



Part One: The Corporate Conversation

THE CONVERSATION BEHIND CLOSED DOORS

**Inside the Boardroom:
How Corporate America Really Views Africa**



AFRICA BUSINESS INITIATIVE

U.S. CHAMBER OF COMMERCE



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ABOUT THE SURVEY

The Conversation Behind Closed Doors is a two-part, qualitative survey conducted by Baird's CMC in partnership with the U.S. Chamber of Commerce.

Part one, The Corporate Conversation, is an inside-the-boardroom survey of attitudes toward corporate investment in Africa among leading U.S. corporations. The information was gathered during a series of behind closed door interviews. All interviews took place from January to November 2008 and were conducted in person by senior associates of Baird's CMC. This document presents the findings of part one.

Part two, The Public Sector Conversation, will be conducted over the next several months. It is an inside-the-government survey of the responses set forth in part one.



RESEARCH METHOD

Participants

Top management decision makers in 30 leading U.S. multinational corporations participated. A majority were executives of U.S. Fortune 100 corporations.

Industries Represented

- Aerospace/Defense
- Agribusiness
- Consumer Goods
- Health Care
- Information & and Communications Technology
- Infrastructure
- Media
- Petrochemical/Extractive
- Pharmaceutical
- Transportation

Confidentiality

All responses are anonymous and are not attributable to individual participants.

Study Design

The research practice of Baird's CMC adheres to the rules of The European Society for Opinion and Marketing Research (ESOMAR). ESOMAR is the world organization for enabling better research into markets, consumers, and societies. The survey was governed by a review panel comprising representatives from the U.S. Chamber, Baird's CMC, and independent organizations.

This survey examined the reasons why U.S. companies hesitate to invest in Africa. It also looked at what American businesses and African countries can do to increase U.S. investment across the continent.



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About the U.S. Chamber of Commerce and the Africa Business Initiative

The mission of the Chamber's Africa Business Initiative is to engage the U.S. business community on policies that foster foreign direct investment in Africa, to facilitate trade between the United States and African countries, and to educate the U.S. business community about the continent's economic opportunities.

The U.S. Chamber of Commerce is the world's largest business federation representing more than 3 million businesses and organizations of every size, sector, and region; as well as 112 AmChams in 99 countries around the world.

About Baird's CMC

Baird's CMC is an international communication management consulting firm, operating in 11 countries with 28 partners employing over 400 people. Baird's CMC is represented in Washington, D.C., New York, Johannesburg, Gaborone, Harare, New Delhi, Mumbai, São Paulo, London, Newport (Wales), Paris, Berlin, Moscow and Warsaw. Its global research practice has interview panel members in 42 countries.

Overview

Africa is the world's second largest and second most populous continent after Asia, with a population nearing 1 billion. It accounts for 14% of the world's population. More than 1,000 languages are spoken across its 53 countries. In addition, Africa covers 20% of the world's total land area and contains about 30% of its mineral reserves.

African governments have indicated a willingness to create investment-friendly environments for FDI, and U.S. multinational corporations would typically be expected to take advantage of such environments to invest and grow their businesses in Africa. So why has Africa not attracted more interest from the U.S. business community?



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Executive Summary

Key Findings

U.S. executives point out that Africa is only one of many possible destinations that American corporations consider for investment. Investment is highly competitive, and many countries are vying to become the destination of choice for capital. That said, U.S. companies in some sectors, particularly technology, now regard Africa as the last frontier for growth. These companies believe that Africa, with its market of about 1 billion people, can no longer be ignored. Even with this interest, Africa faces tough competition and huge hurdles to attract U.S. investment.

Globally, competition for American FDI is high. Countries from all regions showcase their advantages, align their offers to U.S. needs, clamor for attention, and invest in their own countries to attract additional investment. Consequently, U.S. corporations do not lack investment choices, and they rarely consider African nations.

Further, news about Africa is mostly about chaos and unrest. Africa is not active or aggressive enough about attracting investment; the voices of the few countries that are making an effort get lost in the surrounding negative noise. Some African countries are making special efforts to assist foreign companies that invest. For example, Nigeria's president regularly engages with the local leaders of foreign companies to help cut through bureaucratic tape.

U.S. corporations need a strong and specific draw from Africa to make investment worthwhile. This can be the pull of a big market or a big source of critical raw materials or a belief that there is a competitive advantage to early entry into African markets. The survey data show that few of these pulls exist or are not sufficiently strong to be effective in the near term.



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Investment—Five Influencing Factors

This survey reveals that five factors influence the decision of U.S. corporations to invest in Africa:

- Rule of law—A strong consensus exists among the respondents that the rule of law does not prevail to the degree required to make Africa an attractive investment destination. This applies to corporate, societal, and criminal law.
- Attraction—Africa does not offer a sufficiently large middle class of consumers or show consistent economic growth that could promise a future market. Most African countries are small and have poor markets, and there are barriers to regional markets—such as taxes and the freedom of movement of people and goods. However, Africa does offer enormous natural resources and that is an attraction.

INSIDER'S VIEW

“We look at the spending power of the country, its political stability, and the corruption index.”

- Risks versus rewards—U.S. corporations look at “risk adjusted ROI” when considering Africa as an investment destination. Given the currently perceived risks in Africa, the rewards have to be very high to make it worthwhile to invest. Presently, U.S. corporations say that there are very few visible promises of high future returns to justify significant interest in investing.
- Supportive business framework—Transportation and communications infrastructure, trained or trainable human resources, and equitable trade and employment practices are essential elements to support corporate investment. Currently, these elements are insufficient.
- A welcoming environment—In order for U.S. companies to employ locals, African countries must do a better job of providing education and health services to the potential workforce. By making it easy for companies to set up and do business, African countries will show a willingness to encourage FDI.



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Overall, U.S. businesses do not view Africa as an attractive place to invest. The image of lawlessness, corruption, unstable governments, an inadequate infrastructure, uneducated or untrained people, and an unwelcoming government attitude toward business serve as major deterrents.

INSIDER'S VIEW

“In Africa, it’s like playing Russian roulette and it’s risky.”

Investment Impediments

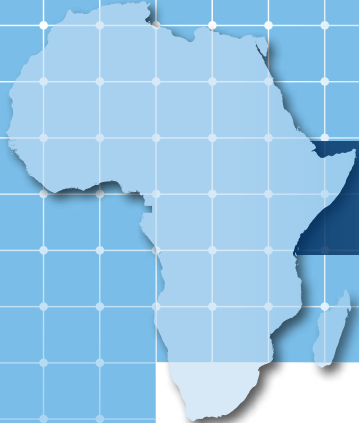
Respondents to this survey honed in on three major impediments to American investment on the African continent:

- **Difficult business case**—Planning for investment in Africa is fraught with uncertainty because the risks seem too high and the returns too inconclusive to merit significant capital allocation. Executives find that any investment in Africa needs a lot of hard selling within a corporation—the push-back is that it is too much trouble for an unreliable promise of return.

INSIDER'S VIEW

“We are a stock market-listed company, so the first thing is return on investment. Can we make money? And can we get the money out? For instance, you can make money in Zimbabwe, but it cannot be repatriated. So it doesn’t make sense for us.”

- **Corruption and uncertainty**—The main problems concerning investment in Africa relate to corruption and the apparent lack of political will to curb it. U.S. businesses believe that these practices handicap those who will not or cannot “play the game” by these rules. In addition, returns are not reasonably ensured or sustainable because costs can often escalate for reasons unrelated to business operations and the rules can change unexpectedly. This means that the time and resources already invested could be lost.



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- Opportunity cost—Executives do not yet believe that they are at a competitive disadvantage because they are not investing in African countries. With no competitive traction, there is no sense of an opportunity being missed. Furthermore, since Africa is not selling itself overtly by asking for investment, the continent does not attract enough attention amidst competition for investment from other developing countries or regions. The only exceptions to this are China and India.

U.S. Business Wish List

INSIDER'S VIEW

“Educate your people so that we can employ them.”

To attract FDI, corporate America asks African nations to do several things:

- Invest in the health and education of the African people to create a large pool of skilled and productive human resources.

INSIDER'S VIEW

“There need to be investments in education and health so that there’s a growing layer of the population that eventually can afford to buy our products.”

- Invest in and maintain infrastructure—transportation, communications, electricity, and security—so that there will be a reliable society in which to operate.

INSIDER'S VIEW

“Are there investments in infrastructure—roads and hospitals and electricity grids and telecommunication grids?”



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- Build a functioning legal system to ensure the rule of law, transparency, and fair play.

INSIDER'S VIEW

“Create environments in which you feel reasonably confident that your intellectual property rights and other legal protections are in place to be able to do business without being blindsided.”

- Create a positive climate for foreign investments by reducing bureaucratic processes, eliminating corruption, and reforming tax systems, irrespective of country of origin.

INSIDER'S VIEW

“Executives need to feel confident that the government is going to honor contracts and not change the rules of the game when we need to proceed with any kind of business transaction.”

- Ensure stable political environments—that may or may not be based on western democratic principles—that work toward the common good of all stakeholders in society.



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Going Forward

The survey results show that Africa is not yet a top investment choice for U.S. corporations. There are several reasons for this: The promised return is not commensurate with the risks; other continents, countries, and regions offer better investment options; and U.S. executives view Africa as needing excessive work to be an attractive investment choice.

INSIDER'S VIEW

“I won’t risk my reputation and hard work over years to establish a new facility if risk factors are too high. Our company’ internal audit of a country drives decisions.”

Generally, survey respondents see pockets of potential in Africa, and they recognize that some countries are making an effort to change.

Corporate America would be more interested in investing in African countries that are seriously trying to attract investment if the following characteristics were in place:

- Stable political environment
- Educated workforce
- A fair business environment
- Improved infrastructure

In addition, countries and regions in Africa need to sell themselves more aggressively to corporate America. But even if Africa learns to better market itself to U.S. businesses, investors will hesitate because Africa is regularly portrayed in the media as unstable and violent.

Until the overall picture stabilizes, most African nations will find it tough to attract FDI. Exceptions include northern countries like Morocco and Egypt and sub-Saharan countries like South Africa and Nigeria, with proven business potential. However, the investment jury is still out even for these countries.



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Therefore, African government and business leaders should decide how best to overcome the impediments—both real and perceived—to U.S. corporate investment.

INSIDER'S VIEW

“For me, Africa is West Africa, East Africa, Central Africa, and South Africa— which are four totally different worlds.”

A focus on regional harmonization is increasingly necessary for Africa to succeed in attracting investment. This will help overcome the negative images generated by a single country, improve market access for investors, and allow for a more streamlined regulatory environment to encourage business investment.

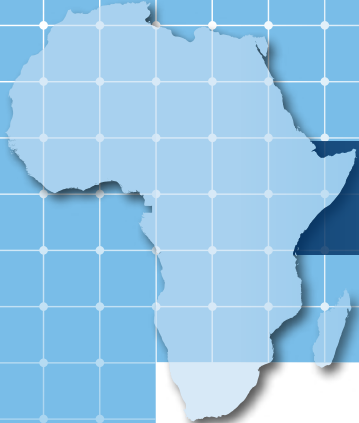
American businesses also need to consider carefully the opportunity cost of ceding Africa to its European, Chinese, and Indian competitors. If U.S. corporations are able to find ways of overcoming their fears, as they do in other parts of the world, the business case for investing in Africa is increasingly attractive. This is proven by success stories in oil and gas, extraction, telecommunications, retail sectors, and the growth of fast-moving consumer goods companies.

Since Africa offers long-term growth opportunities to U.S. companies, there is clearly a need for the U.S. government to find more innovative ways to help U.S. corporations invest on the continent.

INSIDER'S VIEW

“Once we are in a country, we often look at other opportunities.”

Finally, Africa may want to consider the benefits of encouraging U.S. corporations whose



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stated desire is to employ Africans, unlike others who merely exploit African mineral resources without contributing to local employment. Africa may also benefit in the long term from the U.S. approach of skills transfer and technology development, provided that its intellectual property is protected.

INSIDER'S VIEW

“What is much more essential than building factories is that we are willing to export intellectual capital. Plants can be closed or relocated. It is much more important long term that an investor is willing and committed to sharing intellectual capital.”

How Africa prepares to accommodate the concerns of U.S. corporations and compete for U.S. investment is the topic of part two of this study.