OXFORD ECONOMICS
AFRICA DIVISION

Control Risks

Africa Risk-Reward Index

September 2021

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Control Risks has over 40 years of experience working in Africa and over 400 people in the region supporting our clients and their operations. We have offices across the continent in Nigeria, South Africa, Kenya, Senegal, Mozambique, as well as on-ground representation and long-term projects in Mauritania, Mali, Niger, Chad, Cameroon, Cote D'Ivoire, Angola, Congo (DRC), South Sudan, Ethiopia, Algeria, Libya and Egypt. With recent project experience in 30 countries on the continent, we have unrivalled on-ground expertise, experience and local presence. We work with the some of the largest investors and multinationals across the region as well as the most respected African companies, from mining and energy to NGO's, technology and telecommunications.

Oxford Economics Africa, based in South Africa, has specialised in macroeconomic research in Africa since 2003. Insights are provided within the context of comprehensive knowledge of the African continent, its history, and each country's unique political and economic setting. In 2015 we became part of the Oxford Economics group, to better combine Oxford Economics' global base and unparalleled technical expertise in modelling with our Africa-specific skills and insight. In September 2021, we decided to fully align our brand with our majority shareholder -- from now on, NKC African Economics will be known as Oxford Economics Africa.

Oxford Economics is one of the world's foremost independent global advisory firms, providing reports, forecasts and analytical tools on more than 200 countries, 250 industrial sectors, and 7,000 cities and regions. The firm's best-in-class global economic and industry models and analytical tools give it an unparalleled ability to forecast external market trends and assess their economic, social and business impact. Headquartered in Oxford, with regional centres in London, New York, and Singapore, and offices around the globe, the firm employs more than 400 people including more than 250 economists and analysts. Oxford Economics is a key adviser to corporate, financial and government decision-makers. Our worldwide client base now comprises over 1,500 international organisations, including leading multinational companies and financial institutions; key government bodies and trade associations; and top universities, consultancies, and think tanks.

Experts from **Control Risks** and **Oxford Economics Africa** are pleased to present the sixth edition of the **Africa Risk-Reward Index**. The index captures the evolution of the investment environment and risk landscape in major African markets.

Africa Risk-Reward Index: September 2021 scores and changes from the September 2020 edition.
See Page 17 for full details of the methodology and scores framework

COUNTRY	REWARD SCORE (OUT OF 10)*			RISK SCORE (OUT OF 10)**		
	Sep 2020	Sep 2021	Change since last edition*	Sep 2020	Sep 2021	Change since last edition**
Algeria	3.27	4.77	1.50	5.81	5.76	-0.05
Angola	1.48	3.22	1.74	6.13	6.13	0.00
Botswana	2.19	5.11	2.92	3.58	3.63	0.05
Cameroon	2.75	4.25	1.50	6.80	6.17	-0.63
Côte d'Ivoire	5.71	6.50	0.79	6.16	6.72	0.56
DRC	2.63	4.32	1.69	7.66	7.62	-0.04
Egypt	4.05	6.13	2.08	5.73	5.68	-0.05
Ethiopia	6.01	6.94	0.93	7.17	7.83	0.66
Ghana	4.50	4.84	0.34	5.08	4.99	-0.09
Kenya	4.84	5.84	1.00	5.67	5.80	0.13
Malawi	3.40	2.74	-0.66	5.79	5.50	-0.29
Mauritius	3.13	5.02	1.89	3.23	3.45	0.22
Morocco	4.19	5.42	1.23	4.06	4.09	0.03
Mozambique	2.94	2.88	-0.06	6.36	6.61	0.25
Namibia	1.30	3.15	1.85	4.21	4.28	0.07
Nigeria	4.04	5.87	1.83	7.35	7.38	0.03
Rwanda	4.68	5.32	0.64	5.04	5.30	0.26
Senegal	3.49	4.69	1.20	4.63	5.01	0.38
South Africa	3.31	5.69	2.38	4.60	4.73	0.13
Tanzania	4.39	5.18	0.79	5.43	5.22	-0.21
Tunisia	2.34	3.88	1.54	5.43	7.74	2.31
Uganda	4.18	4.94	0.76	6.15	6.10	-0.05
Zambia	1.07	1.85	0.78	5.91	5.74	-0.17
Zimbabwe	1.30	3.87	2.57	7.24	7.44	0.20

* For reward scores: improved reward score coded green, negative change (reduced reward) coded red.
** For risk scores: reduced risk score coded green, increased risk score coded red.
Source: Control Risks/Oxford Economics/Haver Analytics

In a year when pandemic recovery has seen improvement across the whole continent, the below countries are those that have seen the biggest movement in their overall risk-reward scores between 2020 and 2021. For some countries this is due to increasing reward scores, for some to declining risk scores, and for some a combination of both.

Botswana
+2.87

Zimbabwe
+2.37

South Africa
+2.25

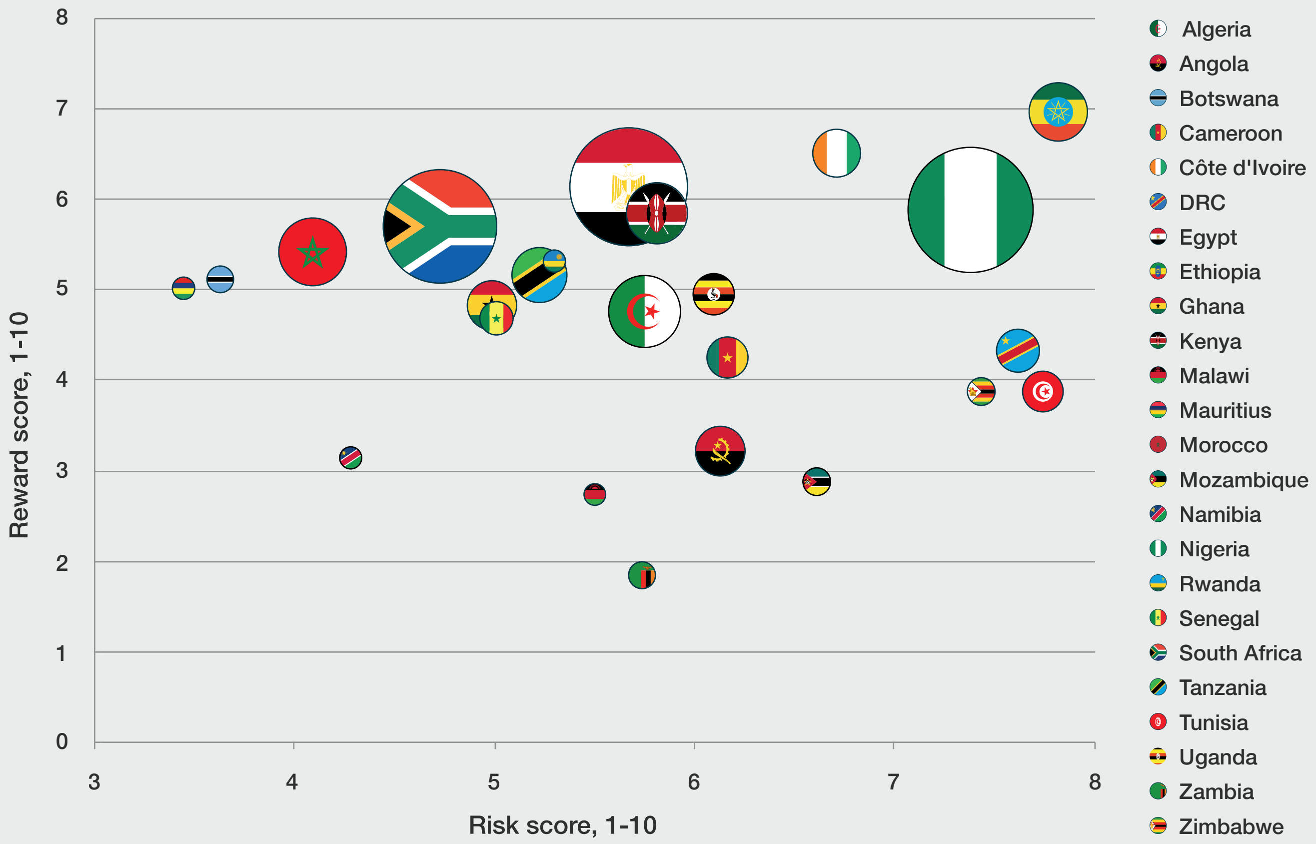
Cameroon
+2.12

Egypt
+2.12

Foreword

This index is not a ranking; how to balance risks versus reward is a choice for individual investors. Similarly, it is not intended to be a comprehensive exposition of all the market nuances that should be understood in order to maximise chances of investment success.

Fig.1 Africa Risk-Reward Index: The position of each country is defined by its risk and reward score. The size of its bubble represents the size of the country's GDP. The individual scores for each country for risk and reward are shown in the table opposite. Further details on the methodology for calculating each country's scores are provided in detail in the annex.



It is instead a snapshot of a continent that remains one of the world's most exciting investment destinations. It presents our view of where the challenges and opportunities lie, based not on recent headlines but on our analysts' assessment of more structural political and economic factors.

The Africa Risk-Reward Index is intended to highlight key trends that investors should be thinking about. It is intended to challenge preconceptions and help set priorities for further research, and we hope it will serve as a starting point for the important discussions investors should be having.

Risk and reward in 2021

The COVID-19 pandemic was the single largest factor affecting risk-reward scores in 2020. The economic hit lowered reward scores across the continent. The effect on risk scores was more varied and more influenced by other factors, but nonetheless skewed negative. The scores in this edition of the Africa Risk-Reward Index shows the impact of Africa's economic recovery. Medically, Africa remains in the midst of the pandemic. Case numbers are starting to decline after a third wave, but vaccine rollouts remain slow and further spikes are possible. Nonetheless, economies are starting to recover, and the virus is no longer an all-consuming issue infringing on every area of the investment landscape.

This economic recovery is in its early stages and slow; the continent's GDP growth in 2021 is forecast at 4.4% by Oxford Economics Africa, somewhat below the 6% forecast for the rest of the world. This is likely to be the start of a gradual and uneven recovery process, as discussed in the 2020 Africa Risk-Reward Index. Nonetheless, it has returned the continent to growth and had a knock-on impact on reward scores. Many of the countries that suffered the worst hit in 2020 saw the strongest recoveries, especially when – as in the case of Botswana, Mauritius or South Africa – they were able to support that recovery through stimulus spending.

Changes in risk scores are less attributable to a single driver. In Ethiopia, an increased risk score has been driven primarily by the Tigray conflict, which began soon after publication of last year's index and continues to drive security threats. Tunisia's increased risk score, in contrast, is driven by a primarily political crisis initiated when President Kais Saied dismissed the government and suspended parliament on 25 July. Meanwhile, Malawi has seen its risk score decline since President Lazarus Chakwera came to power in a 2020 re-run presidential poll that reaffirmed Malawi's democratic credentials. A similar demonstration of democratic strength occurred in Zambia on 12 August, when the opposition United Party for National Development (UPND) won against an incumbent administration with authoritarian tendencies.

The overall landscape therefore remains complex. The COVID-19 pandemic has not had a uniform effect. It has spurred positive change in some countries, exacerbated challenges in others, and in some has proved largely incidental relative to other developments. What has happened over the past year is a broad recalibration of Africa's relationship with the rest of the world; a recalibration that, like everything else, has been at times spurred by the pandemic, at times exacerbated by it, and at times driven by entirely separate developments.

One of the most direct ways in which the pandemic has prompted a rethink of Africa's international relations arises from its medical response. On 2 September, the World Health Organisation (WHO) warned that 80% of African countries would miss targets to vaccinate 10% of the population by the end of that month. While there have been challenges associated with vaccine scepticism and domestic rollouts, the primary obstacle to faster rollouts is the lack of supply from external partners. This has undermined what has otherwise been an impressive pandemic response from many African governments, and has forced them to reconsider their reliance on the international community. Our first article in this edition of the Africa Risk-Reward Index puts a spotlight on the fledgling biotech and health-tech industry that is suddenly the focus of efforts to build a new African growth sector.

Another area where Africa's reliance on external partners is under scrutiny is in the continent's debt profile, which is explored in our second article. Rising debt has been a long-term concern exacerbated by the strain of supporting pandemic-hit economies. Even as African governments turn to multilateral financial institutions, bilateral donors and external private-sector creditors to help fill budget shortfalls, the dangers of ever-growing debt burdens are becoming more pronounced. In response, finance ministries across the continent are coming up with innovative mechanisms to keep the credit coming. Not all of these involve turning away from external funding, but they do represent a shift in the way governments are engaging with international markets.

Finally, our third article looks at the changing nature of security assistance to the continent. This is not pandemic-related or even specific to Africa: the US withdrawal from Afghanistan exemplified the reluctance Western governments to engage in military interventions around the world. Yet it comes at a time when the security environment in Africa is arguably more volatile than it has been for years. In the absence of Western military engagement, other actors – both African and external – will attempt to fill the gap with new approaches. In the long term, these may be successful in addressing security threats or they may create new ones. In the short term, there is little doubt that they will result in anything but increased unpredictability.

In all of these areas, new approaches and new roles for Africa's international partners will be influential in shaping the continent's post-pandemic recovery. In many cases, this will have direct and specific implications for investors: opening new opportunities in the biotech sector, reducing non-payment risks from debt-burdened governments or increasing threats posed by militancy in places like the Sahel. But even where the direct implications are not obvious, these issues will affect the wider political, economic and security landscape. Investors must consider them during any attempt to forecast where Africa's future risks and rewards will lie.

For more in-depth analysis tailored to your sector and company, please contact us at: ARRI2021-Enquiry@controlrisks.com or africa@oxfordeconomics.com.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Metrofile

Healing stronger: How the COVID-19 pandemic can give rise to new industry

Growth in Africa's biotech industry will accelerate over the coming years even as the COVID-19 pandemic that triggered it is slowly pushed back. Investors should recognise the opportunities this creates, which spread far beyond just healthcare.

The glacial pace of vaccination against COVID-19 across Africa has dashed hopes that 20% of the continent's population will be fully vaccinated by the end of 2021, and raised concerns that its countries, with nothing to halt the spread of the virus, could become hotbeds for the development of new, possibly more deadly, variants. By the end of August 2021, just 2.47% of the continent's population had been fully vaccinated; 4.51% have received one dose.

The situation in Africa is in stark contrast to other parts of the world, like the UK, US and parts of Europe, where vaccination campaigns have proceeded so rapidly that there is now discussion of administering third "booster" shots to fully inoculated populations. The medical implications of this disparity are clear, as is the anger it has fuelled in some parts of Africa. The UN High Commissioner for Refugees (UNHCR) has warned of the possibility that vaccine-busting variants will emerge from the world's unvaccinated population, while the Kenyan government has decried the "vaccine apartheid" between rich and poor countries.

Although African countries have struggled with vaccine scepticism and logistical challenges, the primary cause of the continent's low vaccination rate is a lack of supply. Shortages have periodically forced vaccine rollouts to slow across much of the continent. At various points in 2021, countries like Malawi, Namibia, Nigeria, South Sudan and Uganda have run out of doses completely. Even when the COVID-19 Global Vaccine Access Facility (COVAX Facility) delivered doses, in some cases – like in Malawi and South Sudan – these have come just weeks before their expiration date, giving health authorities limited time to administer them and resulting in leftover stock being destroyed.

These capacity constraints extend well beyond just vaccines. In many countries, large portions of the population do not have access to healthcare, and even where they do that healthcare has struggled with shortages of personal protective equipment, oxygen and other equipment throughout the pandemic. At the start of 2020, only Senegal and South Africa had laboratories capable of testing samples of COVID-19; while a number of countries built that capacity in the few months before the virus hit, many others spent most of 2020 sending samples abroad to be tested. Testing capacity remains limited, with almost all of Africa still subject to travel restrictions imposed by much of the rest of the world, not because of particularly high case rates – even accounting for limited testing, hospitalisation and death figures, case rates in Africa are a fraction of those in Europe or the Americas – but because of concerns over the ability of governments to carry out sufficient tests and identify new variants.

Yet even as COVID-19 has exposed limited vaccine capacity, it has prompted efforts to improve it. Johnson & Johnson's Janssen vaccine is now produced in South Africa by Aspen Pharmacare, the first vaccine production facility in Africa. While the 30m doses produced so far have been shipped abroad to fulfil contractual requirements elsewhere – a source of widespread anger – future doses will stay in the continent. There are numerous other planned initiatives to boost the continent's ability to develop and manufacture vaccines, including an mRNA vaccine technology transfer hub in South Africa and manufacturing facilities in Egypt, Morocco and elsewhere. In July 2021, a US biotech firm, Dyadic International, announced a technology-transfer and licensing deal with South Africa's Rubic Consortium to produce COVID-19 vaccines, and German biotech company BioNTech announced that it will establish an mRNA vaccine plant in South Africa. The Institut Pasteur is planning to build a manufacturing plant in Senegal under an agreement with Belgian biotech company Univercells to produce 300m COVID-19 viral vector doses a month by the end of 2022.

Beyond vaccines, Africa's capacity in all other areas of its pandemic response has similarly improved. Every country in Africa now has domestic COVID-19 testing capacity, compared to just two before the pandemic struck. In Nigeria alone, the number of laboratories capable of testing for the virus has increased from six to 124, raising its daily testing capacity almost tenfold. Genome sequencing capacity, previously only available in South Africa, is now being established in Liberia, Nigeria, Senegal and Sierra Leone. Analysis by the World Health Organisation (WHO) in October 2020 identified 120 health innovation technologies created or piloted in Africa during the pandemic, from self-diagnostic tools to mechanical ventilators.

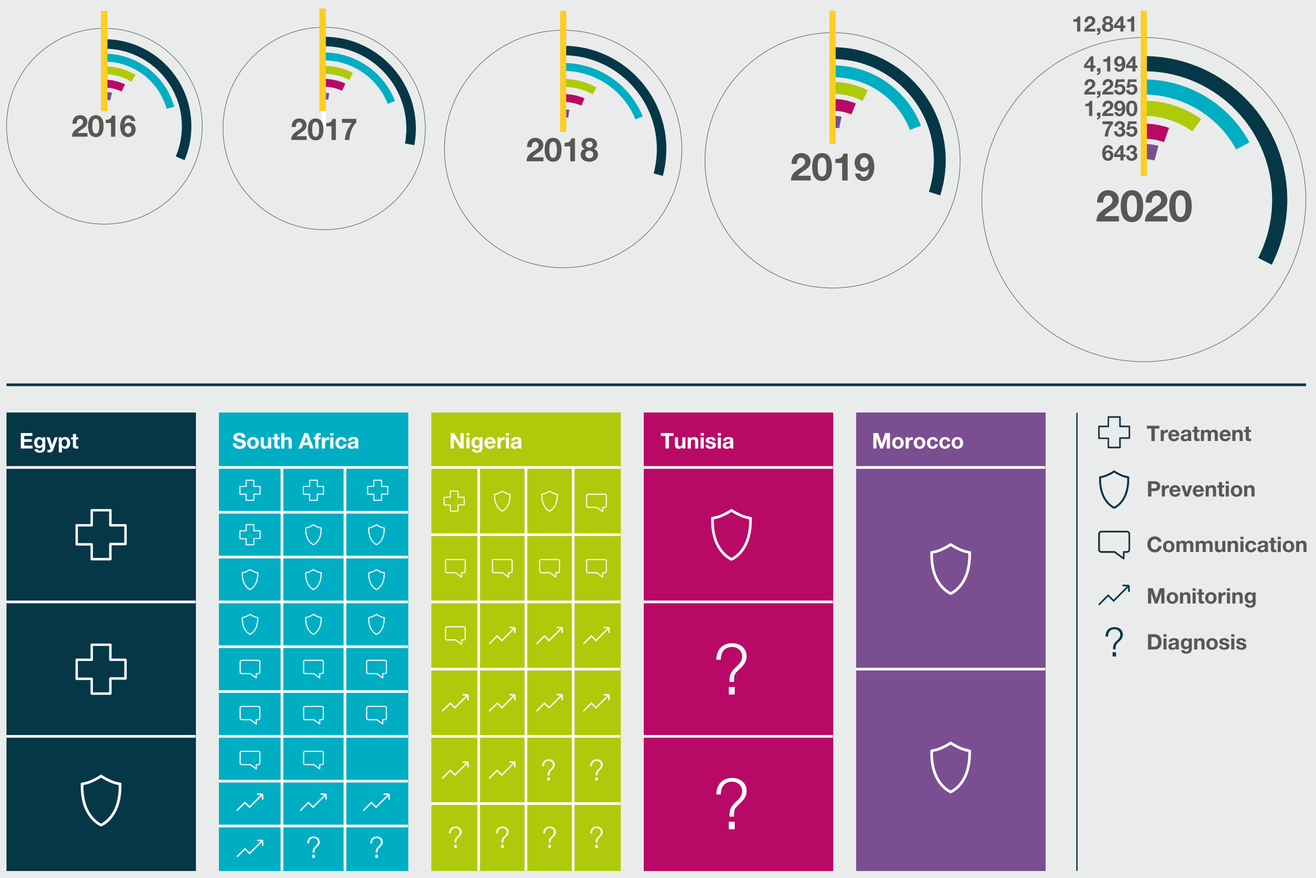
These improvements have been facilitated in large part by multilateral financial institutions and other development partners. Most of the vaccine manufacturing projects and many of the new laboratories have been pushed forward with financial support from the EU, the World Bank and bilateral donors. The Africa Finance Corporation (AFC) and Afreximbank have committed financial support for vaccine manufacturing on the continent. In April 2021, the African Union (AU) and Africa Centres for Disease Control and Prevention (CDC) launched the Partnerships for African Vaccine Manufacturing (PAVM), an initiative that aims to develop capacity to manfuacture 60% of Africa's vaccines on the continent by 2040.

But the private sector is also starting to take notice, spurred by opportunities across biotechnology and e-health services, such as telemedicine and digital healthcare applications. Investment in African health-tech start-ups reached USD 103m in 2020, almost four times the levels seen in 2019, while biotech investment also soared, despite an overall pandemic-related downturn in investment flows into Africa. Nigerian biotech start-up 54Gene launched Africa's first private lab for human whole-genome sequencing in December 2020 after raising USD 15m in funding earlier that year; the company plans to create Africa's largest biobank. South African biotech start-up LifeQ secured USD 47m in funding in May to meet demand for remote health monitoring. Ghanaian start-up Yemaachi Biotechnology, typically focused on developing cancer detection and treatment strategies, received funding from Google to sequence and track COVID-19 variants.

There are restrictions on this growth, however. Biotech start-ups frequently cite access to public funding as a key challenge. This creates a huge appetite for private-sector investment that is increasingly being encouraged by governments. Rwanda, for example, introduced an investment law in February that aims to encourage biotech and other technology investments in a new Kigali Innovation City. In July,

Fig.2 ▸ Research and innovation

Citeable documents published in the field of Biochemistry, Genetics and Molecular Biology



Source: World Health Organisation COVID-19 Innovations Database, SCImago Journal & Country Rank

Morocco signed a memorandum of understanding with Recipharm, a pharmaceutical contract development and manufacturing company, to invest USD 500m in manufacturing facilities to achieve “vaccine sovereignty and access to future biotherapeuticals”. Nevertheless, a wider lack of public funding still limits the initial academic research that underpins the most successful biotech ecosystems around the world by providing companies with a pipeline of new innovations, new products and necessary skills.

Intellectual property protections and other regulatory issues have also proved a significant obstacle to attempts to boost African vaccine production, despite efforts spearheaded by South Africa and India to have the World Trade Organisation temporarily suspend COVID-19 vaccine patents. While individual countries have taken steps to address regulatory issues – Nigeria, for example, amended its National Biosafety Management Agency Act of 2019 to provide the necessary framework for modern biotech research – regulatory divergence within Africa creates barriers to research, technology transfers and market access. The African Continental Free Trade Agreement (AfCFTA) will help address some of these issues, especially as talks on intellectual property harmonisation begin in late 2021, but progress is likely to be slow.

For all the challenges it faces, Africa has a track record of leapfrogging development gaps using innovation and technology. And the motivation to do so is huge. COVID-19 may be the most disruptive pandemic the continent has faced so far, but it is not the first – 41 African countries have had previous experience of pandemics – and will not be the last. A 2019 WHO report estimated that sub-Saharan Africa lost more than 600 disability-adjusted life years to illnesses in 2015 alone, causing a loss in productivity of approximately USD 2.4trn. The longevity of the COVID-19 crisis will sustain momentum in the health-tech and biotech sectors, but the benefits of the solutions developed will persist for much longer.

Research and development

Inadequate public funding and attractive opportunities abroad have resulted in the continent losing some of its brightest students to international universities. This ‘brain drain’ has historically not only weighed on academic output but has also reduced the availability of certain skills. However, this is changing. There has been a surge in citable academic literature produced on the continent. Over the past five years alone, the number of published academic papers has more than doubled in a number of countries in numerous fields. Looking at the biochemistry, genetics and molecular science subject area, the number of citable academic publications amounted to just under 4,200 in Egypt last year, making it the most prolific producer of this type of research on the continent. South Africa came in at second with 2,255 publications. While the corresponding figures for Nigeria (1,290), Ethiopia (501) and Kenya (408) are much lower, this reflects a remarkable increase from the figures produced in 2015: Nigeria with 477, Ethiopia with 185, and Kenya with 197). This trend has been driven by a number of factors, including a pick-up in both public- and private-sector funding of research and stronger collaboration between African alumni and their host universities. Looking ahead, the digitalisation of education will undoubtedly accelerate this trend. Not only has the technological experimentation stemming from the pandemic made it easier to collaborate across borders, but the pandemic has also highlighted the importance of doing so.

Plans are already in place to adapt the increased capacity and new innovations developed for COVID-19 to new and future challenges. Globally, the success of COVID-19 vaccines – and in particular the mRNA technology – has prompted a renewed interest in vaccines for other diseases. In recent months, pharmaceutical companies have announced new efforts to advance vaccines for HIV and malaria, both diseases that extract a heavy toll on Africa. BioNTech announced on 27 August that it was considering Rwanda and Senegal as sites for malaria and tuberculosis vaccine production using mRNA technology, while the mRNA vaccine technology transfer hub being developed in South Africa has similar potential to tackle other diseases. Developing such capacity within Africa would likely make vaccines cheaper due to reduced import tariffs, taxes and transport costs.

Beyond healthcare, the development of an African biotech industry promises advancement for another important sector on the continent: agriculture. Roughly 60% of sub-Saharan Africa’s population is reliant on agriculture, yet much of this is still at a subsistence level and much of it is threatened by climate change. Tailored biotech capacities could have significant economic implications: various studies have estimated that every dollar invested in biotech crop seeds returns four to five dollars to the farmer. They could also help this hugely important sector adapt to changing climatic conditions, which in recent years have contributed to widespread food insecurity in East Africa and elsewhere. Governments are slowly recognising these potential benefits. Only six African countries – Eswatini, Ethiopia, Malawi, Nigeria, South Africa and Sudan – used biotech crops in 2019, though numerous others have expressed an interest in developing them.

The benefits of a biotech sector may well spread beyond healthcare and agriculture. To take just one alternative example, there are ongoing efforts to create a genetic database of rhinoceroses and artificial rhino horns in efforts to tackle poaching. A multitude of other applications are likely to emerge across the continent, driven by the same combination of need and innovation that saw Africa become a hotbed of fintech. For investors, the opportunities in biotechnology across the continent have never been so promising.

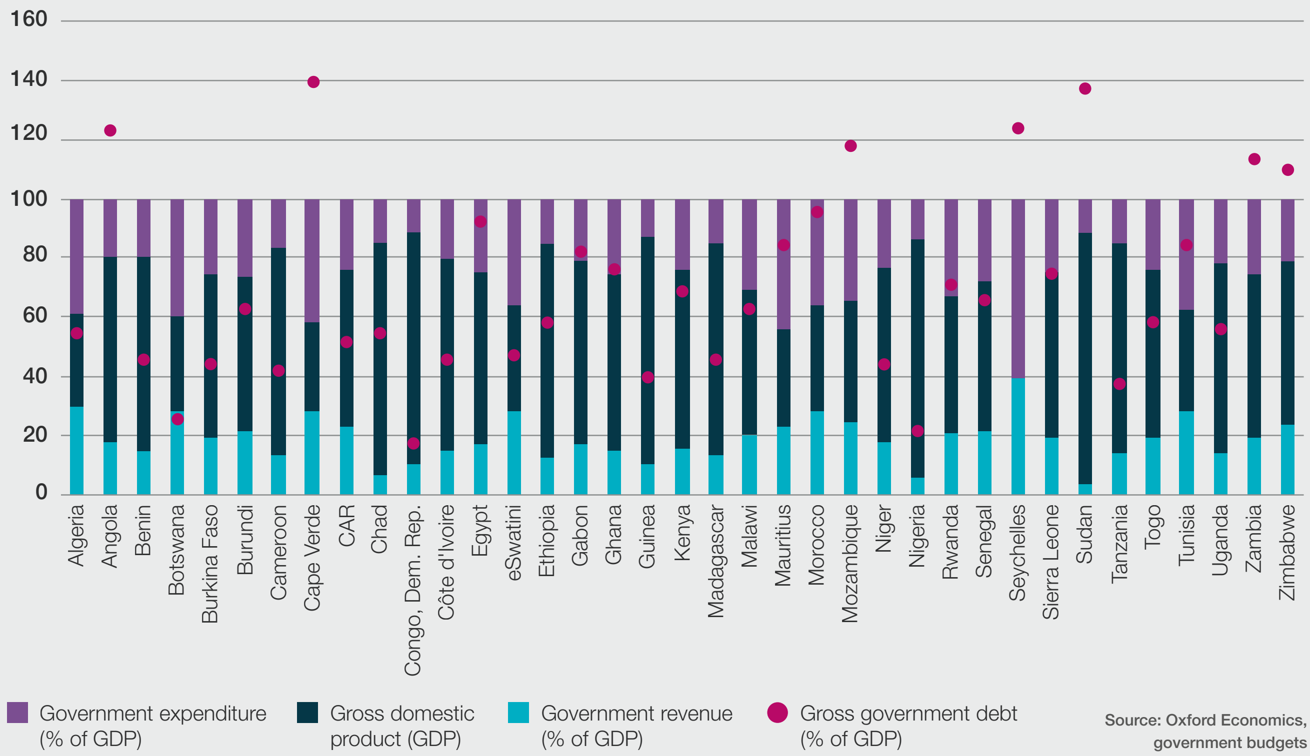
Paying the bill: Innovative solutions for Africa's debt crisis

Innovative new instruments and initiatives will improve the likelihood of Africa's debt remaining sustainable, but high debt burdens will nonetheless remain a concern over the coming years. This will affect investors even if they are not directly exposed to sovereign risks.

In November 2020, Zambia defaulted on a Eurobond repayment. The roots of this crisis date from before COVID-19: the country's debt-to-GDP ratio rose from just 25% in 2010 to 94.5% in 2019, driven by low copper prices and overspending. But the pandemic made the challenge more acute. Allegations of fiscal mismanagement helped ensure the defeat of the increasingly authoritarian incumbent government in the elections of 12 August, but new President Hakainde Hichilema has taken charge of a country with a debt burden approaching 120% of GDP and an economy crawling out of recession.

Similar stories can be found across Africa. Debt has been rising steadily since around 2015, driven by factors that include low commodity prices – which have reduced budget and export revenues – and increasingly easy access to finance. But the situation has been exacerbated by the COVID-19 pandemic. Mozambique was slowly recovering from a debt crisis caused by revelations of illegally acquired loans in 2016 but the pandemic pushed its debt-to-GDP ratio up to 118% by the end of 2020. Oil-dependent economies, such as Angola and Congo (Brazzaville), saw debt levels soar as oil price slumps deprived their governments of revenue, as did tourist-dependent island nations such as Seychelles and Mauritius.

Fig.3 ▸ High debt and low revenue



Source: Oxford Economics, government budgets

By the end of 2020, debt-to-GDP was above 40% – once the suggested threshold for developing economies from the International Monetary Fund (IMF) – in 48 of Africa's 54 countries, averaging over 70%. It was above 100% in nine. At least 17 countries in sub-Saharan Africa are currently in debt distress or facing a high risk of debt distress, according to the IMF.

Further pressure will come. The Debt Service Suspension Initiative (DSSI) implemented by the IMF and World Bank in May 2020, which allows eligible countries to temporarily suspend their debt service obligations to official creditors, could save African countries more than USD 14bn. But it ends on 31 December 2021. In the coming years, these DSSI-deferred payments will have to be made and, for many countries, will coincide with Eurobonds reaching maturity. African countries are liable for an estimated USD 100bn in maturing Eurobonds over the next decade, with a spike in scheduled repayments in 2024 and 2025.

The reaction of many African governments to this looming debt crunch has been to take on more debt, often because there are few other short-term options. Nine African governments have issued Eurobonds since the start of the pandemic, with others, such as Nigeria, planning issuances in the near future. In most cases, new Eurobonds are being used to pay old Eurobonds with imminent maturities or to cover structural budget deficits. While institutions such as the African Development Bank have warned that more countries could follow Zambia into default, this model of raising debt to pay debt could see many governments muddle through for many years.

But this strategy also comes with costs. High yields may attract investor interest – Kenya's USD 1bn Eurobond offering in July attracted USD 6bn in orders, for example – but also means high interest payments for governments. Even in the midst of a pandemic, Africa spends more on debt interest payments than it does on healthcare. Debt servicing costs consume roughly a third of revenue in the 2021-22 budgets of Nigeria, Uganda and Egypt, and almost 50% in Ghana. Similar figures are seen across the continent and, as more and more debt accumulates, the cost of borrowing grows ever higher.

A new fiscal dawn for Zambia

We expect that Hakainde Hichilema's administration will bring about a closer alignment between government and the IMF regarding fiscal consolidation goals, including expenditure rationalisation and subsidy reform. The appointment of Situmbeko Musokotwane as minister of finance will, in our assessment, strengthen the achievement of these goals.

The newly appointed finance minister indicated that negotiations with the IMF on a lending programme will be prioritised, and we expect the upcoming budget speech to reflect the key tenets of a consolidation agenda in alignment with IMF targets. The near-term fiscal outlook will be affected by progress (or the lack thereof) of succession agreements upon the expiry of the DSSI at the end of 2021. Estimated savings under the DSSI for Zambia should amount to USD 540m (2.3% of GDP) between May 2020 and the end of 2021. Zambia requested debt treatment under the DSSI successor initiative on 5 February, the G20 Common Framework for Debt Treatments, but progress under the administration of President Edgar Lungu disappointed. This opens the avenue for the DSSI to expire without successor agreements in place, although we attach a low probability to this scenario.

Despite calls from civil society groups and leaders like Ethiopian Prime Minister Abiy Ahmed, a simple cancellation of debt is unlikely to be the answer to Africa's problem. Roughly a third of Africa's debt is now held by private lenders and a further third by non-traditional lenders. This fragmented debt profile has restricted the effectiveness of initiatives like the DSSI and limits the impact of any single debt cancellation. There have been such cancellations – on 15 July, the Paris Club agreed to cancel USD 14.1bn owed by Sudan, for example – but moving from individual cases to a unified approach is far more difficult when debt is split across multiple creditors and when the opaqueness of arrangements with some of these creditors make others reluctant to engage.

This fragmented debt profile is causing problems even for the more modest debt restructuring proposed by the G20 Common Framework for Debt Treatments. Launched in November 2020, this aims to coordinate the reduction or rescheduling of unsustainable debts but has similarly struggled to secure the participation of commercial creditors. Indeed, debtor countries have been reluctant to even approach them given the risk of such negotiations damaging their credit ratings. Just three countries – Chad, Ethiopia and Zambia – have applied for debt restructuring under the Common Framework, with Ethiopia's application prompting an almost immediate downgrading of its credit rating.

These difficulties are prompting positive fiscal initiatives from some countries. Namibia established sinking funds to redeem its debts and is ready to repay a USD 500m Eurobond maturing in November 2021. Zambia set up a sinking fund in February 2019 and Kenya introduced rules for the same in May 2021. Angola has adopted an approach of transparency and reform, working closely with the IMF during the disbursement of a USD 3.7bn three-year Extended Fund Facility Arrangement secured December 2018, and has suggested it will seek another facility when the current one ends. Angola still has one of the highest debt burdens in Africa, standing at 123% of GDP at the end of 2020, but this is expected to fall in 2021 and beyond.

Such initiatives are not as straightforward as they may first appear. Tight fiscal policies and IMF engagement have a political cost. In Angola, subsidy cuts and other fiscal reforms are damaging President João Lourenço's popularity and exposing him to challenge from within the ruling Popular Movement for the Liberation of Angola (MPLA). Sinking funds are sensible until governments facing fiscal pressures turn to them for short-term funding. This was likely the fate of Zambia's sinking fund: when questioned about it after Zambia's first Eurobond default, then-finance minister Dr Bwalya Ng'andu claimed that he did not know how much money was in it and did not explain why it was not used for repayment.

Namibia also drew on its sinking fund to finance its pandemic response but replaced those funds through a debt-to-asset swap, whereby it exchanged local-currency assets for foreign-currency assets held by its pension fund. This effective shifting from foreign debt to domestic debt is a trend seen across the continent – especially in North African countries like Egypt and Algeria – and which is expected to further increase over the coming years. Such an approach undoubtedly brings benefits, but also risks. Increasing domestic financial market exposure to debt could crowd out private-sector credit or tempt the government to inflate away the debt through currency devaluations.

More innovative solutions to the debt crisis are therefore being considered. Ghana has arguably led the way in such innovation. In March, it raised USD 3bn on a zero-coupon bond – a somewhat controversial move that does not require regular interest payments but a higher payment upon maturity – and is planning to issue Africa's first Green, Social and Sustainability (GSS) bonds this year. Debt raised by GSS bonds are earmarked for funding projects with positive environmental or social impact, so should appeal to investors trying to burnish their environmental, social and governance (ESG) credentials.

Benin's euro-denominated bond issuance in July, the first under the UN Sustainable Development Goals (SDG) Bond Programme and in line with the UN 2030 Agenda, is another example of social responsibility programmes that can draw portfolio interest. A first for an African state, the 4.95% EUR 500m SDG Eurobond with a 2035 maturity saw the proceeds exclusively committed to social and environmental projects in accordance with Benin's agreement with the UN.

Benin was selected in 2018 to form part of the joint IMF/UN pilot programme with the aim of advancing social and environmental development. This programme, and the implicit support lent by these institutions, afforded Benin the opportunity to raise funds on the global market at a better rate than those seen at its peers' recent hard currency bond placements. Egypt, meanwhile, plans to start issuing sharia-compliant Islamic bonds (sukuk) in the first half of 2022.

There are other ideas. The UN Economic Commission for Africa (UNECA) has proposed the creation of a Liquidity and Sustainability Facility (LSD), from which investors could borrow using sovereign bonds as collateral in the hopes that this drives demand for further bond purchases and so reduces funding costs. The African Union (AU) and UNECA have suggested a plan to exchange countries' sovereign debt for concessional bonds. The Economic Community of West African States (ECOWAS) has launched efforts to create a cross-border debt market by 2023 to increase access to lending polls and reduce borrowing costs. The AU has suggested the establishment of an infrastructure fund that can help finance projects without requiring countries to turn to external markets.

These plans remain in their early stages, do not exclude the need for careful fiscal management, and have no guarantee of success even if fully implemented. Many countries will likely continue repaying old debts with new debts, continually deferring the bulk of repayment obligations while interest service payments continue to eat into budgets. The risk this poses for the private sector goes beyond just the default risk facing creditors. Any commercial operation dealing with state entities will face non-payment risks, including those working with state-owned entities. Angola's state-owned oil company Sonangol reportedly owes USD 1bn to major oil companies. Zambia's state utility ZESCO owes independent power producers (IPPs) more than USD 780m. And high debt levels can act as a drag on overall economic growth and therefore limit future opportunities, especially when they consume funds that could otherwise go towards much-needed stimulus spending to boost a post-pandemic recovery.

But investors deterred by grim headline figures may also be missing opportunities created by the rethink that Africa's debt crisis has prompted in some governments. Innovative new bonds offer new opportunities for investors, and those devoted to green initiatives will help secure funding for environmental projects. A shift towards more domestic borrowing necessitates the development and deepening of domestic capital markets, which in turn will open new funding paths for the private sector. A desire to reduce reliance on foreign currency – and therefore foreign currency-denominated debt – provides further impetus to the African Continental Free Trade Area (AfCTA) and other efforts to promote intra-regional trade.

More than that, some countries have shown a willingness to tackle the underlying problems that led to this debt crisis. The past few years have seen countries like Mozambique scale back the role of the state in the economy due to concerns over the state-guaranteed debts issued by state-owned enterprises, opening new opportunities for the private sector. Some governments, such as Angola's, have not only relied on IMF assistance but have also accepted IMF conditions around fiscal transparency, which has the knock-on effect of limiting opportunities for corruption. And, in the most radical example, the debt crisis helped Hichilema secure victory in an election that not only brought a new pro-business government to power but also reaffirmed Zambia's democratic credentials.

Cooperation, competition and conflict: The changing dynamics of military intervention in Africa

With the Western world reluctant to engage in military intervention, other actors will use a variety of tools to respond to Africa's security challenges. This may increase or decrease threats in the long term, but in the interim investors will have to monitor and mitigate an unpredictable security environment.

The wisdom of Western military involvement in Iraq and Afghanistan has long been questioned. The recent US withdrawal from Afghanistan, the ensuing fall of its elected government, and the retaking of the country by the Taliban sent shockwaves around the word and seemingly affirmed the view that Western governments no longer have the domestic support or political will to engage in military interventions in foreign lands.

This reluctance was already evident Africa. The US completed its withdrawal of an estimated 700 military personnel from Somalia in January; a far smaller deployment than in Afghanistan, admittedly, but still one that had been in the country since 2007. France has announced the planned end of its counterterrorism "Operation Barkhane" in the Sahel by early 2022, reducing its deployment to roughly half its current level of 5,000 troops. There has been no apparent appetite for Western military intervention to combat the al-Sunnah insurgency in northern Mozambique, beyond a limited EU training mission, despite the presence of substantial commercial interests in the area's natural gas reserves.

This scaling down of engagements is not because the security threats in Somalia or the Sahel have been eliminated, or because the African continent as a whole is becoming safer. Al-Shabab more or less formally administrates large parts of central and southern Somalia and carries out near daily attacks in the capital Mogadishu. Islamist militants in the Sahel now operate across much of Mali and Burkina Faso and are expanding into south-western Niger and northern Côte d'Ivoire. Arguably, the continent as a whole is more volatile that it has been for years.

Regional military cooperation to tackle these threats has not been without its challenges. The African Union (AU) established an African Standby Force (ASF) for regional interventions in 2003, but this is not yet operational, even though the AU has led on ad hoc foreign-supported peacekeeping missions. Concern around the human and financial cost of interventions is widespread. The African Union Mission in Somalia (AMISOM) costs the AU an estimated USD 1bn a year, has suffered between 1,500 and 3,000 casualties, and has exposed participating countries to retaliatory attacks within their own borders. A session of the African Union Peace and Security Council in July expressed concern over "the low level of support [from member states] to the continued operationalisation of the ASF due to lack of resources".

These same concerns afflict more localised efforts. The G5 Sahel was formed by five countries – Burkina Faso, Chad, Mali, Mauritania and Niger – in 2014 to help tackle security in the region and deployed a regional counterterrorism force in 2017, but has struggled to be effective. It still lacks a sustainable funding mechanism, national decisions often conflict with regional strategies, and, most recently, Chad has announced that it will reduce the number of troops it commits to the force. Senegal and Côte d'Ivoire have previously called for a wider regional participation in Sahel security efforts but seem reluctant to push for a change that would place commitments on them, despite the growing threat at their borders.

The scaling back of external military interventions could change these regional dynamics. The AU plans to extend AMISOM's mandate for another five-year period after the current one expires at the end of 2021, despite the lack of US military presence. In Mozambique, Rwandan and Southern African Development Community (SADC) troops have enjoyed initial success against the al-Sunnah insurgency since they were deployed in July; on 8 August they retook the town of Mocímboa da Praia, which had been held by al-Sunnah for almost a year. And some countries are seemingly positioning themselves to play a greater role in regional security operations. In November 2020, for example, Algeria amended its constitution to allow military deployments outside its borders as part of multilateral peacekeeping efforts; this move came in the context wider efforts to boost its economic and political influence in Africa.

Fig.4 ▸ Foreign military presence

Source: Control Risks' research

Supporting any intra-Africa military interventions will be a range of external partners. Western powers are still training and equipping regional forces, while the UN remains the primary funder of peacekeeping missions in Central African Republic, Congo (DRC), Mali and South Sudan. But Russia has spent the past decade using security cooperation as a means of advancing its diplomatic and commercial objectives. It is now the largest supplier of arms to the continent and has signed military cooperation agreements with close to 20 African governments. Informally, Russian private military and security companies with close but opaque links to the Kremlin are active throughout the continent.

China is also using security cooperation to strengthen its influence in Africa, albeit with a different approach: working through regional organisations. In the 2018 Forum on China-Africa Cooperation (FOCAC), it committed USD 100m in military support to the ASF and promised support to the G5 Sahel counterterrorism force. In 2019, it held the first China-Africa Peace and Security Forum. This increasing security engagement is likely to be reiterated in the 2021 FOCAC. Turkey has long been active in Somalia and Libya, and a recent defence pact with Niger suggests that it is looking to expand its military influence in the Sahel. Saudi Arabia and the UAE initially established a military presence in the Horn of Africa as a base for operations in Yemen and have since signed a network of security and intelligence agreements.

In short, the scaling back of Western military intervention leaves space to be filled by a range of actors with a range of approaches. This fragmenting security landscape risks creating more confused conflicts, in which different regional and international powers pursue their own objectives or preferred solutions, making them less predictable and more difficult to resolve. This can already be seen in Libya, where a range of geopolitical actors are providing support to various warring groups; this is providing a flow of arms and money that has arguably prolonged the conflict. Domestic and international actors have called for the departure of all foreign fighters from the country and a freeze on military agreements, but these calls have been ignored, highlighting how difficult it is to enforce compliance in a fractured landscape of competing geopolitical interests.

African actors are not immune to such geopolitical competition. Indeed, Egypt is one of the actors active in Libya. Recent efforts by Morocco to expand its military power and Algeria's plans to boost its influence through participation in regional peacekeeping have fuelled growing tensions and an effective arms race. The two countries have had poor relations for decades, but recent escalations have seen Algeria cut diplomatic ties with its neighbour and state that it would not renew the Maghreb-Europe pipeline contract expiring in October 2021. War remains unlikely, but regional stability is looking more fragile than it has for years.

For all these risks, there is nonetheless cause for optimism. There have been successful military interventions in Africa in the past, with Sierra Leone in 2000 and Comoros in 2008 typically cited as examples. Many interventions, however, have borne a striking resemblance to Afghanistan in their tendency to temporarily contain threats rather than permanently resolve them. The problem has too often been that military intervention is viewed as the answer, rather than as just one component of what must ultimately be a political solution involving institution-building, development assistance, economic investment and dialogue.

With Western actors now reluctant to engage, Africa can no longer rely so heavily on military interventions as a response to security threats, and this may force a more nuanced and politically led approach. African-led military interventions – whether through UN frameworks, regional initiatives or on a bilateral basis – will still continue but will likely be limited in their scope by cost and capacity constraints. External actors, such as China or Russia, may provide arms, training and sometimes even troops to UN peacekeeping missions but have the same reluctance as more traditional players to lead on large-scale troop deployments.

Signs of a shift in approach are already apparent. Over the past few years, efforts to complement military measures with dialogue have multiplied. In 2020, Malian President Ibrahim Boubacar Keita revealed that his government had opened talks with militant groups Ansar Dine and Katiba Macina, and after the coup d'état in August of that year, the transitional administration made clear its intention to continue this approach. The government in Burkina Faso has been holding closed-door talks with militants since late last 2020, and a more diplomatic approach has been discussed among the members of the G5 Sahel. The end of Operation Barkhane may actually open an opportunity for dialogue; al-Qaida's regional affiliate, Jamaat Nusrat al-Islam wal-Muslimin (JNIM), has previously stated that French withdrawal was a pre-condition for any negotiations.

Such an approach is far from simple, especially as threat actors in places like the Sahel have fragmented into multiple groups that will not be easily corralled into single binding agreements. Governments and militants may simply be too far apart: ideologically driven al-Qaida affiliates in de facto control of large swathes of territory are not easily co-opted into formal political processes. Over the next few years, the likely shift in security responses detailed in this article is likely to cause more volatility rather than less, necessitating investors to devote greater resources to monitoring and mitigating security threats.

Western withdrawals have forced Africa into a change in strategy to dealing with conflict. Although external military interventions have seldom provided sustainable solutions to conflict across the continent, there is little evidence to suggest that the alternative approach, with multiple actors and divergent interests, will succeed in its wake. The private sector will face many challenges in navigating these increasingly fragmented security environments.

Addressing security threats

The prospect of increasingly complex and fragmented security environments will have limited appeal to many investors. But opportunity remains amid the adversity, and three key recent trends paint a more optimistic picture for businesses looking to take on these challenges.

First, we can draw on the lessons learned from industries that have thrived in higher risk environments. The extractives industry, while critiqued, has many decades of experience operating in volatile areas. As does the FMCG sector, whose supply chains in conflict zones are oft lauded and envied by the those looking to distribute vaccines and medical supplies. These approaches refined and adjusted based on learned best-practice, can provide a valuable roadmap to those businesses that are looking to grow their footprint and expand, as early adopters in the renewables, healthcare, telecoms and technology space are finding to their benefit across the continent.

Second, there have been vast improvements the monitoring and forecasting of changes in the threat environment at a highly localised level. Supercharged by AI monitoring of social media and public source data and supported by on-the-ground atmospherics and alerting systems, analysts are able to ever more reliably forecast deteriorating environs and guide decision-making on the ground. In practice, this has enabled organisations to establish operations in areas previously thought too volatile to operate, including swathes of the Sahel across Mali, Chad, Mauritania and north-eastern Nigeria, and to quickly scale up security measures to counter emerging threats, ensuing effective protection of people, supply chains and assets.

Finally, many conflict afflicted economies in Africa have demonstrated remarkable resilience to recover. Among the highest scoring on our reward index are Côte d'Ivoire, Ethiopia and Nigeria, all of which are embroiled in, or have recently recovered from, major internal conflicts. Given the relative geographical containment of these conflicts, significant portions of the economy have remained largely insulated from the impact. Fear of missing out on the opportunities within these regional giants will continue to drive businesses to invest and develop operations and reward those who take a long-term view and manage the risks assiduously.

Annex

Fig.5 ▸ EPRE methodology

Methodology

The Africa Risk-Reward Index is defined by the combination of risk and reward scores, integrating economic and political risk analysis by Control Risks and Oxford Economics Africa.

Risk scores

The risk scores for each country stem from the Economic and Political Risk Evaluator (EPRE), a joint subscription platform of Control Risks Oxford Economics Africa. Control Risks and Oxford Economics analysts rate a series of political and economic risk factors on a scale from 1 to 10, with 10 representing the highest level of risk. Each political and economic rating is assigned a default weight, based on its significance in the country context and its potential impact on business. The individual political and economic risk variables are then combined – multiplying rating by weighting – into the overall risk rating of a country.

Reward scores

The reward scores incorporate medium-term economic growth forecasts, economic size, economic structure and demographics. The economic growth outlook has the biggest weight in the reward score, as investment opportunities multiply where economic growth is strong. But the absolute size of the economy makes a difference, too: 0.3% GDP growth in South Africa in 2016, for example, represented extra value added of USD 830m, while 5.9% growth in Rwanda translated into just over USD 500m in new value added. So our score also incorporates a weight for economy size.

The economic structure indicator derives from the "economic structure risk" component of Oxford Economics Africa' country risk assessment model, which takes into account debt metrics, the current account, financial structure (including banking sector stability) and investment. Demographics are incorporated through the formulation of a demographic dividend, which incorporates population size, urbanisation and dependency ratios.

About us

Fig 6 ▸ About us

Risk assessment

- Measure the full risk impact, including its severity, speed and timing
- Assess the spillover effects on countries, markets and risk categories

Benchmarking and modelling

- Identify the range of traditional and non-traditional risks that can affect your business
- Determine the risk linkages, such as between economic, political, and financial events

Scenarios and stress-testing

- Use scenario analysis to gauge vulnerability to future risks and assign probabilities
- Forecast the impact of alternative economic and political events on strategies and investments

Scanning the horizon

- Spot emerging risks and forecast new ones through early-warning systems
- Compare the range of changes in the global risk landscape

Control Risks

Control Risks exists to make our clients succeed. We are a specialist global risk consultancy that helps to create secure, compliant and resilient organisations in an age of ever-changing risk.

Working across disciplines, technologies and geographies, everything we do is based on our belief that taking risks is essential to our clients' success.

We provide you with the insight to focus resources and ensure you are prepared to resolve the issues and crises that occur in any ambitious global organisation.

We go beyond problem-solving and give you the insight and intelligence you need to realise opportunities and grow. From the boardroom to the remotest location, we have developed an unparalleled ability to bring order to chaos and reassurance to anxiety.

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Oxford Economics Africa

Oxford Economics Africa, based in South Africa, is a majority-owned subsidiary of Oxford Economics that specialises in political and macroeconomic research in Africa. Oxford Economics Africa scans the political and macroeconomic conditions of 54 African countries and is able to measure country risk in detail to caution against pitfalls and guide investors towards opportunities.

Oxford Economics Africa has a strong reputation for independence and quality with a team of more than 30 staff, including economists, econometricians, political analysts, and a financial economist.

Apart from the country risk service, Oxford Economics Africa provides bespoke ad hoc research on any topic that requires analysis of the political or macroeconomic environment of Africa, or any African country.

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Control Risks and Oxford Economics have partnered to provide an innovative political and economic risk forecasting service that takes a holistic view of risk in a complex, rapidly changing, globalised world.

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Contact us

Post-pandemic Africa will continue to offer opportunities to investors, but these may be harder to find and may carry new risks. Investors need to reassess these opportunities and risks in the context of how countries or sectors are likely to recover and what the new post-pandemic landscape will look like.

For more than 40 years, Control Risks has been helping clients prepare and assess their investment risks and opportunities in Africa. To learn more about how Control Risks can support your organisation when looking to grow, or invest in Africa, please contact us at:

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