OXFORD ECONOMICS | Control Risks

Africa Risk-Reward **Index**

September 2019

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Africa Risk-Reward Index: September 2019 scores and changes from the November 2018 edition.

See page 17 for full details of the methodology and scores framework.

COUNTRY	REWARD SCORE (OUT OF 10)			RISK SCORE (OUT OF 10)		
	Sep 2019	Nov 2018	Change since last edition*	Sep 2019	Nov 2018	Change since last edition**
Algeria	4.51	4.41	+0.10	6.14	6.22	-0.08
Angola	3.18	2.49	+0.69	6.16	6.29	-0.13
Botswana	4.99	4.98	+0.01	3.41	3.47	-0.06
Cameroon	4.60	4.45	+0.15	6.58	6.53	+0.05
DRC	4.89	4.61	+0.27	8.10	8.46	-0.37
Egypt	6.70	6.58	+0.12	5.55	5.52	+0.03
Ethiopia	8.09	8.14	-0.04	5.99	6.18	-0.19
Gabon	4.05	3.89	+0.16	5.97	5.69	+0.27
Ghana	5.44	5.60	-0.16	4.66	4.57	+0.10
Côte d'Ivoire	6.65	6.74	-0.09	6.15	6.19	-0.04
Kenya	6.27	6.26	+0.01	5.44	5.46	-0.02
Malawi	3.85	3.57	+0.27	5.12	5.15	-0.03
Mauritius	4.52	4.53	-0.01	3.43	3.45	-0.02
Morocco	5.55	5.36	+0.19	3.90	3.79	+0.11
Mozambique	3.72	3.48	+0.24	6.07	6.18	-0.11
Namibia	2.73	2.29	+0.43	4.44	4.27	+0.17
Nigeria	5.76	5.48	+0.28	6.89	6.87	+0.02
Rwanda	6.01	6.13	-0.12	4.83	5.07	-0.24
Senegal	5.99	5.73	+0.26	4.61	4.57	+0.04
South Africa	4.51	4.26	+0.25	4.61	4.85	-0.24
Sudan	2.77	-	-	7.24	-	-
Tanzania	6.38	6.37	+0.01	5.85	5.75	+0.10
Tunisia	3.13	3.07	+0.06	5.44	5.54	-0.09
Uganda	5.75	5.76	-0.01	6.04	6.06	-0.02
Zambia	3.07	3.16	-0.09	5.65	5.61	+0.04
Zimbabwe	2.02	1.08	+0.94	7.09	6.81	+0.28

Source: Control Risks/Oxford Economics/Haver Analytics

* 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.

Foreword

Control Risks' and Oxford Economics' Africa experts are pleased to present the fourth edition of the *Africa Risk-Reward* Index. The index captures the evolution of the investment landscape in major Africa markets.

To the inexperienced investor in Africa the index offers a comparative snapshot of market opportunities and risks across the continent – where should you start looking if you need to devise a market entry strategy into a continent that is brimming with opportunity but which is so vast and so poorly understood.

To the more seasoned Africa investor the index offers a grounded, longer-term outlook of key trends shaping the investment landscape in major African economies and some suggestions of successful strategies for different contexts. Our analysis is based on our experts' view of structural political and economic features of these markets that go beyond the headline-grabbing news and noise surrounding the topic of investment into Africa.

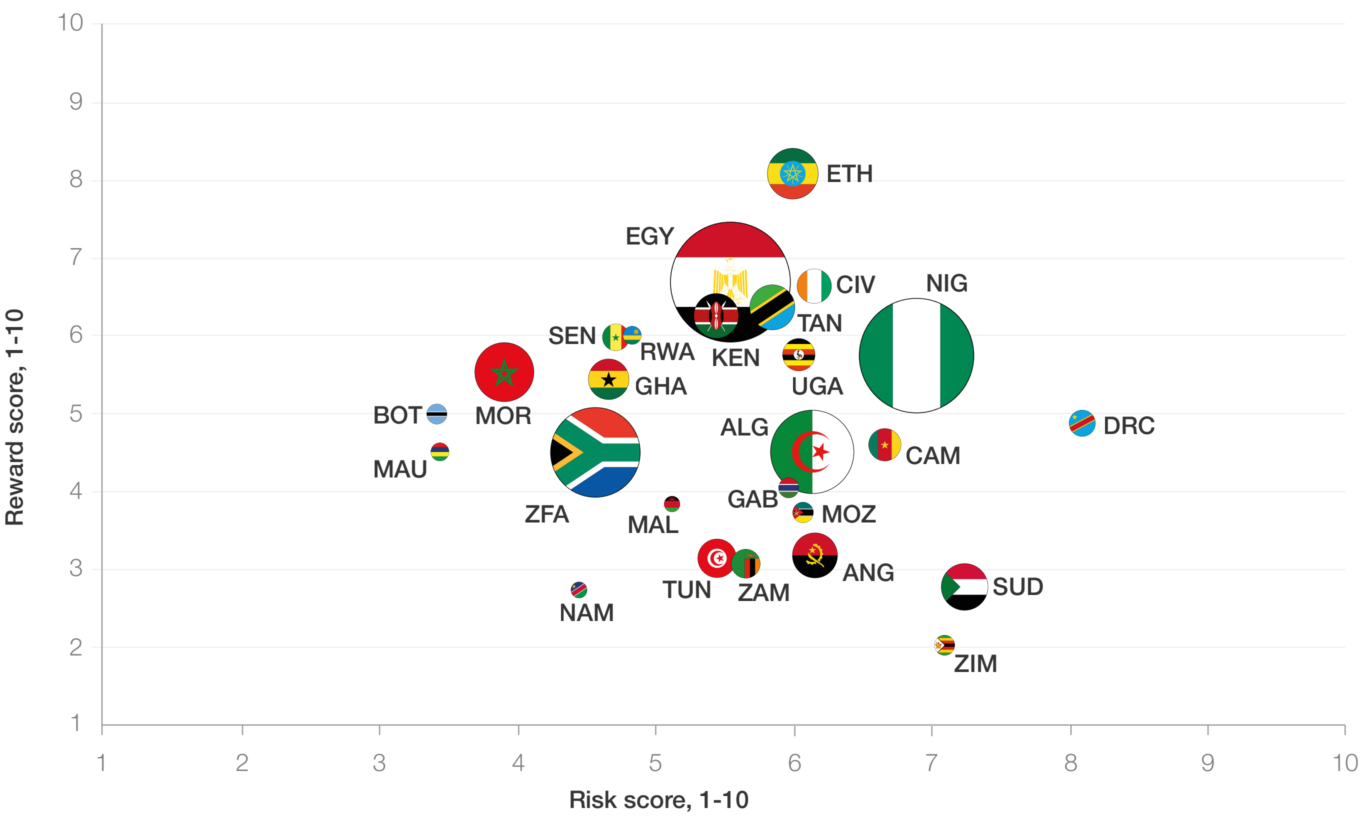
Risk and reward in 2019

The Africa Risk-Reward Index plots each country's performance relative to African peers and highlights how some of Africa's largest economies are outshone by smaller rivals. In this year's edition some of those countries traditionally seen as models of stability and sensible governance – such as Ghana and Zambia – have seen their standing decline relative to their peers, while others – such as Namibia – have an improving outlook despite headline difficulties.

Source: Control Risks/Oxford Economics/Haver Analytics

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.



Overall, African countries are improving their position in the index, which is consistent with the overall growth pattern we have observed across the continent in recent decades. How individual markets will fare in the next year and beyond will be shaped in part by three longer-term trends observed by our experts. Our recommendation is that investors take these into account as they design or re-evaluate business strategy in Africa.

First, **do not get carried away by enthusiastic reform promises by assuming that reform-minded strong-man leaders can push their way through free of any constraints**. The real political lesson of recent years is to not underestimate the strength of counter-reform efforts by existing political structures, as well as the complexity of the undertaking. Ambitious reform agendas put forward by Prime Minister Abiy Ahmed of Ethiopia and President João Lourenço of Angola are already slowing as they are forced to navigate a web of influential stakeholders with competing objectives. In this edition, we attempt to draw out what's realistic to expect from the reform effort in these two countries. We also discuss what lessons can be learned for investors trying to steer a course amid political changes in South Africa.

Secondly, **have a closer look at the potential opportunities brought by closer intra-African cooperation**. Progress is finally being made towards unlocking the huge potential of intra-continental trade. The entry into force in late May of the African Continental Free Trade Area (AfCFTA) is a hugely important milestone even if its implementation is likely to be slow and tortuous. Regional blocs are also making significant progress in reducing trade barriers between their member states. In this edition, we take a closer look at the East African Community (EAC), as one of the most successful of these blocs, and explore what membership of the intergovernmental organisation means for its two largest economies – Kenya and Tanzania – as well as the impact of Congo (DRC) potentially joining the group.

Finally, **keep an eye on how increasing multi-polar geopolitical competition across the continent is shaping domestic political dynamics and the business landscape**. The standard narrative of US-China rivalry in Africa had always looked like an over-simplification, but is certainly outdated now. China's engagement with Africa is undergoing a fundamental shift, the US is playing catch-up, and a host of other countries are seeking to expand their influence in an increasingly multipolar landscape. Geopolitical objectives are being supported by a flood of development finance, creating both opportunity and competition for private-sector players. We use the recent changes in Sudan as a case study to draw attention to this trend.

There are of course many other factors shaping the overall investment landscape across the continent. Conscientious investors who are looking to gain competitor advantage and turn their investments in Africa into long-term success will want to get a nuanced understanding of specific market dynamics and stakeholders. We hope that this edition of the Africa Risk-Reward Index prompts a good discussion.

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

Plus ça change: Reforms and resistance in Angola, Ethiopia and South Africa

Angola is one of the best performers in this edition of the Africa Risk-Reward Index, judged in terms of improvement in risk-reward score since the third edition. The ambitious reform agenda pursued by President João Lourenço since his inauguration in September 2017 has driven this improvement. A host of fiscal, monetary and regulatory reforms have been accompanied by more significant structural changes that have challenged vested interests and introduced a degree of oversight to economic governance.

Despite these improvements, Angola's risk score remains significantly higher and its reward score significantly lower than continental averages. Two years of reform efforts have had an impact, but they have also highlighted the intractable nature of many of Angola's challenges. Foreign-exchange shortages persist, the economy remains over-reliant on oil, and we forecast that 2019 will be the fourth consecutive year of recession.

Angola: the economic perspective

Figures for Q1 2019 reveal that the Angolan economy is still struggling with Q1 showing a 0.4% contraction in real GDP. Angola's dependence on oil makes it vulnerable to swings in prices and production, and lower crude prices in the first three months of the year almost erased the current account surplus. For the same reason (our expectation that oil prices and production will remain low over the full year) we currently forecast a 0.5% contraction in real GDP for 2019, the fourth straight annual contraction. The small manufacturing sector, important for diversification, contracted as well. Inflation is high (forecast to average 17.0% in 2019), and pressure on reserves resulting from the decline in exports has pushed the central bank to slow down its provision of hard currency to banks, which affects firms in all sectors.

Ethiopia presents a similar story. Prime Minister Abiy Ahmed's reform plans are similarly ambitious in scale as Lourenço's. The telecommunications sector is in the process of being liberalised, and similar moves are planned for sectors ranging from domestic aviation to financial services. The promise of access to a market of more than 100m has allowed Ethiopia to maintain a very high reward score. However, this reward score has shown no improvement from the last edition while Ethiopia's risk score remains stubbornly high. The timetable for telecommunications liberalisation has already slipped, foreign-exchange shortages persist, and the postponement of local elections shows the difficulties in pushing through political reforms.

For investors, the key takeaway from the cases of Ethiopia and Angola is to understand the limitations of reformist administrations. Structural problems will take time to address, especially because the very fiscal challenges that drive reform efforts also serve to constrain them. Civil servants accustomed to working with state-led development models lack the experience and expertise to deliver restructuring and liberalisation, particularly to the tight deadlines promised by politicians. Meanwhile, leaders must find or build support from often sceptical stakeholders.

In both countries the grand plans and popularity of reformist leaders have lost momentum as they come up against complex party structures. Amid the excitement of "Abiymania", it was easy to forget that Abiy does not have a popular mandate, having been selected by the ruling Ethiopian People's Revolutionary Democratic Front (EPRDF) coalition.

Meanwhile, Lourenço's election was assured as soon as he was placed at the head of the candidate list by the ruling Popular Movement for the Liberation of Angola (MPLA). Traditional party powerbrokers are unlikely to relinquish influence and tend not to favour changing the systems that have ensured their political and economic dominance.

Ethiopia: the economic perspective

Ethiopia's very rapid economic growth in recent years – 15 years of annual GDP growth over 8% - has mainly been the result of centralised capital investment by the government. Although this dynamic is starting to slow somewhat, state-led investment will continue to be a key driver of growth, which we forecast to remain high at 7.4% over the 2018-20 period. The opening up of the policy space will boost growth and help diversify the economy away from agriculture. In the shorter term severe supply-side constraints, including power rationing and surging food price inflation in the wake of a drought, are concerns. A slump in exports in 2018 has squeezed reserves, raising the risk of a forced devaluation and resulting in firms having to wait longer to fulfill their forex orders. The drought is also forcing the government to spend on humanitarian aid to the expense of investment spending.

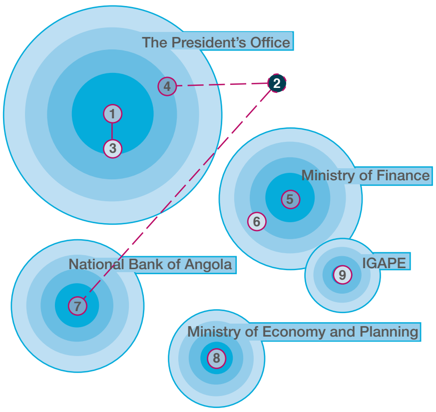
Sectors will open up at varying rates and in different ways, depending on vested interests and political considerations. Investors who have so far profited from the reforms initiated in Angola and Ethiopia have taken the time to understand the overlap of political and commercial interests and used this understanding to identify which reforms will proceed and which will stagnate. They have also established the objectives of various stakeholders and aligned their own interests with them.

Source: Control Risks/Oxford Economics/Haver Analytics

Fig.2 ▶ Reforms and resistance in Angola, Ethiopia and South Africa

Angola

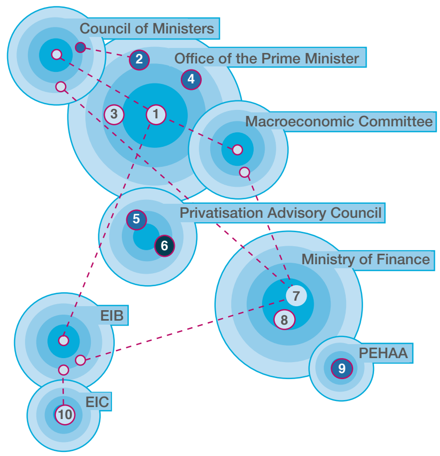
Selected stakeholders in the reform agenda



1 President João Lourenço
2 Former vice-president Manuel Vicente
3 Minister of State for Economic and Social Development Manuel José Nunes Júnior
4 Secretary for Economic Affairs Alcino da Conceição
5 Minister of Finance Augusto Mangueira
6 Secretary of State for Finance and Treasury Vera Daves
7 Governor of the National Bank of Angola José de Lima Massano
8 Minister of Economy and Planning Manuel Neto da Costa
9 President of the Institute of Management of Assets and State Participation (IGAPE) Valter Barros

Ethiopia

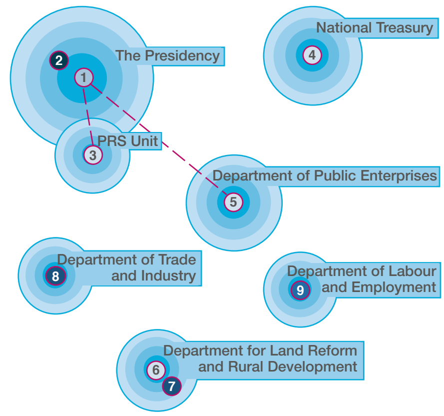
Selected stakeholders in the reform agenda



1 Prime Minister Abiy Ahmed
2 Deputy Prime Minister Demeke Mekonnen
3 Senior Advisor and Chief Trade Negotiator Mamo Mihertu
4 Special Advisor Arkebe Oqubay
5 Chairman of the National Bank of Ethiopia (NBE) Board Girma Birru
6 Former Governor of the NBE Teklewold Atnafu
7 Minister of Finance Ahmed Shide
8 State Minister of Finance Eyob Tolina
9 Director General of the Public Enterprises Holding and Administration Agency (PEHAA) Beyene Gebremesqel
10 Commissioner of the Ethiopia Investment Commission Abeb Chekol

South Africa

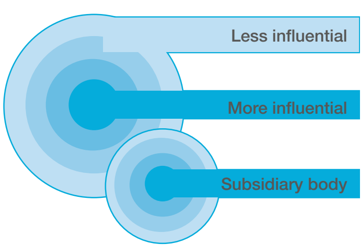
Selected stakeholders in the reform agenda



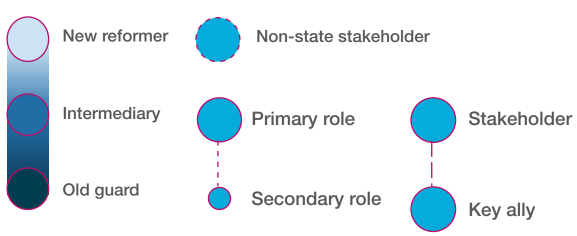
1 President Cyril Ramaphosa
2 Deputy President David Mabuza
3 Director of the Policy Analysis and Research Services (PRS) Unit Busani Ngcaweni
4 Minister of Finance Tito Mboweni
5 Minister of Public Enterprises Pravin Gordhan
6 Minister for Land Reform and Rural Development Thoko Didiza
7 Deputy Minister of Land Reform and Rural Development S'Dumo Dlamini
8 Minister of Trade and Industry Ebrahim Patel
9 Minster of Labour and Employment Thulas Nxesi

KEY

Institutions



Individuals



Disclaimer

These stakeholder maps are intended as an illustration of the divisions that persist within governments and of the continued influence of individuals who are resistant to reform agendas for political, ideological or commercial reasons.

These stakeholder maps are not intended as a comprehensive overview of all stakeholders relevant to the reform efforts in each country. In each country there is a far wider range of stakeholders, the influence of which will vary according to the specific reform or sector.

Accordingly, for example, the award of new telecommunications licences in Ethiopia will offer genuine opportunities to foreign investors who understand that their bids will be judged not only by planned investment and technical capability but also by how closely their plans support broader development goals.

These lessons apply elsewhere. South Africa may not be undergoing such dramatic changes, but reform-minded President Cyril Ramaphosa's struggles in the face of more reactionary members of the ruling African National Congress (ANC) echo those of Lourenço and Abiy. Ramaphosa has a new mandate following general elections in May, but his continued need to appease more populist elements of his party is reflected in some of his cabinet appointments. Internal opponents to Ramaphosa have coalesced around ANC Secretary General Ace Magashule, ready to exert their influence if Ramaphosa fails to deliver the economic recovery that voters expect.

Just as in Angola and Ethiopia, success in South Africa will depend on correctly mapping intentions against actual capabilities, i.e. what is possible out of what is desirable. Ramaphosa will lead a government characterised by trade-offs and compromise, in which state resources and political capital are conserved for select issues. There will be improvements – as reflected by South Africa's risk-reward score in this edition – but these will be unevenly distributed across issues and sectors. Investors must understand who and how to engage to ensure they can influence government priorities, and to limit the impact of concessions to populist ANC elements.

South Africa: the economic perspective

The economic outlook in South Africa remains bleak, despite the optimism generated by President Cyril Ramaphosa's presidency. The dismal GDP performance in Q1 of 2019 – national output contracted by 3.2% q-o-q (seasonally adjusted and annualised) – and weak business and consumer confidence levels have prompted us to revise our full-year GDP growth estimate downward to a contraction of 0.2%. We are expecting both investment and consumption spending to remain under serious pressure this year: the South African consumer is experiencing real financial strain and carrying substantial debt, which has contained spending, and the lack of spending power is deterring investment. The poor state of government finances – exacerbated by the state having to repeatedly bail out bankrupt power utility Eskom – introduces uncertainty about Moody's credit rating, the last major agency to still rate South Africa's debt at investment grade. While price inflation is expected to remain benign, inflation pass-through via the exchange rate channel could put further pressure on cash-strapped households given the rand's susceptibility to emerging market sentiment.

Africa has long been known for strong-man presidents. This perception is based on constitutions that grant executives wide-ranging powers that leave parliaments and courts subservient and/or weak. But while the strength of institutions varies across countries such as Angola, Ethiopia and South Africa, none of them are so weak that a new leader alone can transform the political landscape. There will always be other stakeholders with their own motives and objectives, often within hegemonic ruling parties that contain a range of ideologies and interests. These factors are crucial for investors to be able to identify which reforms are likely to go ahead and to position themselves to enjoy the opportunities they offer.


VOTING
SABC NEWS

Ever closer union? Relationships and rivalries in the East African Community

The East African Community (EAC) may not contain any of the continent's giants, but the region as a whole continues to register the highest levels of economic growth on the continent. In recent years, the EAC's Common Market has led to a modest increase in regional trade between the six current member states – Kenya, Uganda, Tanzania, Rwanda, Burundi and South Sudan – by gradually easing restrictions on the movement of goods and people across borders. International diplomatic actors have bought into the idea of the EAC, with multilateral institutions such as the World Bank and African Development Bank (AfDB) extensively and enthusiastically funding capacity-building initiatives for EAC institutions, as well as transport, energy and communication infrastructure to link the EAC member states. Landlocked Uganda and Rwanda in particular have benefited from improved regional and international market access for their goods and services. These trade facilitation programmes have contributed to EAC members once again achieving well above the average risk-reward score.

Nonetheless, there are clear differences in how the EAC's members view the bloc's future and benefits derived from it. Kenya has taken full advantage of the opportunities offered by the EAC, pushing for the removal of tariff and non-tariff barriers to trade. Consequently, most countries in the region now have Kenya listed in their top trading partners. In a bid to deploy its larger capital base and better-educated labour force, Kenya has also spearheaded efforts to implement free movement in the region. Combined with its traditionally more investor-friendly regulatory environment and support of private-sector-led growth, this has seen the country consolidate its position as the largest economy in the EAC.

Kenya: the economic perspective

Leading indicators point towards a slight slowdown in private sector activity this year. Firms have been hit by cash-flow problems arising from late payment of bills, especially by government departments. When incorporating additional downside risk related to weaker agricultural production, we expect GDP growth to ease to 5.5% this year, before averaging between 5% p.a. and 6% p.a. over the medium-term. The government's resolve to increase private sector participation in the country's Big Four Agenda has the potential to increase the impact of fiscal spending, as public expenditure will be supplemented by private investment. Although some fiscal concerns persist, most macro-economic variables remain sound, with a healthy external liquidity position, a relatively diversified economy and sustainable external deficits. Looking ahead, Kenya's reward potential will be enhanced as the country increasingly consolidates its central position in the EAC.

However, optimism for the prospects of the bloc must be tempered with a heavy dose of realism. Countries in the EAC are at times competitors rather than friendly collaborators, which is sometimes purely driven by politics and personal disputes largely disconnected from trade. For example, the main border crossing between Rwanda and Uganda has been closed since February as the two countries accuse one another of spying on or destabilising the other's regime. Relations between Rwanda and Burundi have been frozen since 2015 over similar security issues.

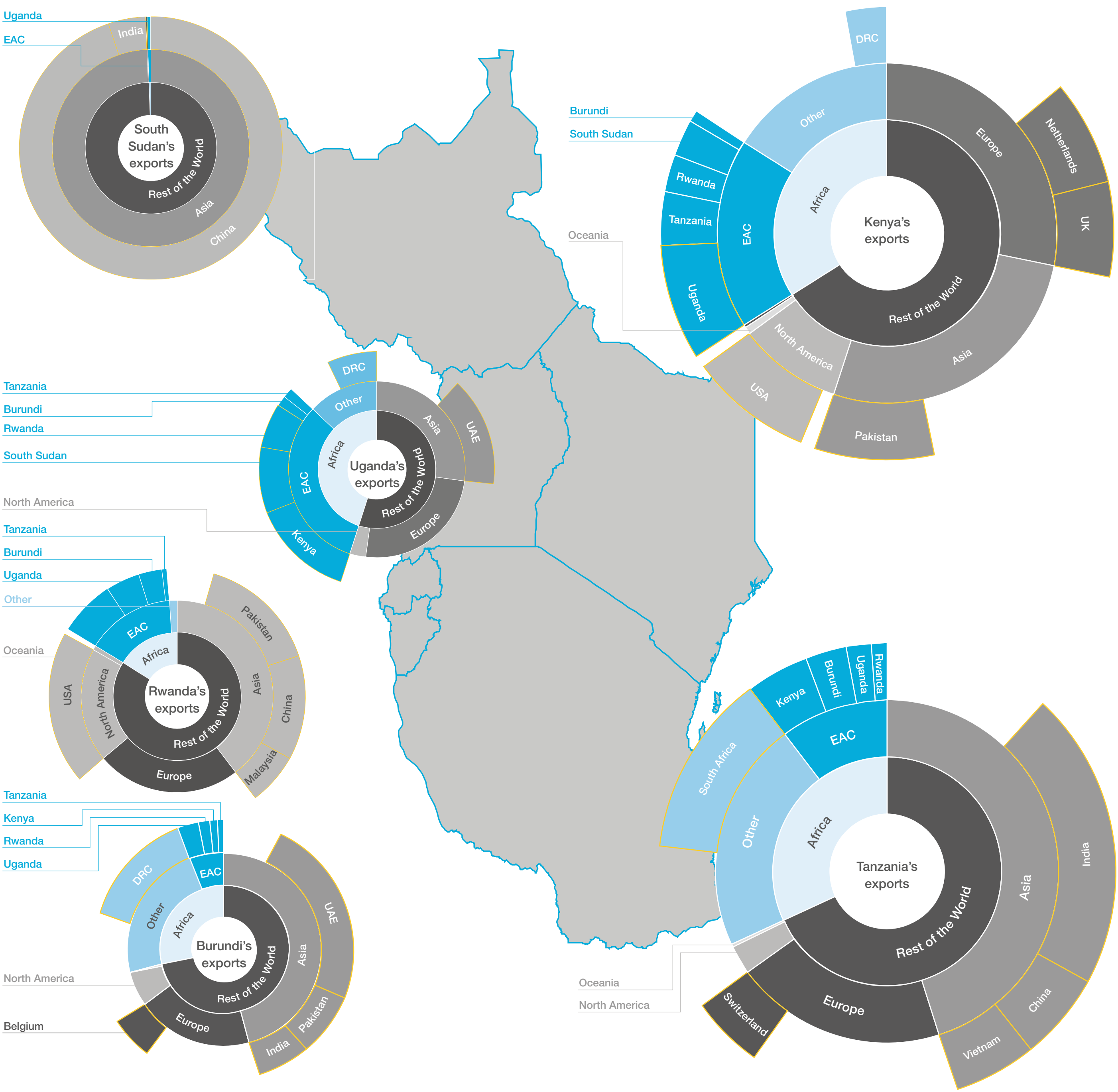
Elsewhere, protectionist concerns play a bigger role. Tanzania, often viewed as the petulant child, frequently blocks goods from other EAC states to protect its domestic industries. Its main concern about the EAC is that its smaller private sector and labour pool will be overrun by those of its neighbours. This suspicion has more recently extended to international companies. President John Magufuli's continued arbitrary interventions and nationalist stance in the extractives sector have increased regulatory and contract risks, sustaining upward pressure on our risk score for the country.

Despite this, Tanzania is often viewed positively as an alternative to Kenya within the EAC. Unlike Kenya, where ethno-regional tensions produce cyclical instability around elections, political stability risks in Tanzania are low in light of broader social cohesion under the ruling Chama cha Mapinduzi (CCM) party. This means that, despite general elections in 2020, Tanzania remains unlikely to experience widespread political unrest. In addition, those that get their government relationships right can find more unexploited economic opportunities across sectors ranging from agriculture and energy to infrastructure and aviation.

Notwithstanding the competition between the two larger economies in the bloc, reducing trade barriers has already prompted competition and an improvement in business environments across the bloc. International companies evaluating East Africa therefore face fewer constraints when choosing a business hub in East Africa. Rwanda – previously too small a market to be an attractive base of operations – has positioned itself well to become a hub to access the wider community, and could start to compete with Kenya as a base for foreign investors. As previous editions of the Index have highlighted, Rwanda ranks highly in terms of improvements in government bureaucracy and reforms to encourage international investment.

Source: Control Risks/Oxford Economics/Haver Analytics

Fig.3 ▸ Top 5 export destinations



Tanzania: the economic perspective

Economic growth in Tanzania is very strong: our forecast is for real GDP growth of 6.1% this year, and for an average of just below 6% p.a. over the medium-term. The reasons are robust demographic growth, a nascent hydrocarbons sector and comfortable external liquidity position, as well as Uganda's choice of the Tanzanian route to take its oil to export markets. All of these factors confirm the economy's significant reward potential, despite the fact that economic risk has been in the news more frequently of late. Some recent developments have prompted us to revise our forecasts downwards, especially erratic policy-making, particularly in the mining sector, stemming from state-led prosperity rhetoric and the perceived hostility towards large foreign corporations (as reflected by the dispute between the government and British-owned Acacia Mining). Adverse weather conditions could cut agricultural output and raise food prices. The country's twin deficits are also expected to widen, as capital goods and oil imports continue to rise and the government continues to struggle with budget execution.

These dynamics are set to change with the prospective arrival of Congo (DRC) into the bloc. The country applied to join in June, and its admission request will be considered at the next EAC summit in November. Although the timelines of its entry are unclear, most member states are enthusiastic and the country's bid to join offers new and exciting dimensions: its natural resources and large, mostly untapped domestic market are attractive for both EAC and international companies evaluating entry or based in the EAC. Existing EAC member states will also compete with one another to exploit this new opportunity. Although Congo will be attracted to Kenya's more developed transport corridors and access to a sophisticated services industry, its proximity to Tanzania will also be an attractive pull factor. Meanwhile, the role of Rwanda and Uganda in the EAC could grow even further if Congo joins the bloc, given their proximity and some existing (albeit controversial) ties with trading networks in eastern Congo.

The tantalising prospect of Congolese membership has been made possible by the landmark transition of power following the long-delayed 2018 elections. The new president, Félix Tshisekedi, has made it a priority to reduce Congo's isolation and improve ties with other African leaders, who have generally welcomed the change of style from that of president Joseph Kabila. However, Congo's admission to the EAC may not become a regional game changer given the country's notoriously difficult business environment. Non-tariff barriers – ranging from arcane regulations and bureaucratic overload to poor infrastructure – remain bigger obstacles to trade with Congo than tariffs. With Tshisekedi locked in an alliance with the pro-Kabila old guard, systematic reforms to improve the investment climate still appear out of reach.

Trade facilitation initiatives will continue to gradually reduce the cost and hassle of doing business in the region. However, investors need to understand that the EAC's broader ambitions to have a seamless economic community stretching from the Indian Ocean to the Atlantic Ocean will take a long time to materialise. A bet on an ever-expanding and increasingly integrated East African market is likely to yield business opportunities, but only if it is based on long-term forecasts rather than short-term headlines.

DRC (Congo): the economic perspective

The deal between Tshisekedi's Cap pour le Changement (Cach) and Kabila's Front Commun pour le Changement (FCC) is bad news for government finances, as political concessions – such as granting positions in the huge cabinet – are often at odds with sensible fiscal policy. In the real economy, by contrast, the picture is more positive. In 2018 copper production increased by 11.9% to 1.2 million tonnes, cobalt production increased by a remarkable 32.7% to 105,372 tonnes, gold production by 16.4% to 36.8 tonnes, and crude oil production by 11.4% to 8.4 million barrels. This resulted in real GDP expanding by 5.8%. In 2019, economic growth is set to decelerate due to weaker international demand conditions and the resulting effect on the prices of Congo's exports. However, at a forecast of 4.2%, growth will remain respectable. Inflation has continued its decline in the year to date: it averaged 5.6% y-o-y in the first five months of 2019, compared to over 20% in mid-2017. The Central Bank of the Congo (BCC) subsequently lowered its policy rate from 14% to 9% in April, improving the operating environment for business.

The crucible: Geopolitical competition in a post-Bashir Sudan

The standard narrative of US-China rivalry in Africa is outdated. While both countries remain influential players across the continent, the focus on bipolar competition was always misleading and distracted from what has become an increasingly multi-polar landscape.

Through initiatives such as its Economic Partnership Agreements – in various stages of ratification or implementation across the continent – the EU is gradually joining up the long-influential European players into a force that easily rivals the US or China. Meanwhile, the past decade has seen a surge of interest in Africa from smaller geopolitical players such as Russia, the Gulf states, Turkey and India.

The political influence and commercial footprint of these smaller players stand well behind the three major players according to available indicators. For example, Russian trade with sub-Saharan Africa stood at roughly USD 4.2bn in 2017, compared with US-Africa trade of USD 39bn, China-Africa trade of more than USD 200bn, and EU-Africa trade of more than USD 300bn. This gap will not be closed in the foreseeable future. Instead, smaller players tend to target specific countries and adopt certain strategies to advance specific objectives. They also look to exploit any gaps left in the engagement strategies of the EU, US or China.

Sudan provides an illustration of this smaller-scale approach. International sanctions and reputational risks over human rights abuses related to the Darfur conflict have restricted the US and EU in their engagement with Sudan. China remains Sudan's largest trade partner, with substantial commercial interests in the country. However, it views Sudan as less of a strategic priority since South Sudan gained independence in 2011. China's role is likely to decline going forward, in part because Sudan's political situation poses difficult questions for the country as it undergoes a fundamental shift in how it engages with Africa.

New players are now exploiting this gap. Russia's involvement in Sudan is an archetypal example of its approach to Africa as a whole: leverage security cooperation to access opportunities in natural resources. Since 2001, Russia has taken advantage of the fact that the US and European arms exporters were restricted by sanctions to become by far the largest supplier of arms to Sudan. In November 2017, it signed an agreement with Khartoum that gave it access to petroleum and mineral prospects in exchange for "protection from the aggressive acts of the United States". This "protection" included Russian training and support for Sudan's security forces.

Turkey has adopted a more multi-faceted approach to building relations with Sudan. Security cooperation play a part in this, with widely reported – though officially denied – Turkish plans to develop a military and naval base on Suakin Island. But Turkey also bombarded the government of former president Omar al-Bashir with the same diplomatic and commercial charm offensive that it has effectively deployed elsewhere. President Recep Tayyip Erdoğan and his predecessor have visited 22 African countries and opened 29 new embassies over the past decade, often accompanied by promises of investment. Erdoğan visited Sudan in December 2017, pledging to increase trade from USD 500m a year to USD 10bn within five years.

Sudan: the economic perspective

The military regime, fighting for its survival, is yet to announce new economic policies. Some of the last-ditch measures that Bashir implemented to cool protest energy against him are still having negative economic effects, especially the decree in terms of which he limited the supply and trade of local and foreign currency. This has resulted in a lack of liquidity, which has in turn caused high inflation (45% y-o-y in May, mainly driven by food inflation) and fuel shortages. The junta government's early success in obtaining currency inflows has been in doubt since a mass killing of protesters in early June, so the picture will remain bleak, and we forecast a real GDP contraction of at least 1.5% in 2019. Some relief will come from better harvests, which will boost food supply and ease inflation. If negotiations progress, even in a cosmetic way, then Saudi Arabia and the UAE will disburse more of the funds they have promised, boosting liquidity and helping the economy.

This geopolitical competition spilled over and added to domestic political volatility in Sudan as soon as Bashir fell from power. Some of Sudan's new partners have proven themselves more adaptable than others. Russia relied on its allies within the military to ensure that its activities continue uninterrupted, but others have seen their fortunes change dramatically. Saudi Arabia and the United Arab Emirates (UAE), both of which had fallen out with Bashir over his support for Qatar during the Gulf crisis, made sure to regain their influence once Bashir was ousted. Within a fortnight of his fall, the two countries had sent delegations to Khartoum and agreed a USD 3bn aid package. Their rise came at the cost of Turkey and Qatar.

For Sudan, this volatile landscape contributes to the second-highest risk score in this edition of the Africa Risk-Reward Index. The competition between various interests could drive further financial assistance that helps Sudan recover, but also has the potential to exacerbate divisions. While the Transitional Military Council (TMC) and opposition Declaration for Freedom and Change Forces (DFCF) reached a broad agreement for a transitional government on 3 August, this provides little guarantee of future stability. It also remains to be seen whether the support of new allies is sufficient to counteract the distance maintained by the US, which on 7 August stated that Sudan would remain listed as a state sponsor of terrorism.

The narrative of a US-China rivalry may never have been entirely accurate but it did highlight an interesting battle between two rival models of engagement: a US model in which development assistance was explicitly tied to political reforms and a Chinese model that deliberately avoided politics but openly pursued commercial opportunities. The new geopolitical players in Africa have adopted a dual approach, seeking political influence and aggressively promoting their commercial interests. The major players are adapting their strategies in response. China is engaged in a subtle but fundamental strategic shift as it attempts to translate its economic clout into political influence. The US Prosper Africa programme, launched in June, has a clear commercial focus that has been absent from previous US development initiatives.

To private-sector players this geopolitical competition presents both challenges and opportunities. Such competition is prompting growing flows of development finance, which are increasingly being implicitly or explicitly used to access commercial opportunities. There is a danger that this crowds out private capital, or that private investors find themselves unable to compete unless they tie themselves to wider geopolitical objectives. But this increased focus on Africa can also drive growth. Investors will have to factor in an increasingly complex geopolitical landscape to accurately judge the risk and reward of any opportunity.

Fig.4 ▸ Sudan political transition timeline (December 2018 – present)

2018

19 December
Violent demonstrations begin in several cities over rising food prices. Protests spread to at least 28 cities, including Khartoum, and calls for President Omar al-Bashir to resign intensify.

2019

17 January
The UN calls on the Sudanese authorities to halt the "reported use of excessive force" against protestors and to release more than 800 people that had been detained during the protests.

19 January
The United Arab Emirates (UAE) provides the Sudanese government with USD 300m and 1.12 tonnes of fuel to ease Sudan's economic pressures.

15 February
The Sudanese parliament "indefinitely postpone" a constitutional amendment process that would have allowed Bashir to run for re-election in 2020.

22 February
Bashir dissolves the cabinet and declares a one-year state of emergency banning public gatherings and protests and extending the powers of the state security forces.

13 March
Bashir swears in a new 20-member cabinet and announces he is willing to engage in dialogue with the opposition.

3 June
60 to 100 protestors are killed as state security forces forcibly disperse a mass sit-in outside the army headquarters in Khartoum. The DFCF suspends talks on the formation of the joint transitional administration.

4 June
China and Russia block a bid at the UN Security Council to release a statement condemning the Sudanese state security forces for killing protestors on 3 June.

6 June
The AU suspends Sudan's membership with immediate effect following the 3 June killing of protestors.

7 June
Ethiopian Prime Minister Abiy Ahmed travels to Khartoum and offers to mediate the negotiations between the TMC and DFCF.

12 June
US Assistant Secretary of State for Africa Tibor Nagy meets with representatives of the TMC and DFCF and names Donald Booth as special envoy for Sudan.

14 June
Tibor Nagy refuses to rule out the imposition of further US sanctions should the TMC not hand over power to a civilian administration.

15 June
China and Russia reject calls by Western and African countries at the UN Security Council to delay the withdrawal of UN peacekeeping forces in Darfur beyond 2020.

20-21 June
South Sudan offers to mediate negotiations between the TMC and DFCF for a second time in return for Sudan's mediation in South Sudan's peace talks in 2018.

5 July
Mediators Ethiopia and the AU announce that the TMC and the DFCF coalition have reached a power-sharing agreement for a three-year transition period.

9 July
Turkey and Sudan hold talks for the first time since Bashir's removal.

11 July
The TMC claims it has foiled a coup attempt that was an attempt to undermine the power-sharing arrangement between the military council and the DFCF.

17 July
The TMC and DFCF sign the first part of the power-sharing agreement (known as the "political declaration").

Source: Control Risks/Oxford Economics/Haver Analytics

16 March

Sudan's Ministry of Finance announces it has secured USD 300m of loans to support the country's balance of payments, with USD 230m from the Arab Monetary Fund and USD 70m from the Arab Trade Financing Program.

11 April

Bashir is removed from power and arrested. Sudan's constitution and a three-month state of emergency is also suspended, and negotiations to establish a Transitional Military Council (TMC) begin.

12 April

China pledges to continue to maintain and develop close bilateral relations with Sudan regardless of how the political situation evolves.

13-14 April

Lt-Gen Abdel Fattah al-Burhan replaces Gen Awad Mohamed Ibn Auf as leader of the TMC. Opposition and civil society groups also establish a ten-member delegation (known as the Alliance for Freedom and Change) to negotiate with the military council. Meanwhile, a delegation from Saudi Arabia and the UAE arrive in Khartoum to hold talks with the TMC to discuss bilateral relations.

15 April

The African Union (AU) threatens to revoke Sudan's membership if the TMC does not transfer power to a civilian administration in 15 days.

17 April

Lt-Gen Abdel Fattah al-Burhan and his deputy Mohamed Hamdan Daglo meet with Russian Deputy Foreign Minister Mikhail Bogdanov.

21 April

Saudi Arabia and the UAE announce a USD 3bn aid package to Sudan.

23 April

The AU extends the deadline for the TMC to hand over power to a civilian administration to three months.

27 April

The TMC and opposition parties announce that they have agreed to form a joint transition council following extensive negotiations.

28 April

The Abu Dhabi Fund for Development (ADFD) announces it will deposit USD 250m into the Central Bank of Sudan as part of the USD 3bn joint aid package.

1 May

The AU appoint a team led by Mohamed Hacen Lebatt to mediate the negotiation process between the TMC and the newly formed civil society and opposition group alliance the Declaration of Freedom and Change Forces (DFCF).

2 May

Sudan's office of the public prosecutor announces that an investigation has been launched against Bashir on charges of money laundering and terrorism financing after the TMC in the previous week seized more than USD 113m from Bashir's private residences.

15 May

The TMC and DFCF coalition announce that they have agreed to form a joint administration for a three-year period.

19 May

Saudi Arabia announces it has deposited USD 250m into Sudan's central bank as part of the USD 3bn joint aid package with the UAE.

25 July

The DFCF announces it has reached an agreement with the various rebel forces that comprise the Sudanese Revolutionary Front (SRF).

29 July

State security forces allegedly shoot dead five people during a protest in El-Obeid (North Kordofan). Planned talks between the TMC and DFCF on the final part of the power-sharing agreement (known as the "constitutional declaration") are suspended.

3 August

The TMC and DFCF reach a consensus on the constitutional declaration.

6 August

Saudi Arabia releases its second USD 250m instalment to Sudan's central bank as part of the USD 3bn aid package.

7 August

The US confirms that Sudan will remain listed a state sponsor of terrorism.

17 August

The TMC and DFCF sign the final power-sharing agreement, which includes the provisions agreed in both the political and constitutional declarations.

Annex

Methodology

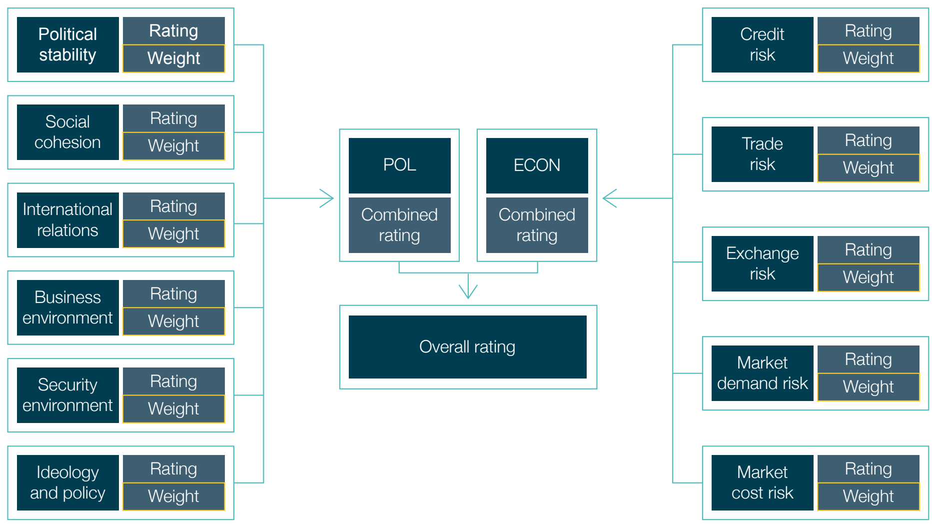
The Africa Risk-Reward Index is defined by the combination of risk and reward scores, integrating economic and political risk analysis by Control Risks and NKC African Economics.

Risk scores

The risk scores each country stem from the Economic and Political Risk Evaluator (EPRE), a joint subscription platform of Control Risks and Oxford Economics, the majority shareholder of NKC African Economics. 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.

Source: Control Risks and Oxford Economics

Fig.5 ▶ EPRE methodology



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 NKC's country risk 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.

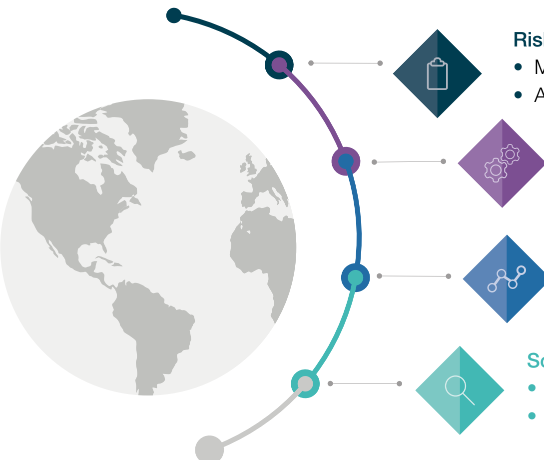
For details on the individual risk and reward definitions, please contact us.

enquiries@controlrisks.com or africa@oxfordeconomics.com

About us

Source: Control Risks and Oxford Economics

Fig.6 ▸ About us



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

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.

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.

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.

www.controlrisks.com

NKC African Economics

NKC African Economics, based in South Africa, is a majority-owned subsidiary of Oxford Economics that specialises in political and macroeconomic research in Africa. NKC scans the political and macroeconomic conditions of 30 African countries and is able to measure country risk in detail to caution against pitfalls and guide investors towards opportunities.

NKC has a strong reputation for independence and quality with a team of 31 staff, including 21 analysts. The analysis team includes economists, econometricians, political analysts and a financial economist.

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

www.africaneconomics.com

Control Risks and Oxford Economics

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.

Control Risks and Oxford Economics combine extensive geopolitical, operational and security expertise with rigorous economic forecasts and models on 200 countries and 100 industries.

Together, we offer full-spectrum consulting that enables your organisation to navigate the world of political and economic risk. Covering all aspects of the investment journey, including security and integrity risk, our joint consultancy practice can overlay geopolitical and economic scenarios to bring new insights and direction.

www.oxfordeconomics.com