SPECIAL REPORT:

AFRICAN ‘WINNERS AND LOSERS’ IN 2020

Two large African economies are forecast to mark a significant improvement in their country risk ratings in 2020, while at least three West African markets will face a severe deterioration in their political risk indicators. EXX Africa identifies key risk trends for the year ahead and shares our selection of potential country risk winners and losers from around the continent for the year ahead.

Africa kicks off 2020 with a host of international investment conferences, starting next week in the UK, where the government will host at least 15 African presidents to boost the UK’s post-Brexit trade credentials. For the UK, this grand Africa-Britain summit will provide an opportunity to reset relations with African countries, of which only a handful have so far managed to roll over their existing trade deals with the EU to the UK. Overall, the messaging will be upbeat and look forward to a year of greater clarity on UK-Africa trade partnerships, improved US-China relations, and record economic growth in parts of the African continent.

However, there also remain significant barriers to entry and political risks facing many investors including slowing economic growth in large economies, concerns over debt servicing, and fierce competition among investors seeking to benefit from privatisations and infrastructure deals. In its annual Africa Outlook report, EXX Africa identifies the key risks facing the continent and the likely winners and losers among the continent’s diverse markets as each country seeks to benefit from new investment and trade opportunities.
1. **ACFTA implementation**: Despite pressing ahead with the world’s most ambitious free trade project, consolidating 54 African countries into a single market and eventually a customs union, the highly diverse continent is not immune to global trends of nationalism and protectionism, as exhibited by recurrent anti-immigrant violence in South Africa, trade restrictions in East Africa, and economically harmful border closures in Nigeria.

2. **Street revolutions**: The political transitions in Algeria and Sudan last year saw street demonstrations hijacked by powerful militaries. Across Africa, from Tunisia and Burkina Faso in the Maghreb and Sahel, to Zimbabwe and South Africa in the south, political temperatures are reaching boiling point, indicating that further waves of unrest and political instability will mark the next year’s risk outlook.

3. **The ballot box**: In 2020, there will be six national elections in West Africa and the fragile Sahel region: in Burkina Faso, Central African Republic, Côte d’Ivoire, Ghana, Guinea, and Togo. There will also be national ballots in Ethiopia, Seychelles, and Tanzania. In most of these votes, incumbents and entrenched ruling parties will face opposition forces revitalised by frustrated and economically marginalised urban youths, driving further risk of unrest and instability.

4. **West Africa ECO**: The transition from the CFA currency to a West African regional monetary union will need careful stage management and political coordination to ensure a gradual withdrawal of foreign exchange reserves from the Bank of France and collective monetary policy decision-making. Given the region’s economic diversity and various nationalist agendas of some political leaders, there is a real risk of a chaotic currency transition that triggers investor flight.

5. **Drought and climate change**: Tens of millions of people across southern and East Africa face food insecurity, which will drive risk of uncontrolled migration, bilateral disputes, and localised unrest. Knock-on effects for industries include power outages, water shortages, and the threat of state contract alteration. For countries like Zambia and Zimbabwe, the drought will exacerbate an ongoing economic slowdown and already severe sovereign non-payment risks.
Top Spoiler for 2020: Terrorism and Insurgency Risks

The year starts on a bloody note in East Africa and the Sahel, where Islamist militant groups have recently staged unprecedented attacks on civilians and militaries. EXX Africa foresees that terrorism and insurgency risks will emerge as top spoilers for 2020 in the continent’s two fastest economic growing sub-regions. The feared southward spread of terrorism to West Africa’s major cities such as Abidjan, Lagos, Dakar, and Accra did not materialise in 2019, although the advance of Sahelian militancy now seems almost unstoppable unless new resources and manpower are committed to the region.

In January, Somali militant group al-Shabaab staged a daring raid on US military forces in Kenya in retaliation for US air strikes in Somalia. There has been a slight increase in Islamist attacks in northern Kenya, although the main worry is the group’s focus on non-traditional targets, such as foreigners, communication masts, and security forces, alongside civilians, schools, and universities. While al-Shabaab’s capability has been severely weakened by ongoing US airstrikes, the terror group’s adaptive capabilities pose continued risk for commercial interests in the Horn region, especially in Kenya and Ethiopia. This week marks the one-year anniversary of the Dusit hotel terrorist attack in Nairobi, which al-Shabaab is likely to mark with further brazen actions.

In the restive Sahel region, both al-Qaeda and Islamic State affiliated militant groups are staging more coordinated attacks on multiple targets simultaneously in different countries. Vast swaths of Mali and Burkina Faso have fallen to the insurgents, while the withdrawal of Chadian forces from Nigeria and multiple mass-casualty raids on Nigerien soldiers indicate that the region’s security will further deteriorate in the coming year. French forces are scrambling to hold a buffer in the Sahel to protect commercial assets in Gulf of Guinea urban centres. However, the US is considering a drawdown of its logistical and intelligence support to let European and African governments bear the brunt of counter-insurgency efforts in the Sahel.

Beyond the Sahel and the Horn, the spectre of Islamist insurgency and terrorism will pose risks to other regions including much of North Africa, as well as localised conflict zones such as eastern Democratic Republic of Congo and northern Mozambique, which will be the destination for the bulk of foreign direct investment into Africa in 2020.
'Winners and Losers' - Investment Picks for 2020

Every year, EXX Africa selects its favourite destinations for investment based on commercial interest among our clients, local source intelligence, and perceptible improvement in our proprietary country risk forecasting ratings. The selection showcases some of our key risk forecasts for the year ahead and flags potential new investment and trade opportunities. We also identify those countries where we expect a significant deterioration in the business climate based on the same political, security, and economic indicators of risk.

Last year, our ‘Top Five Winners’ selection included Ethiopia, Mozambique, and Mauritania, where there was a perceptible improvement in country risk ratings over the course of 2019. However, the inclusion of Angola and Ghana proved somewhat more controversial due to ongoing corruption and debt sustainability risks in both markets. This year we include two big economies – South Africa and Egypt – in our favourites’ selection, which may seem controversial, but we summarise our argument below.

Our ‘2019 Losers’ were mostly accurate with the inclusion of Sudan, Tanzania, Zambia, and Zimbabwe, in terms of a serious deterioration in country risk ratings, although Gabon’s performance last year was more balanced due to IMF financial support. Perhaps unsurprisingly, Zambia and Zimbabwe remain in our least favourite selection, although we also include some West African problem cases this year.

Top Five Winners for 2020

1. Mozambique: Previously Africa’s posterchild for debt distress, currency collapse, and weak governance, Mozambique will turn a page on its former problems in 2020 as it begins to receive massive foreign investment flows in natural gas and associated industries. Potential IMF support, improved banking sector performance, and the outcome of international legal processes into the hidden debts scandal will be key indicators for our optimistic projection. The disputed 2019 elections did not trigger mass unrest and the government has a strong mandate to implement regulatory and legislative improvements for the
LNG sector. An Islamist insurgency has so far failed to stem the momentum of gas investment although militancy will need close monitoring over the course of the next year and beyond.

2. South Africa: Already suffering the public and economic blowback to painfully slow implementation of his reform agenda, President Cyril Ramaphosa will pick up the pace in 2020, starting with ambitious power sector reform to restore the country’s economic stability and pursuing high profile corruption trials to boost his own political capital. Despite weak economic indicators, ballooning debt, looming credit rating downgrades, record high unemployment, and record low business confidence, Ramaphosa’s allies are pushing ahead with structural reforms and a global campaign to attract fresh investment into diverse sectors such as renewable power. In 2020, Ramaphosa will face a gargantuan political battle as labour unions, political rivals, and a populist opposition seek his early removal. Nevertheless, his government’s reforms should see South Africa record a notable improvement in our country risk ratings, for the first time in many years.

3. Tunisia: The country that inspired the 2011 Arab Spring is looking forward to a calmer 2020, following outbreaks of unrest, tumultuous elections, terrorism attacks, and painful austerity last year. Much will depend on whether the main parties can form and hold together a new government following last week’s parliamentary vote of no confidence. However, there are increasingly positive indicators pointing towards the gradual recovery of Tunisia’s economy with growth set to accelerate in 2020 and beyond. Slowing inflation will make it moderately easier for Tunisia’s next government to comply with IMF lending conditions as it comes under mounting pressure from trade unions and other influence groups. The main concern is that a steadily recovering economy will not have much of an impact on the lives of most Tunisians, particularly those in impoverished central regions.

4. Egypt: The government hopes that the past three years of economic stabilisation will start to pay off in 2020 through improved living standards and increased foreign investment in more diverse sectors than natural gas. Three sets of elections this year are unlikely to impact the country risk outlook, while the government and military maintain an iron grip on political stability and the security climate, thus mitigating risk of unrest and Islamist insurgencies in northern Sinai and the Western Desert. However, periodic terrorist incidents are likely to pose continued risk to security forces and commercial assets, specifically foreign exchange generating sectors such as tourism. The main focus for Egypt’s economic potential will remain natural gas production, although the nascent mining sector and ongoing investment in infrastructure should provide for a more diversified base in 2020.

5. Ethiopia: Yet again, Ethiopia makes our top five selection for the coming year, with the caveat that upcoming elections may spark broader ethno-political unrest in an already heavily destabilised ethnic federation. The coming year will prove to be a critical one for the future of East Africa’s largest population centre and the reformist legacy for Prime Minister Abiy Ahmed. The stakes are high as the government opens up the lucrative telecoms market and banking sector. The success of the Ethiopian political transition towards the 2020 elections will depend on the government’s ability to seek compromise between established business and security interests and mounting calls for broad political and economic reform. This is one to watch closely this year!
Five Losers for 2020

1. Burkina Faso: The entire Sahel region will face a turbulent year ahead, although Burkina Faso is at the front line in the battle against Islamist insurgency and terrorism. Frustration with the government of President Roch Marc Kaboré is intensifying due to socio-economic grievances and concerns over insecurity posed by Islamist militancy. Burkina Faso has experienced an alarming increase in the geographic spread, tempo, and complexity of attacks by Islamist militants in the past year. This trajectory of violence, in a country which appeared only five years ago to be insulated from wider regional security issues, is highly concerning, as the local political and security apparatus seem ill-equipped to counter the threat. We expect a significant and consistent deterioration in our risk score indicators across the board for Burkina Faso in the coming year.

2. Guinea: Guinea’s remarkable mining boom is threatened by a looming showdown in the political arena as President Alpha Condé gears up to run for an unconstitutional third term, despite widespread resistance against his re-election bid. The most likely trajectory for 2020 is for the government to push through a constitutional reform by means of a public referendum, perhaps as early as mid-year. Yet there are three main scenarios that could spoil President Condé’s third term ambitions this year. These are based on both civilian and military unrest, as well as foreign sanctions in case of an escalation of violence. Any or a combination of these scenarios may act as a spoiler for the 2020 timeline for the referendum and elections.

3. Liberia: A third West African country is listed in our ‘Losers’ selection, as Liberia faces a serious economic crisis due to falling productivity, rampant inflation, and a massive current account deficit. President George Weah is facing a backlash against his government over a failing economy and spiralling inflation, while mounting perceptions of graft and mismanagement are undermining his administration’s credibility. The political opposition is galvanising around a protest movement that will drive unrest risks in 2020. Foreign donors have become increasingly critical of the government’s use of public funds, claiming that donor funds have been diverted away from their intended purposes, including poverty alleviation projects and disaster relief following the Ebola virus.

4. Zimbabwe: Zimbabwe is experiencing its worst economic crisis in a decade, marked by soaring inflation and shortages of food, fuel, medicines, and electricity. Facing the worst drought in three decades, half of the country’s 17 million people will need food aid in 2020. This is being worsened by an economy expected to shrink by 13 percent this year, as well as power cuts of 20 hours a day, a mismanaged currency, and disastrous farming policies. The blame for the collapse of the economy may be squarely placed on the mismanaged reintroduction of a local currency after 10 years of dollarisation, which has fostered fraud and embezzlement on a massive scale. The mismanaged currency regime is being accompanied by interventionist measures that have effectively shut down business and trade in the country. Zimbabwe’s risk rating is already severe but could be raised further as violent protests and another potential military intervention remain a likely scenario well into 2020.

5. Zambia: Despite an improvement in economic management in 2019, Zambia remains on our watchlist for 2020. The looming threat of a complete breakdown of Zambia’s power supply and the country’s inability to pay for electricity imports may be the final push towards debt distress. Zambia is unable to tap into its foreign reserves to import power from neighbouring countries like South Africa and Mozambique, as the country’s debt levels are exceptionally high and debt servicing is already under strain. Borrowing more to pay for new power plants will also be difficult. Zambia’s sovereign debt will reach 96 percent of gross domestic product next year, while its sovereign has made a spree of defaults over the course of 2019. Political repression towards next year’s elections will accompany a deteriorating economic outlook as we continue to raise our risk ratings for Zambia this year.

For more information on this report or EXX Africa, contact info@exxafrica.com. For the terms and conditions of the EXX Africa Insight service, view here. © Exx Africa. All Rights Reserved.
The value of intelligence is in its factor of surprise

EXX AFRICA is a specialist intelligence firm providing analysis and forecasts on political, security, and economic risk across all African countries. The company was founded in 2015 and has since become a leading risk advisory and consultancy with a broad network of clients ranging from DFIs, banks, traders, corporates, and insurers, to governments, intelligence agencies, and military forces worldwide.

Best Political Risk Consultancy, Africa, 2019

EXX Africa is recognised as the Best Political Risk Consultancy for Africa in 2019 by UK-based Capital Finance International as nominated by multilaterals such as The World Bank and the United Nations.

WWW.EXXAFRICA.COM