All Change in Africa

Political Risk and Supply Chain Risk Management in Africa

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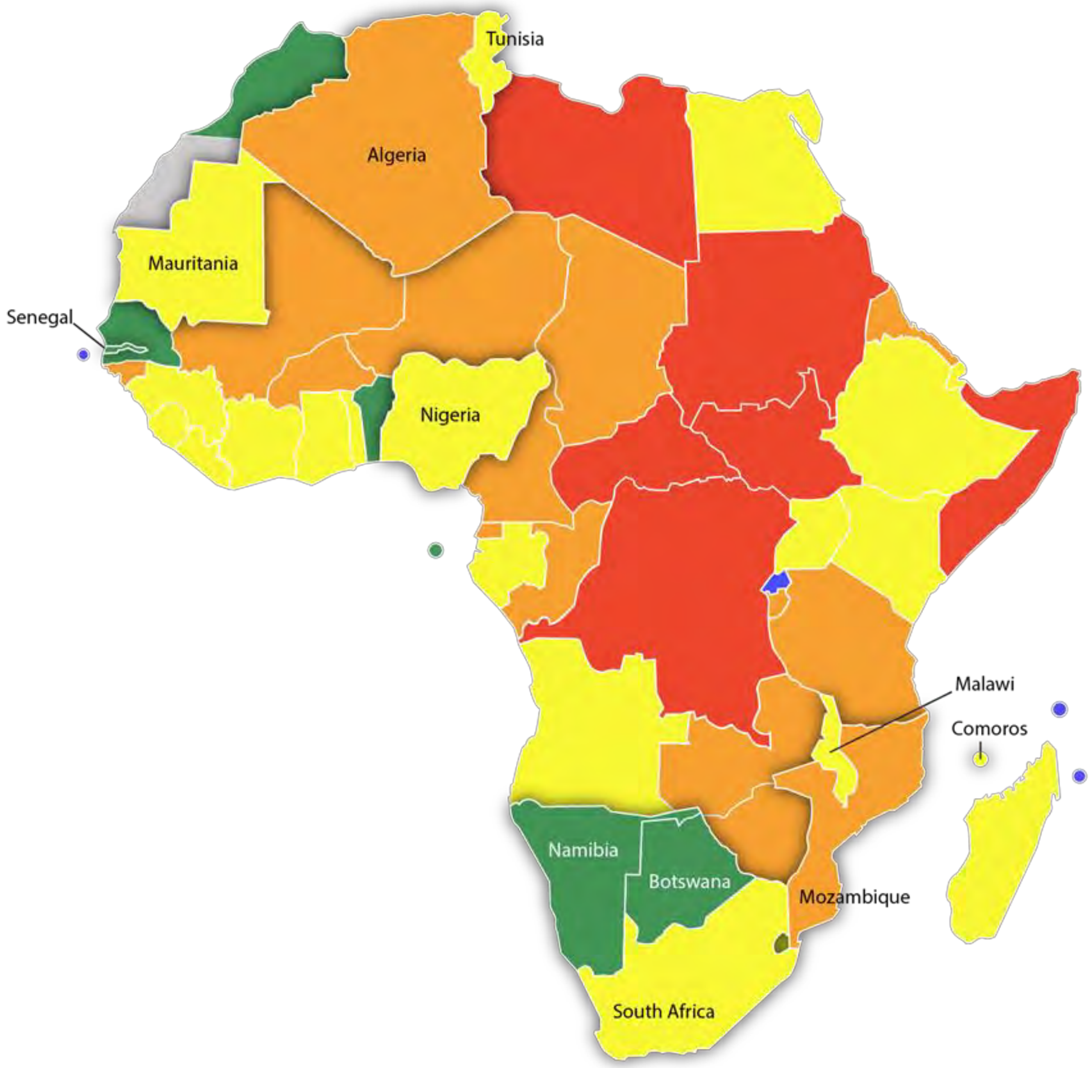
All Change in Africa?

So far, the year 2019 has witnessed exceptional change in Africa in terms of political outlook. In North Africa, there have been political transitions in Algeria and Sudan, while conflict has again erupted between rival armed groups in Libya. Islamist militancy and insurgency are spreading southward from the Sahel region towards the key population centres on the Gulf Guinea, posing heightened risk of terrorism to cities like Lagos, Accra, Abidjan, and Freetown. Meanwhile, important elections have taken place across the continent in places like South Africa, Nigeria, and Senegal.

However, to what extent do elections augur political change? The same leaders remain in charge in South Africa, Nigeria, and Senegal, despite very expensive electoral campaigns in these countries. In many places, African leaders are shoring up their authority to remain in power indefinitely, thus making elections redundant. All these factors drive political risk forecasting for the African continent which are categorised by EXX Africa in a political risk scoring methodology.



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Case-study: Nigeria

Nigeria is a key case study for this presentation as it remains the African continent's largest economy and oil producer, while its operating climate faces many risks that affect commercial supply chain operations.

President Muhammadu Buhari won a second term in office at chaotic elections in February 2019 whose outcome was disputed by the main PDP party opposition. While many local and international election observers criticised the management of the ballot, there were few documented allegations of widespread electoral fraud. Nevertheless, the PDP aims to weaken President Buhari's legitimacy in his second term.

President Buhari is ignoring the elections challenge and is focussing on moving past the latest disruptive electoral cycle by implementing pro-growth policies. Nigeria's economy is indeed set for a post-poll boost in 2019, lifted by increased productivity after 2018 output grew at its fastest pace since a recession in 2016. The central bank expects volatility in the crude oil market to put pressure on the naira, but it will maintain its managed currency regime over the next year. Buhari has favoured a strong and stable naira, which bondholders hope will continue.

Buhari has also pledged to rejuvenate the economy and the government has announced plans to cut its stake in joint oil ventures with multinational oil companies to 40 percent to generate revenue. The proceeds of such sell-offs are likely to fund the government's gaping budget deficits. Buhari has presented an 8.83 trillion naira budget for 2019, laying out plans to drive growth. Nigeria has been borrowing abroad and at home over the past three years to help to finance its budgets and to fund infrastructure projects. The government now intends to tap soft loans to curb debt servicing costs.

Meanwhile, the government faces various resurfacing security crises, including a resurgence of unrest in the oil-producing Niger Delta, ethnic and sectarian fighting in Middle Belt states, and a continuing insurgence by Islamists militant in the northeast.

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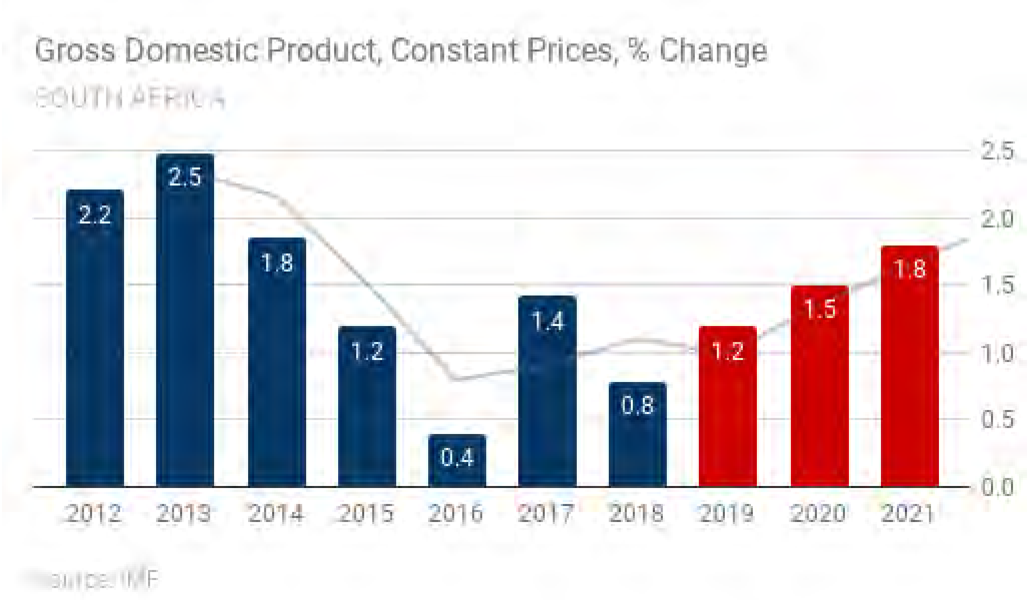
Case-study: South Africa

Another interesting case-study would be South Africa, the continent's most developed economy and the hub of regional supply chain operations. The country has seen an upsurge in political risk and associated protests that are posing increased risk to supply chain operations across industries.

President Cyril Ramaphosa achieved a reversal of his party's electoral decline in May's elections. In fact, he faced a greater challenge from rivals within his own party than from South Africa's weak political opposition. His next challenge will be to balance fractious interests in the next cabinet to avoid a permanent party split, while building a platform for restructuring cash-strapped state-owned enterprises that could trigger a backlash from labour unions and other allies. Much of the ANC's actual election manifesto will be shelved to ensure fiscal discipline.

South Africa's struggling economy will be closely watched in coming months. While South Africa emerged from its first recession in almost a decade in the third quarter last year, its economic prospects remain bleak. The growth rate has not exceeded more than two percent since 2013 and will battle to grow at more than one percent this year. Most importantly, the weak economic outlook pulls into question the viability of the spending commitments made by the ANC in its recently outlined election manifesto, while also undermining the government's commitments to fiscal consolidation recommended by Moody's and other credit rating agencies.

President Ramaphosa has pledged to re-ignite growth by attracting USD 86 billion of investments in the next five years and improving the ease of doing business in the country. However, the post-elections political outlook bears little confidence that Ramaphosa will be able to push through the required reforms to facilitate such investment commitments.



Disruptive industrial action in key sectors and associated violent protests will remain the key drivers of security risk. Industrial action will be characterised by waning control and influence by traditional trade unions, particularly affiliates to trade federation COSATU. To bolster perceptions of influence and bargaining power, unions will be more willing to adopt violence and intimidation before engaging with employers.

Inter-union rivalry to improve membership figures will also increase strike risks, especially in mining. Moreover, grievances over the delivery of public services, such as electricity, housing, and water, will continue to fuel demonstrations from among poorer neighbourhoods against local governments,

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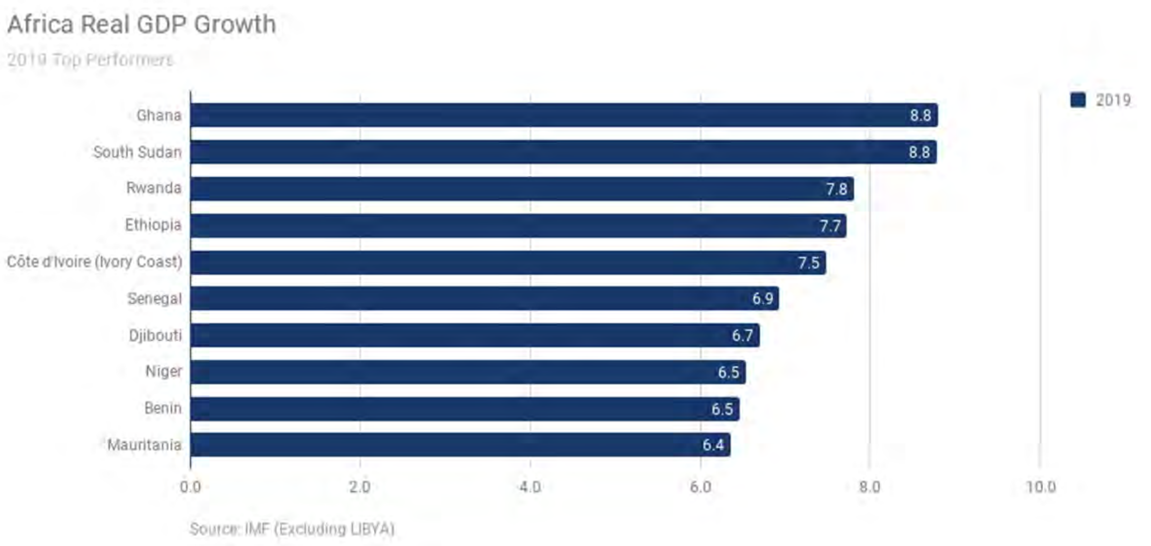
with such demonstrations often becoming violent. Risks are highest in townships near major cities such as Johannesburg, Pretoria, Cape Town, Durban, and Port Elizabeth.

What is political risk?

Where will we see growth opportunities in Africa in coming years?



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