OXFORD ECONOMICS AFRICA | Control Risks

Africa Risk-Reward Index 2022

Opportunity through uncertainty

Control Risks is a specialist risk consultancy that helps create secure, compliant and resilient organisations. We believe that taking risks is essential to success, so we provide the insight and intelligence you need to realise opportunities and grow. From the boardroom to the remotest location, we cut through noise and emotion to give you dependable advice when you need it most.

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, previously known as NKC African Economics, 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.

Oxford Economics is a leader in global forecasting and quantitative analysis. Our worldwide client base comprises more than 1,500 international corporations, financial institutions, government organisations, and universities. Headquartered in Oxford, with offices around the world, Oxford Economics employs 450 people, including 300 economists and analysts. The group's best-of-class global economic and industry models and analytical tools give us an unmatched ability to forecast external market trends and assess their economic, social, and business impact.

Experts from **Control Risks** and **Oxford Economics Africa** are pleased to present the seventh 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 2022 scores and changes from the September 2021 edition.
See Page 20 for full details of the methodology and scores framework.

COUNTRY	REWARD SCORE (OUT OF 10)*			RISK SCORE (OUT OF 10)**		
	Sep 2021	Sep 2022	Change since last edition*	Sep 2021	Sep 2022	Change since last edition**
Algeria	5.14	4.84	-0.30	5.76	5.68	-0.08
Angola	3.21	4.13	0.92	6.13	5.97	-0.16
Botswana	5.49	4.10	-1.38	3.63	3.81	0.18
Cameroon	4.15	4.16	0.01	6.17	6.54	0.37
Côte d'Ivoire	6.09	5.72	-0.37	6.72	5.57	-1.15
DRC	5.04	4.93	-0.11	7.62	7.44	-0.19
Egypt	6.49	5.88	-0.61	5.68	5.97	0.29
Ethiopia	6.76	6.50	-0.26	7.83	7.65	-0.18
Ghana	4.86	4.74	-0.11	4.99	5.24	0.25
Kenya	6.10	5.37	-0.73	5.80	5.89	0.09
Malawi	2.44	2.58	0.14	5.50	5.61	0.11
Mauritius	4.73	4.80	0.07	3.45	3.71	0.26
Morocco	5.58	4.89	-0.69	4.09	4.29	0.20
Mozambique	3.03	3.52	0.49	6.61	6.59	-0.02
Namibia	2.89	3.00	0.11	4.28	4.54	0.26
Nigeria	5.77	5.69	-0.07	7.38	7.25	-0.13
Rwanda	6.06	5.05	-1.01	5.30	5.21	-0.09
Senegal	4.60	5.06	0.45	5.01	4.89	-0.13
South Africa	5.55	4.99	-0.56	4.73	4.69	-0.04
Tanzania	5.36	5.21	-0.15	5.22	5.43	0.20
Tunisia	3.46	3.31	-0.15	5.29	5.55	0.26
Uganda	5.11	4.84	-0.27	6.10	6.17	0.07
Zambia	2.79	2.46	-0.34	5.74	6.00	0.26
Zimbabwe	3.70	2.71	-0.98	7.44	7.56	0.12

* 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

The below countries are those that have seen the biggest movement in their overall risk-reward scores between 2021 and 2022. For some countries this is due to increasing reward scores, for some to declining risk scores, and for some a combination of both.

Angola
+1.08

Côte d'Ivoire
+0.78

Senegal
+0.58

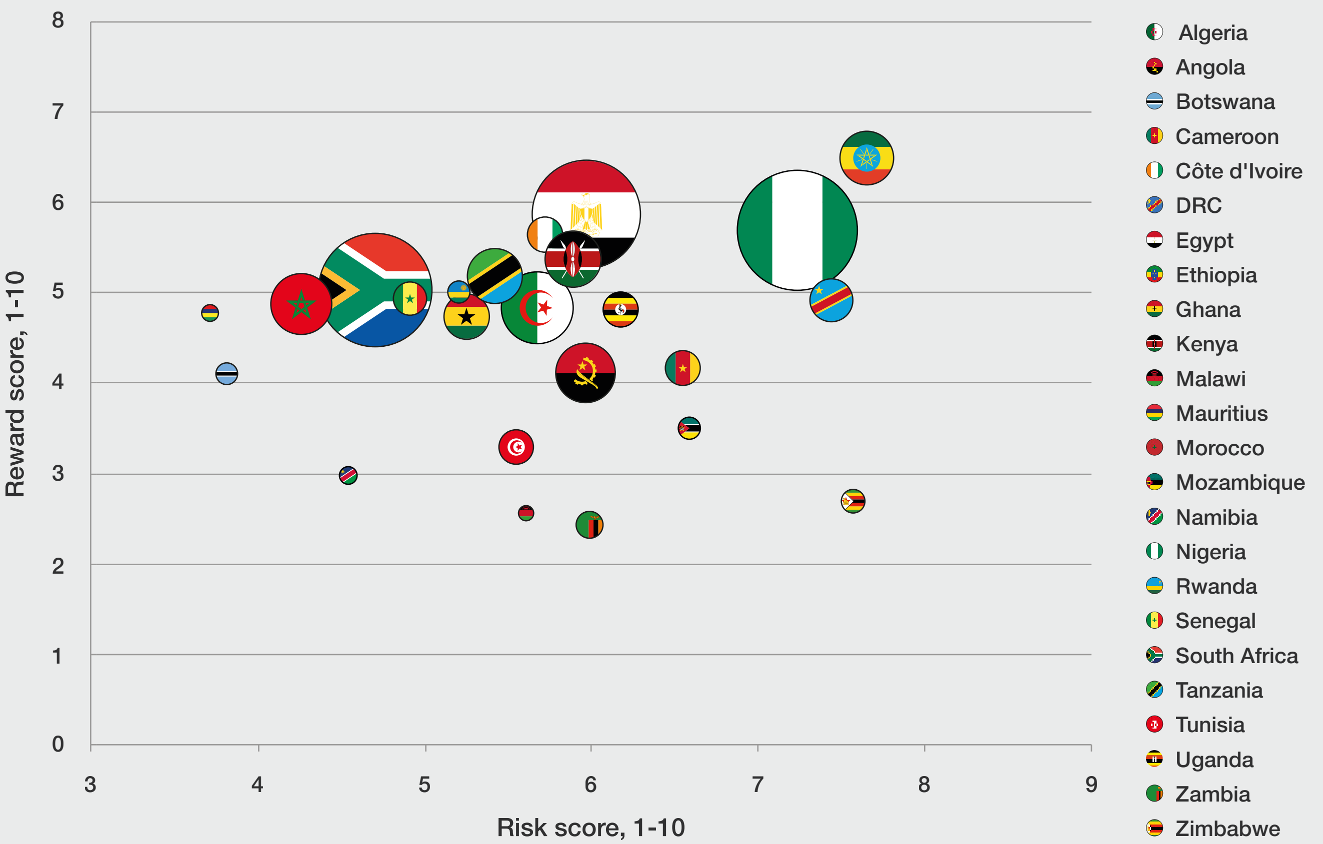
Mozambique
+0.51

DRC
+0.07

Foreword

Control Risks and Oxford Economics Africa are pleased to launch the seventh edition of the Africa Risk-Reward Index. The index illustrates the evolution of the investment landscape in major African markets and provides a grounded, longer-term outlook of key trends shaping investment in these economies. It also offers a comparative snapshot of market opportunities and risks across the continent, which will allow your organisation to develop an informed strategy for growing your business or investing in Africa.

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.



The impacts of a global economic crisis triggered by the pandemic, climate change, and conflict in Ukraine have without doubt exacerbated global uncertainty regarding growth opportunities and political stability across Africa. But in the long term, these geopolitical shocks may turn out to be the very factors that redefine Africa's relationship with the rest of the world and its role in the world economy.

In this year's edition, we highlight the three main themes that will likely shape this transition period for the continent, as well as the business opportunities and risks that this will present.

We first explore **the role that Africa could play in the global energy transition**. The energy diversification and transition questions brought about by the Ukraine-Russia conflict and the climate crisis provide an opportunity for Africa to play a more central role in the global energy system – as both a source of energy for other parts of the world and as a continent with the potential to "leapfrog" the fossil fuels era and grow directly into a green energy economy. We map the ambitions that African countries are charting, and also highlight some of the key structural and regulatory challenges that could curtail these ambitions if not addressed in time. The outcome of Africa's potential repositioning will ultimately depend on the success of governments and investors in striking a balance between offering continued incentives for investment in energy sectors, while ensuring that local populations legitimately benefit from it.

We then take a closer look at **Africa's food security conundrum** and the continent's broader supply chain deficiencies. The disruption of global food supply chains in the wake of the COVID-19 pandemic and now the conflict in Ukraine has exposed Africa's reliance on exports for food staples, and grains in particular. As a result, two interlinked sectors have become the centre of debates on solutions to food insecurity in Africa: agriculture and trade infrastructure. These two sectors will open up new opportunities – and risks – for investors in the coming years.

And finally, we examine how **cash-strapped governments in Africa are navigating the coming wave of social discontent**. Ultimately, political stability will likely be the biggest challenge in realising the continent's energy transition and food security ambitions. How governments respond to public dissatisfaction driven by increasing living costs and climate disasters in the coming 12–18 months will shape the regulatory, fiscal, and security environment in which companies operate across Africa. We identify a few of the countries where this question will likely be most pressing in 2023 and present our outlook for the near-term. We also include some recommendations on how to monitor the situation to ensure that your business remains resilient in the face of what will likely be a bumpy year from an operational perspective.

Shaping Africa's role in the global energy transition

Africa is navigating the biggest realignment in energy systems in decades. Although concerns over global dependence on fossil fuels have risen in recent years, the conflict in Ukraine has made it clear that the energy transition will take longer than previously anticipated.

In 2022, oil prices rose to their highest levels in several years, straining public and private finances across the world, especially in countries that are net fuel importers. In Europe, energy markets continue to face serious disruption, as many European countries' dependence on Russian gas poses increasing challenges amid heightened diplomatic tensions.

These developments have propelled the African continent, which was long on the periphery of the energy transition debate, to the centre of renewed interest. This will present both opportunities and risks for investors in conventional and renewable energy.

The hydrocarbon comeback

Multinationals in search of energy alternatives, especially European companies, have turned their gaze to Africa's gas reserves to meet their energy needs. In Tanzania, for example, a long-stalled liquefied natural gas (LNG) project near the border with Mozambique has drawn renewed investor interest. Similarly, international investors are taking renewed interest in countering the threat posed by Mozambique's Islamist militant group, al-Sunnah, in order to reinvigorate an LNG project in Cabo Delgado that had been halted due to rising security concerns.

Higher global demand for new sources of gas has further encouraged regional and international cooperation on large-scale projects, and has somewhat bridged the divide between North and sub-Saharan Africa. In West Africa, Senegal and Mauritania's joint oil and gas project is due to reach production in 2023, with the prospect of supplying European markets providing additional impetus. Meanwhile, in July, the governments of Niger, Nigeria and Algeria signed a memorandum of understanding to build the 2,485-mile (4,000km) Trans-Saharan Gas Pipeline (TSGP), which will provide gas to southern Europe. Nigeria is rethinking the common practice of flaring its oil wells with renewed vigour as a result.

The TSGP is likely years away from realisation, and it remains unclear who will finance or build a project that will transit one of the world's most challenging operational and security environments. Nevertheless, the prospect of future revenues has prompted these governments to proactively reach out to their neighbours across the Sahara in a manner not seen in several years. Meanwhile, Angola and Congo (Brazzaville), with their more advanced LNG production capabilities, have found themselves newly influential on the global stage, given their potential to supply LNG to European markets.

Despite a multitude of country pledges to shun fossil fuels and decarbonise, Africa's oil reserves are also attracting new attention, much to many African governments' delight. In early 2022, Namibia has found itself in the spotlight following the discovery viable oil reserves off its coast, while Côte d'Ivoire is hoping to capitalise on higher oil prices and the deep-water oil discovery it made in 2021 – the first such discovery in the country in more than two decades. Kenya's stalled oil project may also be revived as the government's talks proceed with new investors keen to profit from higher oil prices, and in June, Congo (DRC) launched a controversial oil licensing round in several biodiversity hotspots with a view to capitalising on higher oil prices.

This renewed international interest in oil and gas projects has expanded the role of domestic private and state oil and gas companies. Such companies initially emerged as joint venture partners for their multinational counterparts, but in recent years, they increasingly filled gaps in both exploration and production owing to a downturn in global investment in new oil exploration projects and widespread pressure to decarbonise. With geopolitical developments forcing a surge of global interest in oil and gas projects, domestic private and state oil and gas companies have found themselves well positioned to receive both domestic and international financing.

Cash-strapped African governments, which are facing downturns in global investor interest due to high inflation and potential recessions in advanced economies, will therefore welcome the potential for an oil and gas revival on the continent.

Whither the green revolution?

This renewed focus on oil and gas has disappointed environmentalists, who saw the energy transition as an opportunity for Africa to sidestep fossil fuels entirely in favour of a truly "green" future. Such groups were behind the push to end public financing of fossil fuels, with 26 countries committing to such an agreement at the COP26 global climate conference in November 2021. The largest multilateral financiers have yet to commit to this – perhaps the clearest indicator that many still believe some countries may need to tap into oil and gas in order to expand energy access, particularly on a continent where nearly half of households (46%) still do not have access to reliable power, according to the UN.

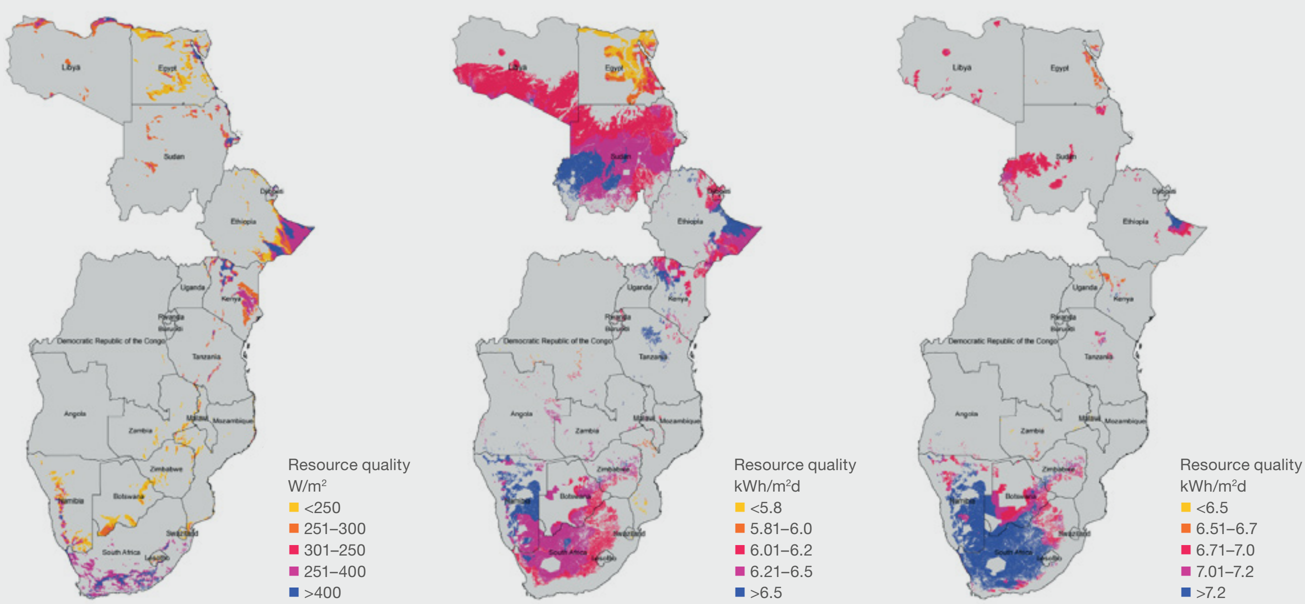
It is understandable why proponents of the green revolution are pushing for African governments to forgo fossil fuels in their energy plans. The continent has high wind, solar and hydropower potential, and many African countries are already sourcing a large amount of their power from renewable sources. Even Africa's biggest source of emissions, South Africa, has high renewables potential, which will be key to navigating away from its unhealthy dependence on coal. All the renewed interest in oil and gas notwithstanding, investors in the renewables sector will continue to find considerable opportunities in sub-sectors and sub-regions across the continent.

A more recent driver of enthusiasm for renewables has been Africa's hydrogen potential. With green hydrogen increasingly viewed as a cleaner alternative to LNG, energy investors are looking keenly at Africa's potential to export hydrogen. In August 2021, Namibia signed a cooperation agreement with a German consortium to develop a USD 9.4bn hydrogen project estimated to have a production capacity of 300,000 tons annually. Egypt is also increasingly positioning itself as a green hydrogen producer, with several green hydrogen projects planned to serve both domestic and international power needs through exports. Mauritania and Algeria, meanwhile, have ambitious plans to supply Europe with hydrogen, with the latter having investigated this potential for several years. Congo (DRC)'s long-planned Inga III hydropower dam has been more recently identified as having the capability to produce hydrogen. With further advances in hydrogen power technology likely, the cost of producing this more environmentally friendly fuel is likely to decline in the coming years.

Energy generation and export in Africa appear likely to grow in the coming years, bringing new revenue streams for governments – a win-win situation for both governments and investors. But new entrants and existing sector players will need to bear some key issues in mind.

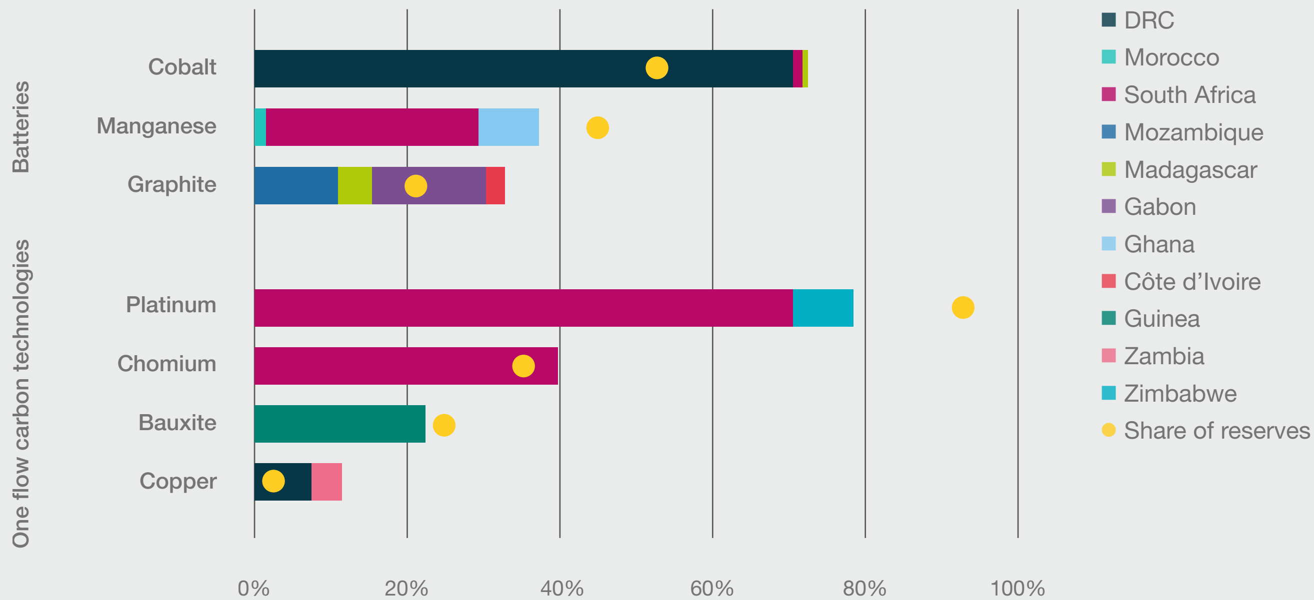
Fig.2 ▸ Wind, solar potential in east and southern Africa (Terawatt hours)

Wind | **Solar Photovoltaic** | **Concentrating solar power**



Source: UC Berkley

Fig.3 ▸ Share of Africa in global production of selected minerals, 2020



Source: IEA

Risks remain

First, projects that supply the domestic market may face severe implementation challenges in many African countries, even those outwardly open to foreign investors. This is in part due to perennial political interference and corruption in contracts. Some countries are also reaching saturation point with energy generation projects, especially as power grid expansion has simply not kept pace with generation. Over the past two years, Kenya and Ghana have been forced to review their costly power purchase agreements with independent power producers, including many renewables projects, owing to potential generation surpluses. Meanwhile, persistent insecurity will also continue to prevent the development of power projects across vast swathes of the continent, including the Sahel and Horn of Africa.

Secondly, international companies will also face the expectation that they partner with domestic and state-owned companies in the energy sector, particularly in oil and gas, as many governments seek to ensure they and their populations benefit from sectoral developments. International companies looking to work with local energy companies will require a thorough understanding of their business partners and their networks. Corporate governance standards vary considerably across the continent, and with extra-territorial anti-bribery and anti-money laundering legislation, investors will need to ensure their local partners strictly comply or face potential penalties.

Thirdly, whilst there has been a more pragmatic acknowledgement that a slower energy transition is required in Africa to first enable the expansion of energy access – the so-called "just" transition – there is still heightened scrutiny of environmental, social and governance (ESG) issues associated with large projects. The East African Crude Oil Pipeline (EACOP), intended to transport crude oil from Uganda to Tanga port in Tanzania, is facing severe funding challenges after civil society organisations successfully campaigned for international banks and insurers to halt their funding for the project. The campaigners said that the EACOP and associated oil projects are not only incompatible with climate goals, but would displace local communities and harm endangered animal populations in Uganda. A similar campaign could derail Congo (DRC)'s plans to exploit its potential oil and gas resources in biodiversity hotspots.

However, even renewables projects can face considerable ESG challenges. For example, the continued construction of hydropower dams is raising concerns about their environmental impact in terms of flooding and vast land use. Moreover, in a part of the world increasingly affected by droughts, the construction of dams can have far-reaching consequences for downstream populations' water security. These concerns are at the centre of the contention between Ethiopia and Egypt over the former's Grand Ethiopian Renaissance Dam (GERD) on the Blue Nile. Ethiopia hopes to use the dam to connect more of its population to the grid, while Egypt is seriously concerned about its impact on downstream supplies of water.

Wind and solar farms have also occasionally drawn negative scrutiny for issues such as land access for communities and endangered animals, as seen in ongoing community opposition to the Lake Turkana Wind Power project in Kenya, which was heavily opposed by local communities due to contention over land ownership. Companies will require close and careful engagement with governments, local communities and international NGOs to succeed with their projects.

Balancing act

Finally, investors need to be conscious of the fact that projects with export as the main goal will also be viewed as primarily extractive, thereby reaffirming Africa's global image in the world as a simple supplier of raw materials, whether it is oil and gas or hydrogen, which are mostly geared for export to Europe and beyond. Moreover, the technical components required to build new green technologies, including electric vehicles, rely on copper, lithium, nickel, cobalt and rare earth minerals, many of which are mined in African countries. Given the comparatively lower levels of socio-economic development in Africa, as other economies continue to develop and prosper from African resources, companies involved in these exports will face increased negative scrutiny for the impact, or lack thereof, of their projects on local communities.

International companies reiterating the benefits of skills transfers and additional government revenues from their projects will find African nations less convinced than before. Some governments that have worked with oil and gas and mining companies before have had negative experiences, as companies have been accused of extracting value but not ensuring a fair allocation of profits, especially to local communities. Tougher local content or employment laws are likely in the years ahead, especially in new energy frontiers such as hydrogen production. Given growing global energy needs and the increasing scarcity of sources, African countries may finally have the leverage they need to centre themselves in the global energy transition, and on a more equal footing than before. As a result, both governments and companies will need to walk a difficult tightrope to balance continued incentives for investment in their energy sectors, while also ensuring their populations legitimately benefit from it.


3 KWA 10
5 KWA 20

Solving Africa's food security conundrum

Pockets of food insecurity have long existed in parts of Africa, given shifting climatic patterns and ongoing conflicts. However, the issue has gained more international attention in the past two years owing to the disruption to global food supply chains brought about first by the COVID-19 pandemic and then the conflict in Ukraine. Both of these global crises exposed Africa's reliance on external producers for food staples, and grains in particular.

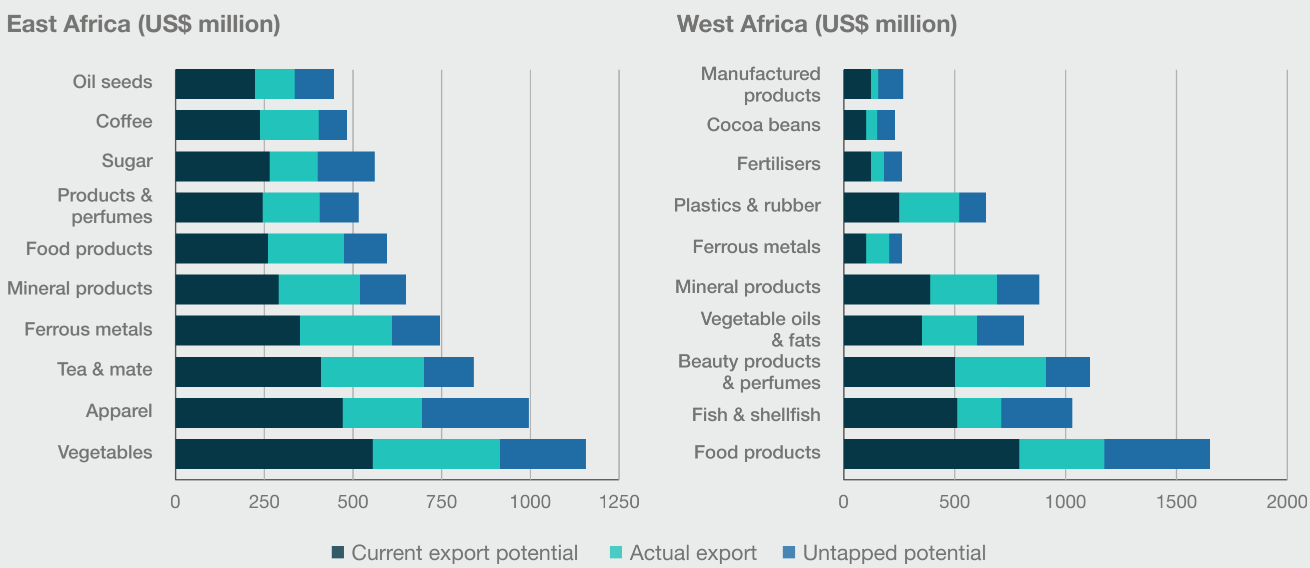
As a result, two interlinked sectors have become the centre of debates on solutions to food insecurity in Africa: agriculture and trade infrastructure. These two solutions will open up new opportunities – and risks – for investors in the coming years.

Unmet production potential

Africa's food production potential has never been in doubt. In July, the chief economist at the African Development Bank (AfDB), Kevin Urama, said that Africa is "sitting on top of 60% of the remaining arable land in the world. Africa can become a food basket for the world." With more than 60% of the population employed in agriculture, there is both land and labour available for food production.

However, two main issues have undermined the continent's quest for food security by warping incentives for production. First, smallholder farmers dominate agricultural production on the continent. Governments and multilateral institutions have made substantial efforts to improve smallholder productivity, including through increasing mechanisation and access to improved

Fig.4 ▸ Intra-Africa trade potential, East and West Africa



Source: Afrieximbank

The economic impact of food insecurity

The economic implications of Africa's dependence on food imports are profound. Total African exports of edible fruits, vegetables and grains amounted to around USD 18bn in 2021. Imports of these goods came in at nearly double that figure, estimated at just over USD 34bn. Of the USD18bn in exported fruits, vegetables and grains in 2021, just 15% was destined for other African markets. At a broader macroeconomic level, imports of consumer goods, particularly essential goods such as foodstuffs, perpetuate merchandise trade imbalances, which, in turn, weigh on countries' balance of payments. Africa's commodity exporters such as Nigeria (oil), Zambia (copper) and Cote d'Ivoire (cocoa) tend to record merchandise trade surpluses, but the raw nature of these exports renders them susceptible to commodity price fluctuations. Imports of manufactured goods, such as processed foodstuffs, are much less volatile, maintaining pressure on trade balances.
In addition, many African countries are highly dependent on imports of raw foodstuffs such as wheat: Egypt is projected to produce 9.8m metric tonnes of wheat this year, amounting to just under 50% of domestic consumption expected at 20.6m tonnes. The corresponding ratios for Kenya and Nigeria are 12% and 2%, respectively.

Currency developments are another important consideration, as weaker currencies inflate the import bill. Many African currencies, including those of Ghana, Egypt, and South Africa, have endured considerable depreciatory pressure so far this year, as higher energy costs weigh on external balances, and advanced economy central banks have turned decidedly hawkish. This combination of dependency on food imports and weakening currencies increases food prices, which has profound knock-on social implications.

When looking at the impact of higher food prices on headline inflation, the main factor to consider is the weighting of food in the consumer price basket. In advanced economies, food typically accounts for up to 15% of the basket of household consumer price index (CPI). In Africa, in turn, the share of food in the consumer baskets exceeds 25% for most countries, with some countries including Ethiopia, Zambia, Sudan, and Nigeria having food weightings above 50%. It is important to note that these weightings are a product of purchasing patterns in these countries, meaning the average household in Africa spends a much larger proportion if its overall income on foodstuffs than households in advanced economies.

seed and fertiliser. A new USD 1.5bn food security facility announced by the AfDB in May is focused on providing these same inputs. Nonetheless, although they play an important role, smallholder farmers are unlikely to be able to satisfy increasing demand for food commodities and will struggle to compete with large-scale staple importers. Commercial-scale food production will be required, not least because the UN expects Africa's population to double to 2.3bn by 2050.

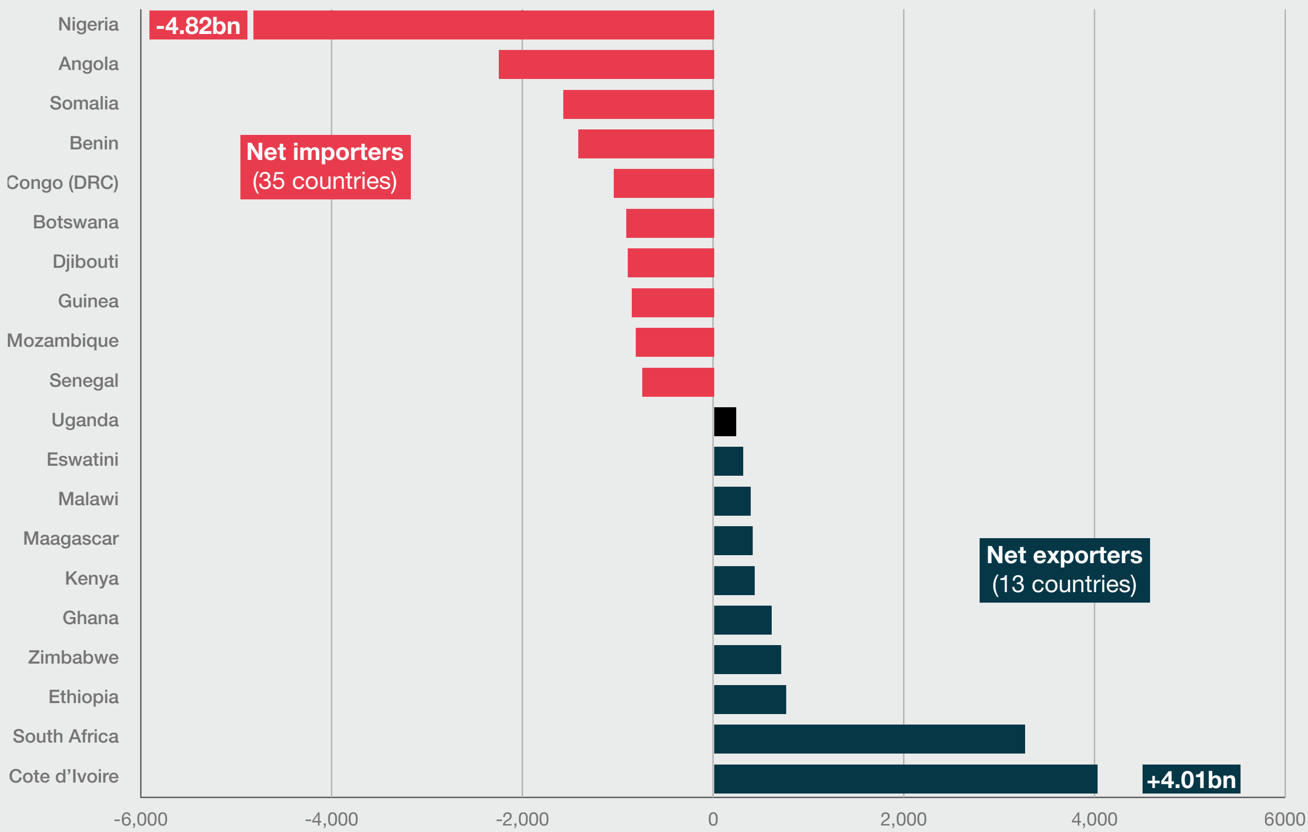
Transitioning to commercial-scale food production will be a tricky proposition for African governments. Smallholder farmers are usually important sections of the electorate, and land issues are often very sensitive, meaning that governments may prioritise protecting their interests over achieving long-term food security. For example, Kenya's domestic sugar industry relies primarily on smallholder farmers. Where large private actors are permitted, companies must often enter into contracts with smallholder farmers (outgrowers) and may be required to purchase from these outgrowers at set prices. Similarly in Nigeria, the government prohibits the import of raw or processed sugar and also promotes import substitution for sugar through locally sourced raw materials, granting only three locally-owned sugar refining companies exclusive rights to import raw sugar and secure foreign exchange for importing raw sugar into Nigeria. Although these protectionist policies allow local farmers and producers to continue to own their land and sell their crop at favourable prices, it disincentivises private investment, leads to inefficiencies in production and ultimately makes these countries reliant on imports to meet domestic demand.

Secondly, even where countries have successfully monetised agricultural production, this has focused on high-value, low-calorie crops, such as tea, coffee, shea and cocoa, rather than food staples. The focus on the cultivation of these crops has come at the expense of indigenous crops, such as sorghum, teff, cassava and yam, which the UN's Food and Agriculture Organization highlights are often more nutritious than imported grains. These high-value crops are important sources of foreign exchange in many countries such as Côte d'Ivoire, Ghana, Ethiopia, Uganda and Kenya, resulting in a situation where some of the most agriculturally productive areas in these countries are oriented towards external markets. This means that supply chains are also export-oriented rather than focused on meeting domestic demand: it is easier and cheaper for food commodities to be produced for export than it is for them to reach remote areas within the same country, let alone neighbouring countries.

The pull of integration

But there is growing optimism among regional governments and international diplomatic actors that this situation will change in the coming years. African governments realise they have an unhealthy dependence on external food supplies, and there is also growing political will and international financial momentum to prioritise agriculture and regional supply chains on the continent.

Fig.5 ▸ Top 10 African agricultural exporters and importers



Source: Atlas of Economic Complexity (2019)

One of the greatest drivers of change in the agricultural production debate has been the shift within Africa towards countries prioritising trade with one another. The African Continental Free Trade Area (AfCFTA) will be an important facilitator of this, given its keen focus on reducing or eliminating non-tariff and tariff barriers to trade, as well as facilitating "frictionless" trade. For example, the African Export and Import Bank (Afrexim) in January 2022 launched the Pan African Payment and Settlement System (PAPSS), which enables intra-Africa transactions in local currencies and reduces the heavy reliance on foreign currencies such as the US dollar for the import of widely consumed staples. Theoretically, this means that companies in Africa could provide the solution to issues such as Nigeria's dairy deficit – whereby the country imports an estimated 60% of its dairy products from as far away as New Zealand and Europe – without necessarily having to undertake extensive foreign exchange hedging.

However, the full implementation of AfCFTA will likely be slow amid ongoing protectionist tendencies in some African countries. Some compete with each other to serve the same external markets, with internal tariff and non-tariff barriers persisting – including arbitrary taxation and other regulatory interventions, and corruption at border posts – despite pledges to reduce them. Other countries are also wary of foreign entrants competing with inefficient local producers. For example, Nigeria has increasingly restricted the sale of foreign exchange for the import of raw materials and commodities, such as dairy, since 2019, in a bid to conserve foreign exchange and boost local production. However, the policy has had unintended effects, with the country spending about USD1bn to import agricultural goods including dairy, wheat, sugar and palm oil in the first quarter of 2022 alone, harming both domestic and international importers.

In the longer term, regional integration will be a major boost for all companies trading across African borders. Rather than viewing countries as individual markets that are often too small with consumers not wealthy enough to justify big financial commitments, investors will be able to view the continent or its sub-regions as single markets. New entrants need only look to the successes of African food and agricultural companies that have penetrated regional markets by making effective use of existing trade agreements. South African companies, for example, have come to dominate the supermarket space in its neighbours, and are slowly making inroads further afield. Meanwhile, greater cooperation by African countries under AfCFTA could see them come together to perhaps specialise production of certain goods in specific areas instead of competing to produce the same commodities.

Heeding the call

As external food supply shocks and AfCFTA propel intra-regional trade in food commodities forward, other opportunities are also emerging along agricultural value and supply chains. A major element of government plans for agriculture has been the potential to process food locally, which would not only address food supply challenges, but also expand manufacturing capabilities on the continent. To meet growing demand, it is no wonder that Ethiopia's government has invested heavily in agri-industrial parks. The Yirgalem Agri-Integrated Park in Sidama regional state, inaugurated in 2021, already houses international companies producing honey, avocado oil and coffee for both the local and international markets.

Meanwhile, demand for warehousing and cold storage is also growing. According to Knight Frank's 2021 Africa Logistics & Industrial Review, key cities in Africa, including Lagos (Nigeria), Nairobi (Kenya) and Johannesburg (South Africa), recorded an increase in demand for such spaces, even during the height of the COVID-19 pandemic. This was driven both by global supply chain disruption, which created a need for domestic storage options, and by an uptick of domestic consumers' use of e-commerce platforms. As local markets grow and develop, real estate investors and logistics operators will be first in line to benefit.

In addition, agri-tech companies are moving to bridge gaps in the market, for example by improving farmers' access to finance for machinery, inputs and seed through mobile money, or even connecting farmers directly to food retailers in urban areas, thereby bypassing often-extortive middlemen, as well as reducing post-harvest losses. Given the direct impact agri-tech solutions can have on local livelihoods, climate resilience and the reduction of food waste, agri-tech companies are encountering plenty of interest among investors. Between 2019 and 2022, Kenya's Twiga Foods and Apollo Agriculture raised USD 80m and USD 40m respectively, while Nigeria's Tingo is planning to raise USD 500m to expand across Africa over the coming years.

Structural barriers remain

Further investments in basic infrastructure will be key to realising the potential for Africa to not only become food independent, but also a global exporter. New trade corridors are being developed and existing ones upgraded. Since 2007, the AfDB has spent USD 8bn on constructing 8,125 miles (13,000km) of regional highways along 17 road corridors and 26 one-stop border post facilities. However, the infrastructure deficit remains stubbornly large, with the bank estimating that the continent will need USD 1.5bn annually to fully fill this gap. In particular, a lack of reliable power will remain an impediment to lofty value-addition plans and the development of cold storage facilities.

Land access will also remain intensely politicised, posing serious challenges to investors. Land administration remains one of the areas most vulnerable to corruption across most African countries. Rising scrutiny of international ownership of land at the expense of local communities will also be a source of reputational risk. Water and environmental management considerations are also key, particularly given the susceptibility of many agricultural regions to extreme weather, including floods and droughts. In addition to these are growing security concerns around major food processing zones in regions across Africa, like north-west and central Nigeria and in several parts of Ethiopia, where rising incidents of intercommunal conflict, banditry and farmer-herdsmen clashes have led to the displacement of small-holder farming communities.

Consequently, while there is growing opportunity for external investors in supporting Africa's food security ambitions, these will likely require capital to be intelligently and – most importantly – patiently deployed.

Cash-strapped governments navigating a wave of discontent

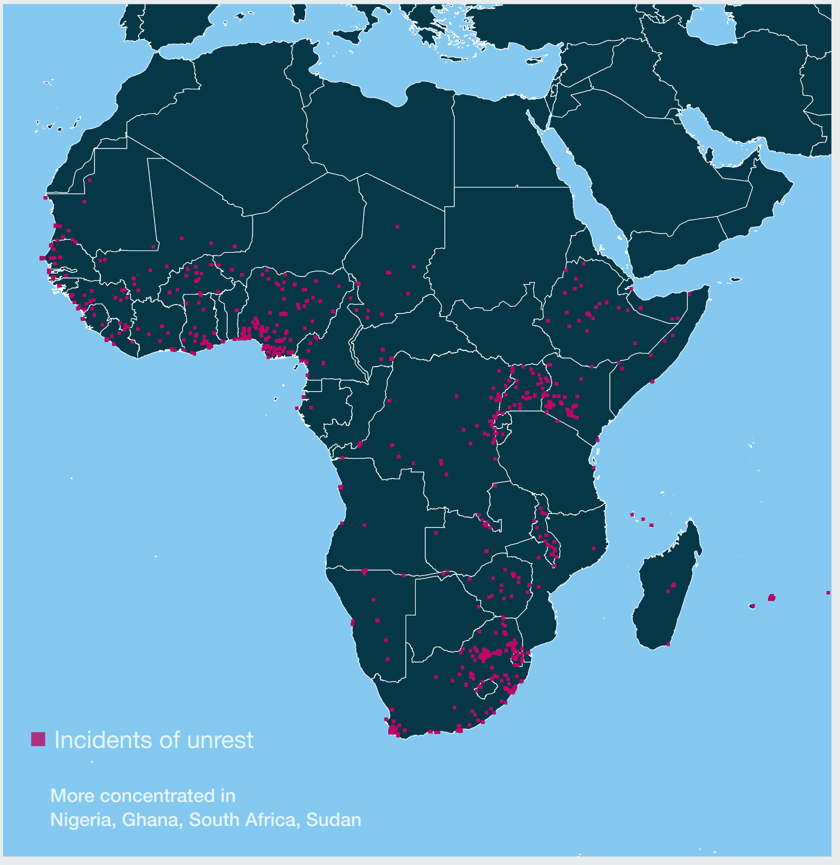
Dissatisfaction with governments seems to be at an all-time high across the world, and African countries are no exception. The UN estimates that COVID-19 pushed an additional 55m people into poverty in Africa. The conflict in Ukraine has now contributed to a rise in the cost of living, given its impact on food and fuel prices. Meanwhile, climate disasters continue, with various parts of the region experiencing record droughts and severe flooding in recent years.

Empty coffers

Although African governments have attempted to intervene in these crises, they remain limited by their lack of resources. Governments have mostly channelled their interventions towards subsidising key commodities such as fuel, food staples such as wheat, maize and sugar, and even fertiliser. But these extraordinary fiscal measures have come amid rising public debt, which was already a problem prior to these latest crises, Moreover, with the exception of wealthier African countries such as South Africa and Botswana, African governments do not have the resources to finance large social welfare programmes to support the most vulnerable populations.

Not only are governments unlikely to be able to curb public anger at the high cost of living, but conditions are likely to get worse before they get better, particularly as costly international loans come due. Angry at their leaders' perceived failure to adequately prepare for and respond to emerging crises, more and more people in African countries are calling for political change, and are taking to the streets to demand it. This is creating a challenging operational environment for investors.

Fig.6 ▸ Incidents of unrest, Aug 2021 – Aug 22



Source: Control Risks/Seerist

Empty coffers in times of crisis

The IMF considers roughly half of countries in sub-Saharan Africa to be in debt distress or at high risk of debt distress. Countries that are considered in debt distress include Mozambique, Sudan and Zimbabwe, while those at high risk of debt distress include Ethiopia, Ghana, Kenya, and Zambia. This limits the scope of further social support without pushing fiscal finances into unsustainable territory.

In 2022, public debt is expected to exceed 100% of GDP in Egypt and Morocco, and to exceed 70% of GDP in Kenya, Ghana, and South Africa. However, when assessing fiscal capacity, a more telling ratio is that of debt interest payments as a proportion of fiscal revenue, which reveals the government's capacity for discretionary spending. These ratios make for more concerning reading: approximately 56% Ghanaian fiscal revenue will be directed towards debt repayment this year, while this figure is projected at 52% for Egypt. Despite having debt ratios much lower than other African peers, Nigerian debt borrowing costs are expected to absorb around one-third of fiscal revenue this year. Other countries with concerning debt servicing to revenue ratios include Zambia (33%), Kenya (28%), and Angola (23%). South Africa's figure is a more measured 17%, while the most favourable ratios can be found in Botswana and Congo (DRC), both at around 2%. For an international comparison, the corresponding figures for the US and UK are 8% and 11%, respectively. Given the proportion of revenue directed towards borrowing costs, and considering how much the government spends on public sector salaries and wages, there is very little scope to redirect spending in order to provide additional economic support without accruing additional debt.

However, this has also become a bit more troubling owing to the state of the global economy: Appetite for local-currency debt is souring as high inflation and exchange rate risks undermine asset attractiveness. Real yields need to adjust to lure investment, but a reluctance to accept higher bid yields has resulted in poor performance to auction targets in a number of African countries. With regard to external debt, sovereign spreads – the difference between bond yields issued on international markets by a country and those offered by the underlying benchmark asset, such as US bonds – have surged in recent months: Sovereign spreads breached 1,000 basis points (bps) in Egypt, Nigeria and Kenya during July before a more recent easing in August.

Global risk aversion will make it harder for African countries to gain access to the affordable debt necessary going forward. This may accelerate fiscal consolidation efforts, implying that short-term fiscal support measures implemented to cushion the impact of the war could be cut short, which would further exacerbate the growing civil discontent that has emerged across much of the continent. Faster fiscal consolidation might mean that governments will have to rein in their public investment initiatives and therefore dash their economic growth projections. Perhaps an even less favourable outcome would be that governments are unphased by rising borrowing costs and continue down an unsustainable fiscal path, which would require much deeper and more painful consolidation in a few years' time.

Protests on the rise

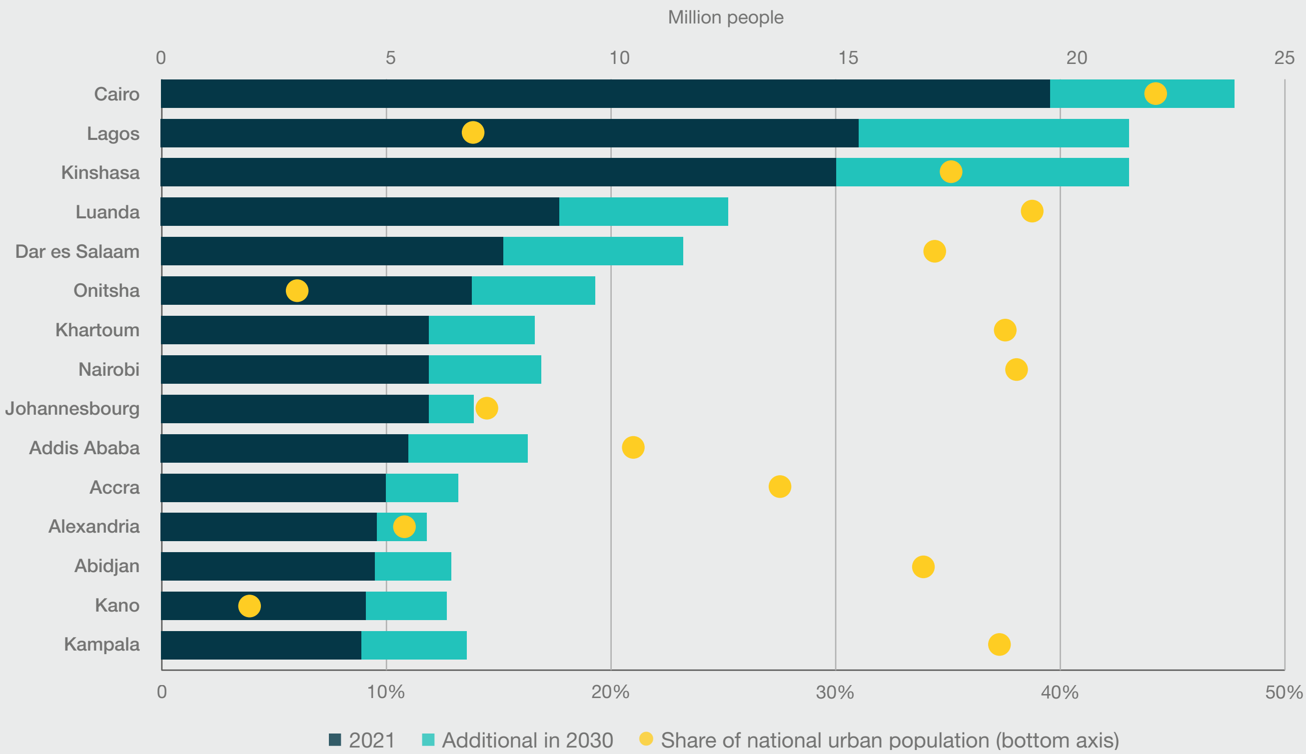
Since the beginning of 2022, food and fuel price increases have prompted spontaneous anti-government protests across the continent, with large-scale protests reported in Guinea, Uganda, Malawi and Sierra Leone between June and August. Security forces have so far prevented unrest from escalating. Nonetheless, further unrest is likely in the year ahead, as socio-economic conditions will remain challenging.

Incumbent governments and political elites will be wary of these cost-of-living protests and closely monitoring public sentiment. The latest surge in dissatisfaction has highlighted the inefficiencies in government and stark inequalities across many African countries. In recent years, people across the continent have mobilised in large numbers on various issues in sometimes unexpected ways. For example, in Sudan, local neighbourhood-level resistance committees have continued to lead anti-government protests since an increase in wheat prices in late 2018. In Nigeria, the #EndSARS movement against police brutality flared into large-scale protests in October 2020. In Senegal, large-scale, anti-government protests were held in March 2021 over political – but also inherently socio-economic – grievances. Meanwhile, in South Africa, unrest erupted in July 2021 following the sentencing of former president Jacob Zuma (2009–18) for contempt of court amid his lack of cooperation in corruption investigations. At the core of all these outbreaks of unrest has been frustration with the inability of incumbent political systems to tangibly improve the lives of ordinary citizens.

Seizing the moment?

With governments feeling the heat, introducing new policies that involve tangible shifts in governance may be the only way to appease frustrated populations. But so far, many seem unwilling to do so. In Uganda, despite the popularity of opposition leader Robert Kyagulanyi ("Bobi Wine") and his ability to mobilise widespread protests, long-serving President Yoweri Museveni remains unrelenting in his decisions not to subsidise food and

Fig.7 ▸ Population in the 15 largest cities in Africa, 2021–2030



Source: Demographia (2021)

fuel. In Tunisia, President Kais Saied in July pushed through a referendum to change the constitution to favour a more centralised governance system under his control, despite opposition and civil society protests, and internal politicking within South Africa's ruling African National Congress (ANC) risks deprioritising critical conversations on the country's energy transition and deep social divides. In Nigeria, there is excitement around the entry of Peter Obi as a "third force" candidate ahead of the February 2023 presidential election, but the leading presidential candidates are veteran politicians from the two largest parties – Bola Tinubu of the ruling All Progressives Congress (APC) and Atiku Abubakar of the main opposition People's Democratic Party (PDP) – with little to differentiate them in terms of policy.

Questions remain over whether popular movements can prompt genuine change to governance, or favourable electoral outcomes for the opposition or political outsiders. Many will be conscious of the experience of Sudan, where years of protest have not precipitated new civilian leadership or an improvement in economic prospects. Elsewhere, in Ghana, civil society groups have successfully mobilised protests since June 2022 in response to the government's struggle to contain economic decline. However, progress on tackling economic challenges remains slow, given Ghana's hung parliament, meaning that much-needed socio-economic interventions have proved difficult to pass into law.

Perhaps Senegal – where President Macky Sall's ruling Benno Bokk Yakaar (BBY) coalition lost its absolute majority amid strong opposition gains at the July 2022 legislative elections – can be an example to other opposition movements. The president's loss and opposition's gain shows that protest movements can lead to tangible gains in formal institutions such as parliament, potentially allowing for real improvements in living standards. The opposition gains in Ghana's parliament followed a series of protests against rising costs of living and dissatisfaction over shortfalls in public service delivery.

Kenya's incoming president, William Ruto, also presents a potential example of a change in policy emerging from the wave of discontent. Ahead of the August 2022 general elections, the campaign of Ruto's United Democratic Alliance (UDA) focused on improving poor socio-economic conditions, which it blamed on the incompetence of political elites. The UDA is set to have the largest share of seats in both houses of parliament as a result. However, Ruto and many of the UDA have served in government for the last ten years, having defected from the former ruling party, arguably making them part of the elite they claim to oppose. Should they follow through on their campaign promises (a difficult proposition considering Kenya's precarious financial position), the UDA could finally respond to genuine concerns about the failure of Kenya's high economic growth to translate into improved conditions for the population.

There are genuine concerns that rising opposition movements will be taken over and co-opted by parts of the very same establishment they claim to reject. Over the past two year, this has been most noticeable in coups in West Africa and Sudan, where militaries have ousted sitting governments in the name of "the people". These juntas have often cited the inability of civilian political elites to fix various issues, including rising insecurity and economic challenges. In the Sahel, the coup leaders were noticeably younger and in many cases had the backing of a large part of the population. But since taking power, they have often replicated the very systems they sought to overthrow by cracking down on civil society and opposition figures or extending military influence and reach over the economy. In Chad and Sudan, the regimes have reneged on previously agreed periods for a transition to civilian government. Political change as envisioned by these populations is unlikely to emerge under military-led administrations, despite the militaries' promises.

Entrenched political elites are therefore largely likely to retain their control despite facing significant pressure. Although public anger will not drive far-reaching overhauls of political systems, the security environment will remain volatile.

Navigating through uncertainty

For businesses and investors across Africa, the situation may seem akin to walking |on shifting sand. A key consideration for businesses will be to evaluate their direct and indirect exposure to unrest. Protests can be damaging for any type of business leading to operational and supply chain delays, especially when key urban areas such as capitals and port cities are impacted. In addition, businesses have sometimes found themselves the target of public anger, as seen in the widespread looting during South Africa's June 2021 unrest. To ensure resilience, businesses will not only need robust security provisions and alternative supply routes, but also a thorough understanding of local dynamics – such as elections, anti-corruption investigations and extreme weather events – in order to mitigate both direct and indirect threats.

Meanwhile, businesses will remain easy targets for governments seeking to increase revenues and demonstrate to their electorates that they are taking decisive action to improve their lives and create employment opportunities. Although we do not anticipate a wholesale continent-wide review of tax and local content laws, such as that undertaken in Tanzania under former president John Magufuli (2015–21), ensuring businesses comply with such laws is likely to be a key focus of administrations across Africa. Businesses must closely monitor any shifts in these regulations and laws, as perceived non-compliance is likely to be swiftly politicised and publicised.

Finally, building a broad base of support across all stakeholders – not only government actors – will be a key determinant of success for businesses. Those already operating in remote and challenging security environments will be familiar with the need to consult and genuinely involve local community groups in decision-making. This is particularly the case where formal government structures are absent or their resources strained. Local groups will likely remain important allies and advocates for companies that manage these relationships well. But stakeholder management will also require companies to actively engage with their own workers, especially as many have increasingly participated in street protests or asked employers to take a stand on social justice issues.

Annex

Fig.8 ▸ 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’s 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.9 ▸ 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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