



Africa post-COVID – Risks and Opportunities

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Executive Summary

For a long time, the African continent has been facing political and economic challenges whilst at the same time providing many opportunities for the domestic and international market. With the advent of the COVID-19 virus however, the whole world is changing. And with that risks and opportunities will change on a global scale. This analysis looks at the uniqueness of the African continent and what new risks but also, new opportunities await in the post-COVID era.

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Analysis

The effects of the COVID-19 pandemic, which include lockdowns, travel bans and depressed economies, are felt worldwide and will be a part of general life for the foreseeable future. In Africa, where the pandemic has not yet hit full stride relative to the rest of the world, the pandemic will result in a 'new normal' for current and potential investors. Previous risks, such as corruption and poor governance, will remain, but the pandemic will also result in new risks of which investors should be aware. This analysis focuses on the political and regulatory risks which will occur in a post-COVID Africa, but businesses should also be wary of security and operational risks which the virus will exacerbate. The economic malaise resulting from lockdowns and the virus will increase unemployment and inequality in many countries, which heightens the risk of social unrest and potential conflict. Many African countries are running the risk of regressing in their democratisation, thus creating a more challenging climate for companies to operate in. The delay of planned trade agreements will not only result in deepening the economic challenges of countries but impact companies who hoped for a simplification of intercontinental trade. It is not all gloom and doom, however, as there will also be new opportunities on the continent. With the global economy having to restructure, Africa offers a young, qualified and available workforce and markets will present themselves for companies looking for new business opportunities. To benefit from the arising opportunities, entities will have to adapt to the changing environment and merging risks.

The regression of democracy

While investments in Africa have increased, the continent still suffers from a reputation risk issue and more risk-adverse capital tends to stay far away from the plethora of opportunity in Africa. Unfortunately, COVID-19 will do little to remove the previous major risks on the continent and will exacerbate and uncover new risks, such as a decrease in democracy and a delay in the implementation of new regulations and policies which were meant to increase and improve trade opportunities.

The track record of the African continent regarding human rights and democracies is difficult at best. From 44 scored countries, only seven countries were ranked as democracies by the [2019 Democracy Index](#), six of them as flawed democracies. COVID-19 will not spare the African continent and most sub-Saharan African countries have instituted a state of emergency or state of disaster. Whilst such measures infringe on human rights and extend the executive powers of governments across the globe, African countries are particularly vulnerable to abuses of these powers.

The democratic processes on the African continent suffered in the aftermath of the global financial crisis in 2008 and history will likely repeat itself after the existing crisis. Current measures are justified with the global health crisis, but some African leaders are already raising eyebrows. While most countries worldwide cautiously extend their measures a few weeks at a time, Sierra Leone declared a 12-months state of emergency, before having officially recorded one case. Botswana, usually one of the flagship countries of the continent, extended it for six months, which leaves President Masisi to legally rule with minimal oversight by his parliament. Unusual for this country, this led to accusations of tender irregularities and civil society is becoming concerned about the impact these extraordinary circumstances might bring.

While the measures and restrictions currently implemented in various African countries vary, some of them will not be reversed, leading to increased authoritarian political structures as governments ratchet up executive powers due to COVID-19. Even if the emergency measures are going to be fully reversed in some countries, the economic and political repercussions for already fragile states will lead to increased instability in the months to



come. For businesses wanting to or already operating in these countries a weakening of the democracy will lead to a heightened risk because of the political instability and connected unrests, thus making it more challenging to provide duty of care to its employees. Bribery and corruption are intrinsic to weak states and will pose a compliance risk for companies, especially when subject to international laws with a nationality principle, such as the Foreign Corrupt Practices Act (FCPA).

To add to the fragility of states, many countries have already had to postpone or cancel their upcoming elections. While there is a global debate about the pros and cons of delaying elections, for countries in which the electoral process is already weak this can lead to not only loss of confidence in the process by the population but extended term limits for current governments. Guinea's President Condé will stay in power for another term after a questionable referendum to change the constitution was passed during the March 2020 elections. Malawi will possibly postpone its July rerun election of last year's presidential vote, leaving the country in political disarray for even longer.

Registration and campaigning won't be able to start until the worst health risks have passed, which will likely lead to a smaller voter turnout as well as a possible disadvantage for the opposition parties, curtailing the democratisation process on the African continent even further. For some countries, this will result in a reversal of the strides made to democratise and lead back to more autocratic structures.

Cancellation or failure of trade agreements

In addition to a decrease of democracy, African plans to further liberalise the continent's economy will also be delayed due to the pandemic, which will delay the potential opportunities for investors. In recent years, African countries have recognised the need for increased collaboration and liberalisation of the African economy. In January 2018, the Single African Air Transport Market (SAATM) initiative was launched by the African Union to open air transport on the African continent. The project is expected to not only create employment and make intercontinental travel cheaper but create overall economic advantages.

The Africa Continental Free Trade Area (AfCFTA) is set to be the world's largest free trade area by number of member countries. The goal of AfCFTA is to boost intra-African trade and strengthen the continent's voice and policy space in global trade negotiations. The commencement of trading however was scheduled for 1st July 2020 and is now indefinitely postponed due to the closure of borders and trade restrictions as well as the inability to hold meetings to finalise the implementation.

Both SAATM and AfCFTA were launched to improve the economy on the African continent but are still to be initiated and established. Much like the elections, a postponement of the initiatives is likely to have a negative effect on their implementation, both medium and long-term. If they are delayed for months, or even in part cancelled, the economic pressures that will result from the COVID-19 crisis could lead to a too speedy expedition of the plans without the essential groundwork having been conducted properly. If so, what would have been a positive development for the continent, might end up being yet another regulation that fails to deliver on its intended purpose.

A window of opportunity

As mentioned above, business risk in Africa remains and, in some cases, is exacerbated due to the COVID-19 pandemic. However, where there is high risk, there is also high reward and the ongoing pandemic will also open up opportunities for investment in Africa.



Prior to this pandemic, Africa's FDI inflows were growing at a higher rate relative to the rest of the world, [reaching 11% growth in 2018](#) compared to just 4% in Asia and large contractions in developed countries in Europe and North America. These inflows will contract in Africa, as they will in the rest of the world, and the IMF's updated economic outlook forecasts Africa's economy to [contract 1.6% in 2019, before rising 4.1% in 2021](#). This future economic rise depends upon investors taking advantage of the new opportunities which will be present in a post Covid-19 Africa, where savvy investors can enter Africa or grow their share of the market on the continent.

First, while some commentators blame globalisation for the pandemic, the world is still interconnected via technology and this will continue post-COVID-19. There will be an increased use of virtual offices in order to cut costs and international travel, such as from hubs in London to key African cities, will also be reduced. This opens up opportunities for multinational companies to hire Africans for roles they may have lost in the past. More and more Africans are attending post-secondary institutions and 60% of the total population is under 25, offering companies a large pool of potential employees who can do the work as good if not better than their European or North American counterparts at more favourable market rates.

Opportunities abound not just for international companies, but also for local innovators. Africa's greatest long-term resource is its people, and with a young and entrepreneurial population, there are great opportunities for new technology and innovations to be born on the continent. The COVID-19 pandemic has shown the inadequacies of most African countries' healthcare sectors and there is expected to be a large increase in this market. Back in 2017, Fitch Solutions expected South Africa's health care sector to grow 4.7% over five years and this can be forecast to grow even further as governments address the pandemic. Africa's growing fintech sector can also benefit, as consumers begin to prefer contactless payment solutions over cash and governments use technology to track and trace potential infections and contact the population regarding the crisis.

Finally, investors, particularly private equity, will see the depressed economies around the world as peak time for buy-outs. In Africa, private equity companies may finally have an opportunity to buy into public companies, which governments are forced to privatise due to the economic constraints of COVID-19, which will help spur investments and also improve the efficiencies of these enterprises. The oil and gas sectors, as well as mining, will take a major economic hit due to the pandemic, which may see some of the majors hold off on investment decisions or pull out entirely as it looks to restructure. This is a major negative for Africa's economy as a whole, but also opens up opportunities for smaller companies, particularly Africa-based companies, to fill the void and potentially present very good returns in several years when the majors come back to the table.

A watershed moment

The world has experienced many watershed moments: events so significant that it will impact all aspects of life and change the course of history. Whilst these events are often only seen as such in hindsight, the pandemic, as we are experiencing it now, can already be seen as one of these moments. As horrific and challenging as this current situation is, it offers businesses a unique opportunity: to timely adapt their strategy to the new risks. In risk management, once a risk is identified, depending on the risk appetite, it can be treated in different ways. It can be avoided, accepted, transferred, mitigated or exploited. Apart from avoidance, and based on solid information, all of these strategies will afford businesses new opportunities to benefit from the new risks we will see arising on the African continent.

Remarks: Opinions expressed in this contribution are those of the authors.

About the Authors of this Issue

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