa were concerned about governance and regulatory frameworks. Within this group, 58% indicated that they were not considering doing business in Africa. Among companies that operate in Africa, three-quarters indicated that a more transparent local business culture was

necessary in order for them to increase their business there. Approximately 70% said that more transparency into regulatory processes and better interaction with government officials were needed. Half of these respondents said they wanted more effective working relationships with local counterparties.

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FIGURE 3: REDUCING CORRUPTION RISK REQUIRES INCREASED LOCAL ENFORCEMENT AND BETTER KNOWLEDGE OF LOCAL CULTURE



Corruption: The Influence of News and Africa's Legacy

Corruption was considered to be a serious concern among many survey respondents. Eighty-six percent of those whose companies operate in Africa said they faced some risk associated with corruption. Nearly two-thirds based this risk on the general reputation of the continent, while more than half attributed it to credible accounts by others. Sixty percent of the respondents at companies that are not operating in Africa based these risks on the continent's general reputation.

Only 10% attributed this concern to first-hand knowledge. Regardless, concerns about corruption are clearly shaping companies' decisions to invest in Africa. A quarter of all respondents said they avoided or ceased doing business there because of concerns about their ability to comply with anti-corruption laws.

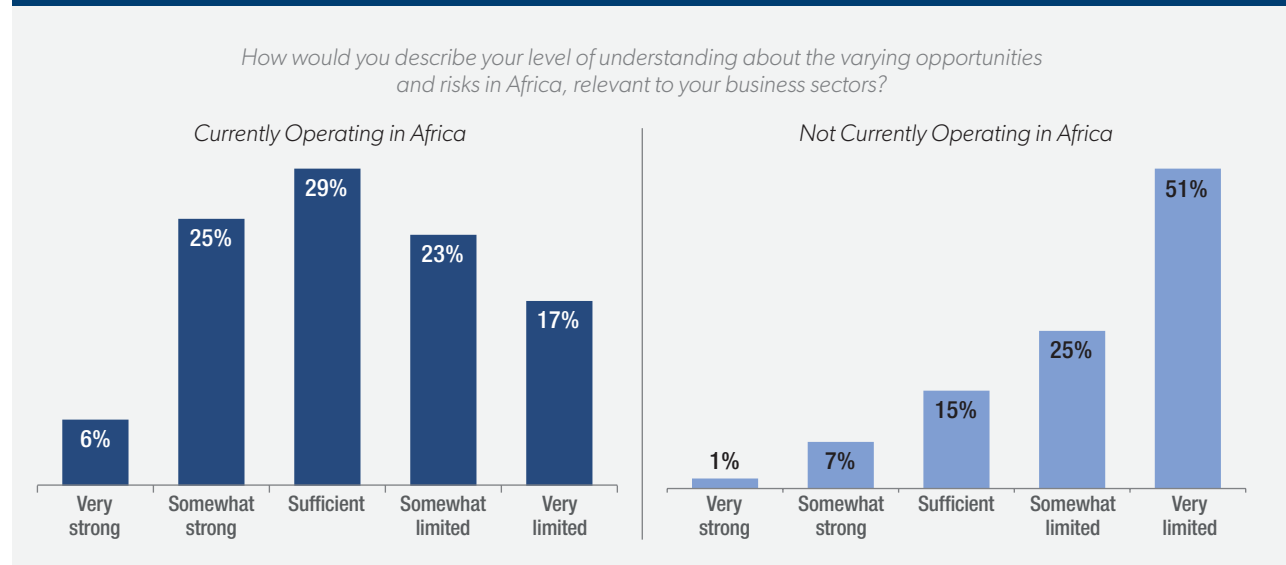
A majority of respondents at these companies said that more stringent regulatory

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enforcement by local governments would reduce exposure to corruption. Respondents also said that a better understanding of

African business cultures and assistance from legal and financial advisors would help to mitigate these risks.

FIGURE 4: MOST COMPANIES HAVE A LIMITED UNDERSTANDING OF AFRICA



Perhaps not surprisingly, three-quarters of those respondents whose companies do not do business in Africa said they had a limited understanding of the opportunities present in the region. Interestingly, 40% of respondents at companies that currently operate in Africa said their knowledge of Africa was limited.

A lack of understanding may be the key reason behind many companies' reluctance to do business in Africa – 73% of respondents at companies not operating in Africa said their companies had no plans to initiate business there.

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Conclusion

Based on our survey, many companies have yet to fully recognize the growth potential that Africa represents. Concerns related to corruption and transparency into African business, along with uncertainties related to regulatory processes and local partners, seem to have discouraged many multinationals from investing there. With so many macroeconomic and demographic factors on the upswing, there are good reasons for companies to consider ways to overcome the actual and perceived hurdles to doing business in Africa.

We would like to thank those professionals who participated in our survey for providing valuable insights into their business objectives and experiences in Africa. The survey results tend to confirm other anecdotal evidence that suggests that despite progress, Africa continues to be plagued by negative perception and a limited understanding of

its investment prospects. This situation may represent a lost opportunity for all sides. Perhaps as important as those concerns related to corruption and other challenges associated with doing business in Africa is the notion that many companies may not be aware of tools that may help in addressing them. Our experience indicates that there are excellent risk-reward returns for those informed companies that are able to take a differentiated view and adopt the practices needed to manage legal, financial, and operational risks. As companies seek to capitalize on these opportunities, they will need reliable information from trusted partners to help guide them through business decisions. In addition to sound legal and financial advice integrating international expertise and local insights, they will also need compliance mechanisms tailored to operating within Africa's diverse contexts.

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AlixPartners conducts a broad range of surveys and research in industries around the globe.

To learn more about our publications, or to contact the AlixPartners professional nearest you, please visit <http://www.alixpartners.com/whatwethink.aspx>.

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Recently voted the “leading law firm in Africa” by *emeafinance* for the third consecutive year, Dentons provides international clients with the benefit of exceptional experience in Africa. We have been helping our clients with business solutions in Africa’s dynamic markets for over 60 years. Our 20 associate offices in countries across the African continent are integrated in client service with our established presence in major business and financial centers. Drawing on a team of dedicated Africa specialists in Washington DC, New York, London, Paris, Cairo, and Dubai, Dentons offers a full range service on Africa-related matters, including finance, energy, infrastructure, mining, dispute resolution, compliance and anti-corruption advice. One differentiating feature of our value-added service is the combination of our high technical expertise in the legal and commercial context with our understanding of how to navigate the government relations aspects of successfully doing business in Africa and other emerging markets.

Dentons also has a team of seasoned anti-corruption professionals who regularly handle complex matters arising under the United States Foreign Corrupt Practices Act (FCPA), the U.K. Bribery Act, and similar anti-corruption laws implemented worldwide. We represent corporate and individual clients across a wide range of industries in connection with internal investigations, enforcement defense, pre-acquisition due diligence, and compliance enhancements. With our depth of expertise in emerging and developing markets, which are often perceived as having a higher corruption risk, we are ideally placed to provide practical and commercial advice when our clients are considering entering these markets.

Effective March 28, 2013, SNR Denton proudly combined with international law firm Salans and Canadian law firm Fraser Milner Casgrain (FMC) to form Dentons—a new Top 10 international law firm with more than 2,500 lawyers and professionals in 79 locations in 52 countries—to provide clients a competitive edge in an increasingly complex, interconnected and competitive marketplace. For more information, visit dentons.com.

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