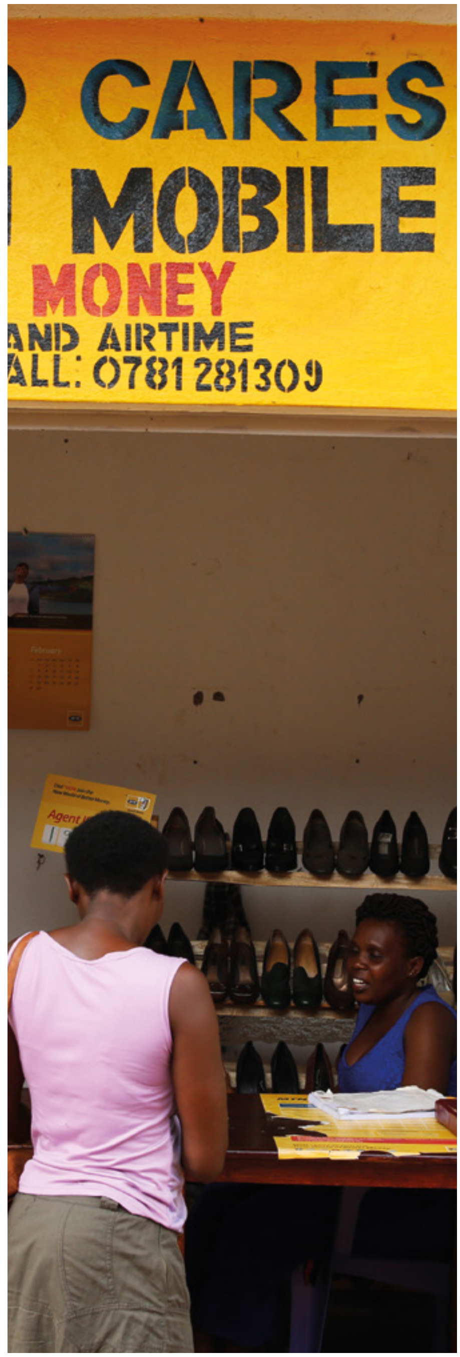
Control Risks | OXFORD ECONOMICS AFRICA




# The Africa Risk-Reward Index 2023

## Opportunity through adversity

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**Oxford Economics Africa,** 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.

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**Control Risks** and **Oxford Economics Africa** are pleased to launch the eighth 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.


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# Foreword

**Global dynamics appear to be placing the world on a path towards fragmentation. As jostling for influence has continued, the shockwaves from the Ukraine conflict have rippled out in the form of macroeconomic uncertainty and rising inflation, deep anxiety among geopolitical powers over the interconnectedness of international trade and economic systems, and a desire among governments globally to distinguish friends from foes.**

**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.

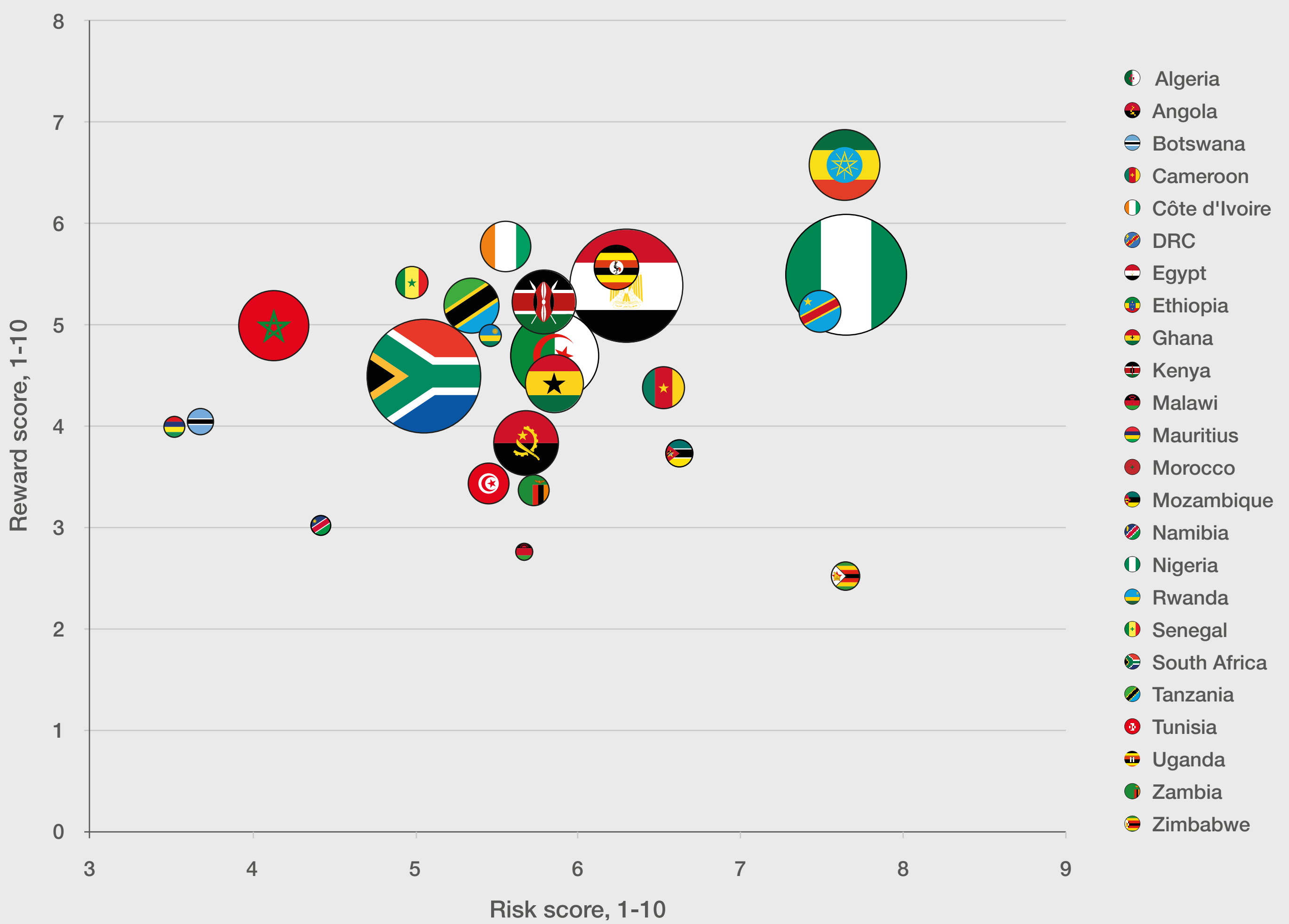
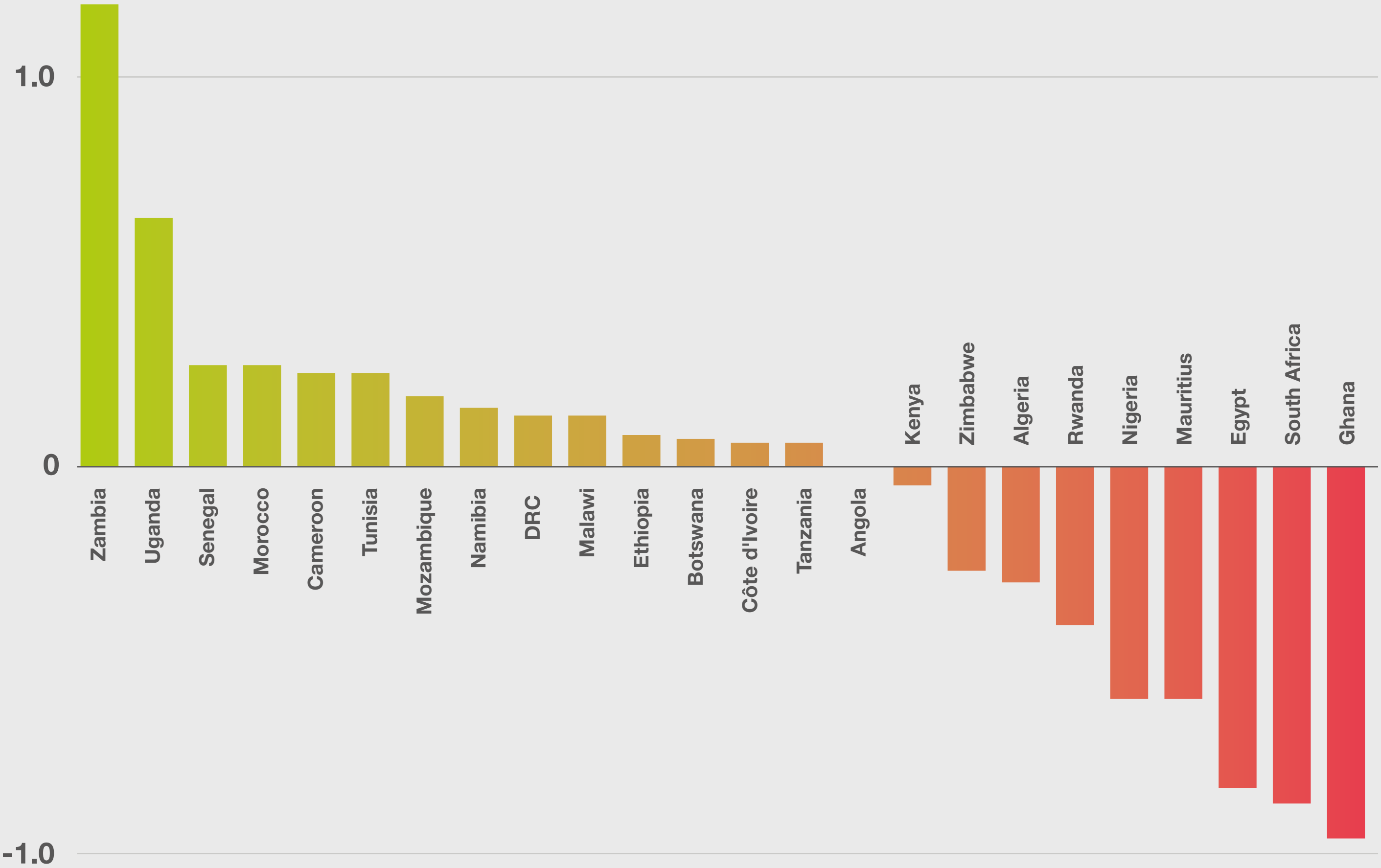


**Fig.2 › Overall variations 2022–2023**




Source: Control Risks and Oxford Economics Africa

These countries are those that have seen the biggest positive movement in their overall risk-reward scores between 2022 and 2023. For some countries this is due to increasing reward scores, for some to declining risk scores, and for some a combination of both.

**Zambia**
**+1.19**

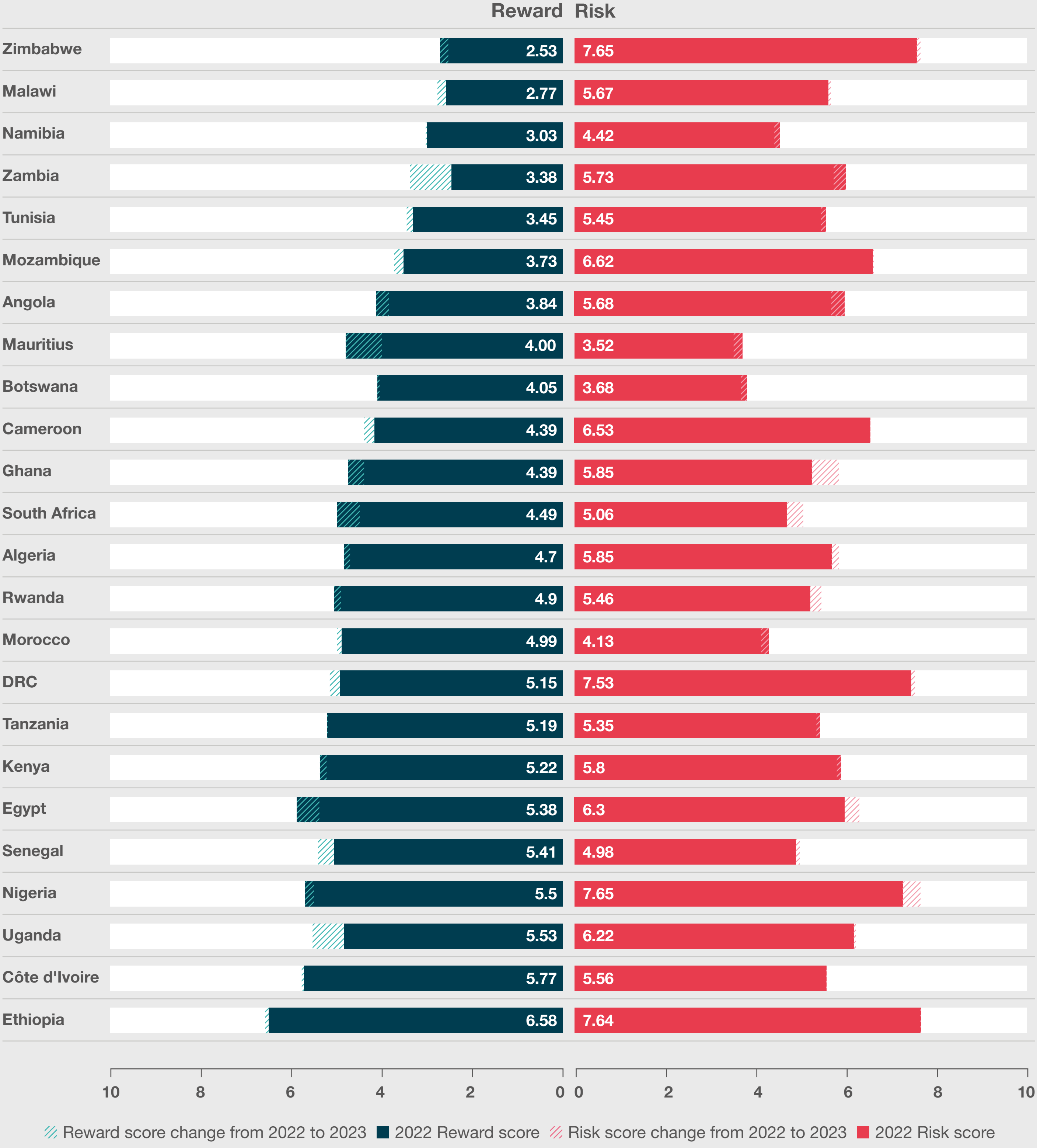
**Uganda**
**+0.64**

**Senegal**
**+0.26**

**Morocco**
**+0.26**

**Cameroon**
**+0.24**

Fig.3 › Risk Reward scores, 2023




Source: Control Risks and Oxford Economics Africa

This comes as a domestically divided US faces challenges to its dominance of global affairs from China. Meanwhile, climate shocks continue to drive a global shift away from fossil fuels and propel a rush for the minerals that will power future economic systems. Taken together, these issues are prompting the emergence of a more adversarial, transactional and multipolar system; one that is proving challenging for African countries to navigate, but that also presents opportunities to redefine their role on the global stage.

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 **profits and pitfalls of polarisation**. African countries are resisting pressure to align, even as the fault lines between global geopolitical powers deepen. US-China rivalry in the technology sphere and the associated attempts to decouple will continue. In addition, Western countries' opposition to the conflict in Ukraine has seen them seek external support in their condemnation of Russia's intervention. Competition for access to critical minerals from the region is heating up. African countries have an opportunity to leverage their collective position to elevate their profile and influence policy globally. But they will also need to balance their desire for neutrality and their need for external financial support, while investors look on as "friendshoring" and nearshoring take hold. Other emerging "middle powers" such as India, Brazil or Gulf Arab countries, with whom the continent shares some convergent interests, will also provide alternative sources of opportunity.

We then take a closer look at **African-led security interventions**. Global attention is split as the conflict in Ukraine continues and countries in the Global North are increasingly focused on their own domestic political concerns. Conflicts and security crises in Africa are no longer gaining sustained attention from external actors which is having serious impacts on the continent. A broader weakening of multilateral institutions such as the UN has opened the arena for other external actors, including Russia. There is also growing opportunity for African-led interventions in regional security crises, as demonstrated by Rwanda's interventions in Mozambique and the deployment of the East African Community's regional force in eastern DRC. Companies should monitor Africa's more diverse landscape of security guarantors, as they will be forced to navigate more complex environments where military force, regional competition and business interests are intertwined.

And finally, we examine how African countries are **financing for the future**. Africa should, on balance, benefit from growing geopolitical fragmentation in the long term. In the meantime, African financial services institutions are stepping in to plug the funding gap and helping to bridge access and inclusion divides. Regional economic powerhouses are extending their reach into neighbouring countries, with their financial services providers leading the way. In addition, the continued implementation of the Africa Continental Free Trade Agreement (AfCFTA) will also draw further attention to regional financial connectivity as African countries increasingly prioritise trading with each other in a more fragmented world. The financial services sector will therefore remain a bright spot for investors in the coming years.

***Supporters of Niger's National Council for the Safeguard of the Homeland (CNSP) wave Niger and Russian flags as they demonstrate in Niamey on 6 August, 2023.***

# The profits and pitfalls of polarisation

**Perhaps unsurprisingly given domestic distractions and the conflict in Ukraine, geopolitical players have viewed Africa primarily as a sphere to be influenced and enticed to align with their views on global affairs through pledges of investment.**

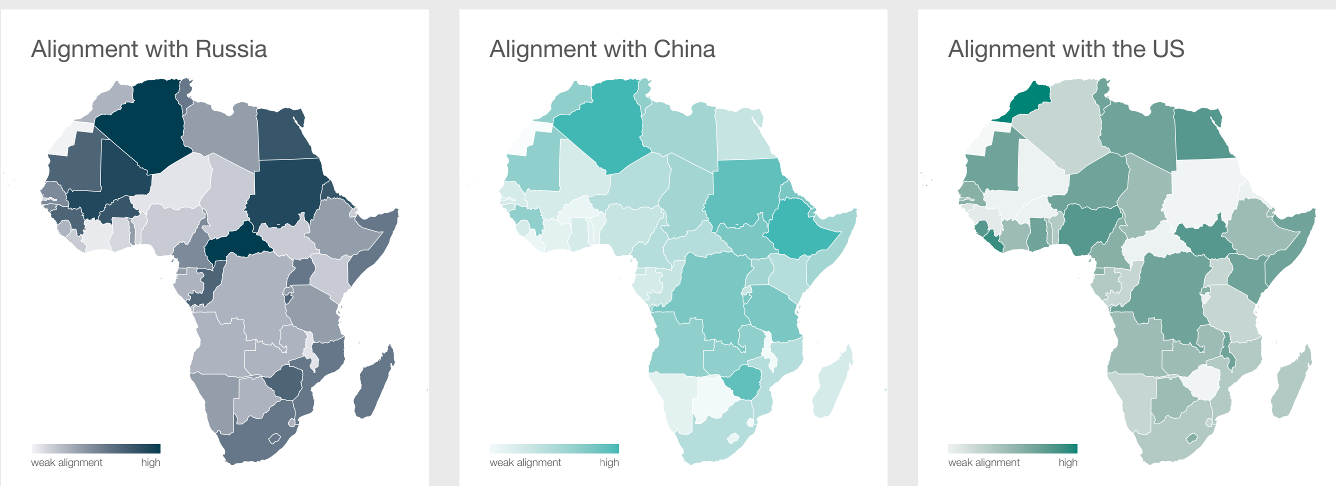
During the US-Africa Business Summit in Botswana on 12 July, the US government announced that it had facilitated USD 5.7bn-worth of investment since US President Joe Biden hosted the US-Africa Leaders' Summit in December 2022. This demonstrates the push by the Biden administration to prioritise commercial relationships with Africa after years of neglect under former president Donald Trump (2017–21). Biden has also promised to visit Africa in 2023.

Two weeks later, Russian President Vladimir Putin on 27–28 July hosted the second Africa-Russia summit in St Petersburg, where he pledged to enhance trade and military ties with the continent. The summit resulted in Russian promises of arms supplies and preferential grain deals for its allies. The two events highlighted the continued push by global actors to gain African countries' support in increasingly transactional ways.

However, most African countries have pragmatically chosen to remain non-aligned, allowing them to continue to benefit from financing from multiple sources. Control Risks used a mix of indicators to measure each African country's level of alignment with the US, China and Russia in the areas of diplomacy, military, commerce and culture. We found that most of the continent's larger economies, such as South Africa, Nigeria and Kenya, maintain fairly balanced relationships with all three (see maps below). The most closely aligned countries tend to be smaller, more fragile markets with a history of instability, such as Liberia, Central African Republic (CAR) and Mali. One notable exception is Morocco, which has rapidly embraced closer ties with the US in recent years.

Even as this financial competition is ramping up, investments by other countries still pale in comparison with China's activities

**Fig.4 › Africa's geopolitical alignment**




Source: Control Risks

*Demonstrators hold Russian flags with the emblem of Russia in Bangui on 22 March 2023, during a march in support of Russia and China's presence in the Central African Republic.*

in the infrastructure and mining sectors in Africa. Although domestic considerations have seen China scale down its investments on the continent since the COVID-19 pandemic, it remains Africa's second-largest trade partner, second only to the EU as a bloc. But Western countries have often castigated Chinese investments as exploitative, given that Chinese insistence on cost sharing has resulted in the accumulation of high external debt for African governments. Debt crises in Zambia and Ethiopia in recent years, and rising fiscal strain in other markets such as Kenya have been attributed to their reliance on Chinese financing, particularly for infrastructure development.

As China readjusts its investment and development aid amid domestic headwinds, agreements at China-Africa forums over recent years have begun to focus more on value addition and trade facilitation, as China seeks to cast itself as a holistic trade partner and not one wholly focused on extraction of natural resources or infrastructure projects. This is likely to open up new avenues for trade for African and Chinese companies alike in the manufacturing space.

### The minerals game

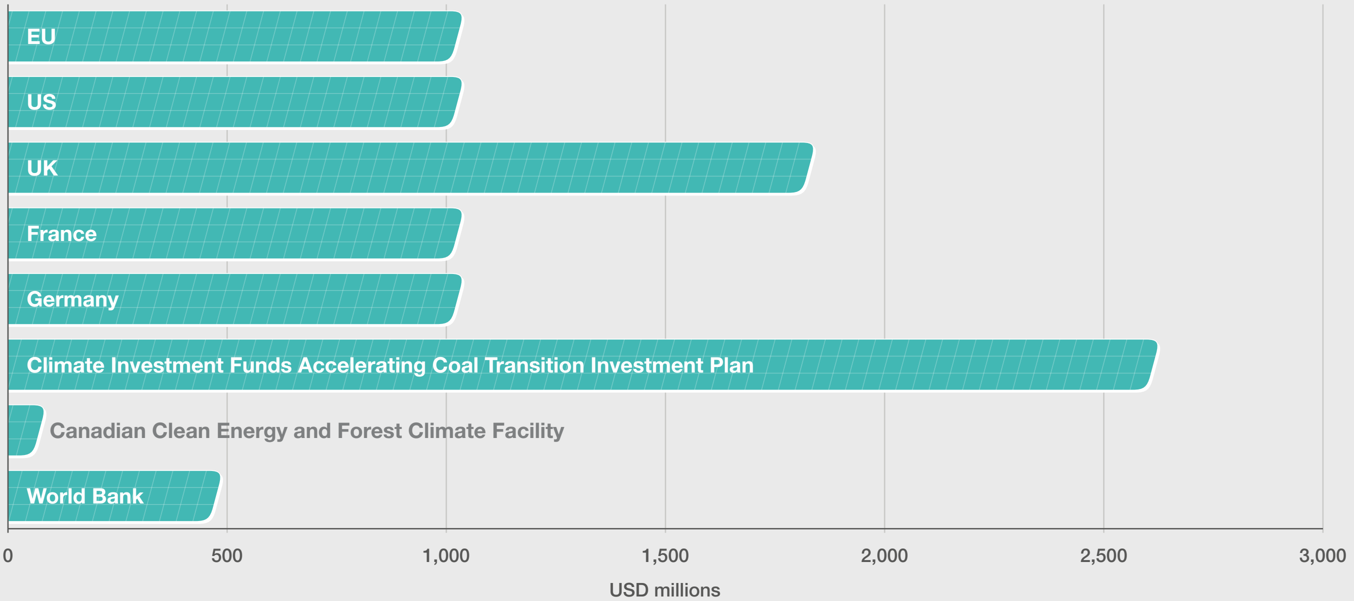
In the context of the energy transition, geopolitical competition has so far been most visible in the area of critical minerals. This is also where the continent has its strongest card to play. The EU, the US and other Western actors are scrambling to reduce China's dominance over the mining and processing of these metals, and tap new sources of supplies from friendly or neutral countries. Having signed a first minerals partnership agreement with Namibia in late 2022, the EU is now negotiating similar critical minerals deals with Congo (DRC) and other producers. The US has sent some of its top officials to other key mineral producers such as Tanzania and Zambia this year and will likely increase its engagement there in the coming years to turn them into reliable "friendshoring" destinations.

As their geopolitical stock rises, African countries are individually becoming more assertive in negotiating mineral deals with external actors. In the last year, the Congolese government has renegotiated a joint-venture agreement with the largest Chinese-owned copper-cobalt mine in the country, going as far as to block its exports for nearly a year as it sought to pressure the operator to agree to new terms. It secured a large settlement payment and increased control over management and marketing of the mine's output. It is also seeking to renegotiate a broader mining-for-infrastructure agreement signed in 2008 with a group of Chinese state companies.

In Namibia, the authorities in June introduced a ban on the export of unprocessed critical minerals as they seek to build domestic processing capacity. This forms part of a trend of African countries looking to host the higher-value parts of mineral value chains. Tanzania and Zimbabwe have both included in-country beneficiation as a key tenet in their mining-sector development strategies. Congo and Zambia's launch in March of joint special economic zones for a battery supply chain also underscores attempts by mineral producers to move into refining.

Japan in August announced plans to begin joint exploration for critical minerals with Congo, Zambia and Namibia and scope other opportunities in Angola and Madagascar as it seeks to reduce its reliance on China for critical minerals. Perhaps reading the African mood, Japan has followed the EU's lead in emphasising a collaborative approach in this new

Fig.5 › Pledges to fund South Africa's Just Energy Transition programme




Source: WorldBank

endeavour and is reportedly looking to develop Africa-based supply chains for critical minerals in exchange for preferential access.

The dynamics in the development of critical minerals supply chains demonstrate that countries in Africa are unlikely to choose to align with either old or emerging powers, but will continually seek the best deal for themselves. There are multiple opportunities for savvy investors to capitalise on these inflows into the mining sectors. The dearth of infrastructure, desire to establish value chains locally and need for technical expertise on the African continent will necessitate the involvement of private companies.

### Navigating the pitfalls

As Africa sometimes struggles to manage the delicate transition to a multipolar world, companies will also need to dedicate increasing time and resources to monitoring and understanding the impact of these geopolitical shifts on their operations. This is especially the case as African countries source the majority of their inputs from outside the continent. The heightened scrutiny on supply chains will place companies operating in Africa in the crosshairs of the rising number of sanctions, export controls and other trade restrictions imposed by countries on their geopolitical rivals.

South Africa's experience signals the potential consequences of these new dynamics. The country found itself at the centre of a geopolitical storm in May 2023 after the US alleged that it had supplied arms to Russia in late 2022. The threat of sanctions loomed over South Africa in a way that it had not before, especially as US lawmakers threatened to suspend the country's preferential access to US markets under the Africa Growth and Opportunities Act (AGOA) to demonstrate the downside of being too close to Russia.

Although the South African government denied the allegations, and tensions have since somewhat subsided, the controversy has undermined South Africa's relationships with Western allies and raised broader questions about whether Western countries should act against countries perceived to support Russia. Western governments are likely to remain wary of engaging with an administration that appears keen to remain so close to Russia. Any reduction in Western investment would likely undermine the progress of South Africa's energy transition, which is desperately needed for economic growth in the coming years. The country will require billions of dollars in external funding to transition its economy away from a reliance on ageing coal-powered energy infrastructure.

Meanwhile, African countries are hoping to benefit from US efforts to decouple its supply chains from China. The US has so far opted for geographical proximity, and is looking at "friend"- and nearshoring to countries in Central and South America. European countries are similarly seeking to reduce their supply chain reliance on China, demonstrated by Italy's announcement in July that it intends to exit China's Belt and Road initiative.

There is opportunity for African countries to potentially fill this gap, particularly those in North Africa such as Morocco and Tunisia, which are actively positioning themselves as manufacturing destinations. European governments also view North African countries as frontlines for efforts to stem irregular migration, and believe that creating tangible employment opportunities in these economies will assist these efforts. However, integrity issues will be a concern for investors in the manufacturing sector in these countries given currently limited attention to workers' rights, as well as reports of human rights abuses in some countries. This will require private companies to closely scrutinise potential deals from an integrity and governance perspective.

Beyond the geopolitical heavyweights, the rise of other emerging "middle powers" and their interest in Africa will potentially provide new sources of opportunity. A convergence of interests in resisting big-power rivalries and raising the influence of the global south in the international system will facilitate diplomatic dialogue and provide a supportive platform for investment and trade. Brazilian President Luiz Inácio Lula da Silva in July stated he wanted to resume "good and fruitful" relations with African countries after a period of disinterest under his predecessor Jair Bolsonaro (2019–22). Lula is keen to boost relations with Africa, with two trips to African countries planned by mid-2024.

Meanwhile, Gulf Arab countries continue to deepen their relationships across the continent. The United Arab Emirates (UAE) has continued to position itself as a preferred infrastructure partner, engaging in large-scale port and logistics projects across Africa in partnership with African and multilateral banks.

African countries have also found an unlikely ally in Turkey, which is both actively pushing for a resumption of the Black Sea Grain Initiative (BGSI) – an initiative aimed at facilitating grain exports from Ukraine to the rest of the world that Russia withdrew from in July – and seeking to extend its influence in Africa. The initiative would unlock Ukrainian grain exports to African countries and ease pressure on food prices on the continent.

### A unified African voice?

A more fragmented world could provide African countries with an opportunity to leverage their collective position and influence policy globally. On the diplomatic front, there have been some early signs of this. African countries in June sent a delegation to attempt a mediation between Ukraine and Russia. Although this particular initiative had a limited impact, on the economic front there will likely be longer-term success. At the Summit for a New Global Financing Pact in Paris (France) in June, African countries prominently supported calls for the reform of multilateral institutions and global funding models to support climate change goals. The summit also broke a deadlock on debt restructuring for Zambia by securing an agreement on Chinese debt owed by Zambia; reached a bilateral debt-restructuring deal worth EUR 1.14bn owed by Côte d'Ivoire to France; and secured USD 2.5bn in pledges by G7 countries to finance Senegal's renewable energy transition.

While a wholesale reform of Bretton Woods multilaterals is currently unlikely, African countries will benefit from financing to combat the impact of climate change. This comes amid global recognition that the continent contributes the lowest amount of carbon emissions globally, despite bearing the brunt of extreme weather patterns caused by climate change. These gains are likely to prompt further continent-wide engagement on climate and energy transition issues in the coming years.


***Kenyan President William Ruto (L) speaks as he takes part in a round table to discuss global economy with French President Emmanuel Macron (2nd R), World Bank President Ajay Banga (R) and Managing Director of the International Monetary Fund (IMF), Kristalina Georgieva during the New Global Financial Pact Summit at the Palais Brongniart in Paris on 22 June, 2023.***

# African-led security interventions

**A more fragmented geopolitical environment is also reshaping the security landscape in Africa. Historical models of Western- or UN-led military interventions in Africa appear to have run their course, and there is still much uncertainty about what will emerge to fill the gaps.**

Just as with diplomatic support, security support to fragile African countries is becoming more transactional and enmeshed with business interests. Competing interests are making the resolution of longstanding conflicts increasingly complex. The resulting void leaves a space, somewhat nascent, for African-led security interventions.

### A weakened UN

For many years, two main models for responding to a security crisis prevailed in Africa. Either the UN would deploy a large multilateral peacekeeping mission; or a Western military would lead an intervention with a stabilisation mandate. Often, the two combined as a pair: just over ten years ago, France launched Operation Serval to respond to Islamist militant advances in northern Mali; it was soon followed by a new UN mission, MINUSMA.

Fast forward to June 2023, when the UN Security Council terminated MINUSMA's mandate at the request of the Malian government. Last year, the French-led Operation Barkhane, which succeeded Serval, had already departed Mali for Niger, marking the end of French military deployments in the country.

Today, half of the UN's ongoing missions are still taking place on the continent, involving over 50,000 troops. But UN missions appear increasingly rudderless: despite some successes as an interposition force between warring parties, the UN has been increasingly criticised for its lack of results, including by the populations it aims to protect. The authorities in Mali, Central African Republic (CAR) and the Congo (DRC) have all criticised the inability of the UN to counter armed groups, and popular


*Kenyan security officers patrol along Jogoo road as they keep watch in anticipation of anti-government protests in Nairobi on 19 July, 2023.*

protests against all three missions are common. In June, UN Secretary General António Guterres said that “peacekeeping missions make little sense when there is no peace to maintain”.

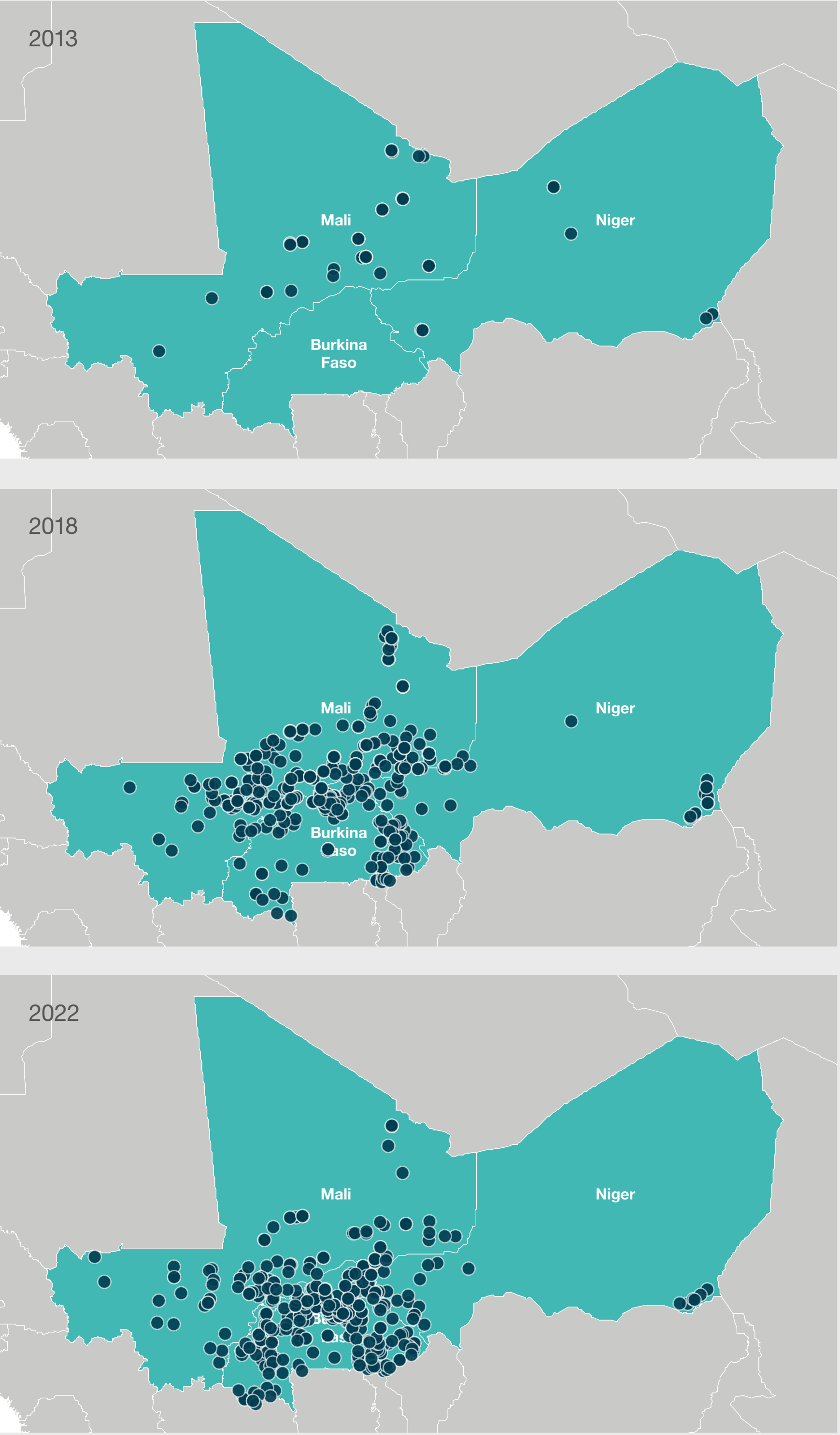
Donor fatigue is further weakening the UN. It has frequently reported challenges in securing funding for its global and African peacekeeping operations over the past several years. This is mainly due to countries making late payments and withholding contributions, and this is unlikely to change in the coming years. Consequently, the historical format of UN-led peacekeeping missions will likely wane as an answer to future security crises in Africa.

### France’s West African decline

Meanwhile, Western interventions are also suffering from fatigue and resentment. This is particularly apparent for France, which has intervened militarily in security crises more than 50 times since the 1960s, and still boasts more troops on the continent than any other non-African country. A decade of intense French security support to Sahel countries is fast unravelling, however: the perceived inability to help rein in Islamist militant groups, combined with accusations that French security forces were not treating their African counterparts on an equal footing, has led to growing hostility towards France’s role and involvement in the region. This has also come as young populations in West Africa have attached more importance to sovereignty and nationalism. Meanwhile, Barkhane’s involvement in deadly incidents with civilians in Bounti (Mali) and Tera (Niger), and its subsequent denials, have tarnished its image and provided ammunition for French critics. Military juntas in Mali, Burkina Faso and Niger have instrumentalised nationalist and anti-French sentiment to bolster their own popularity.

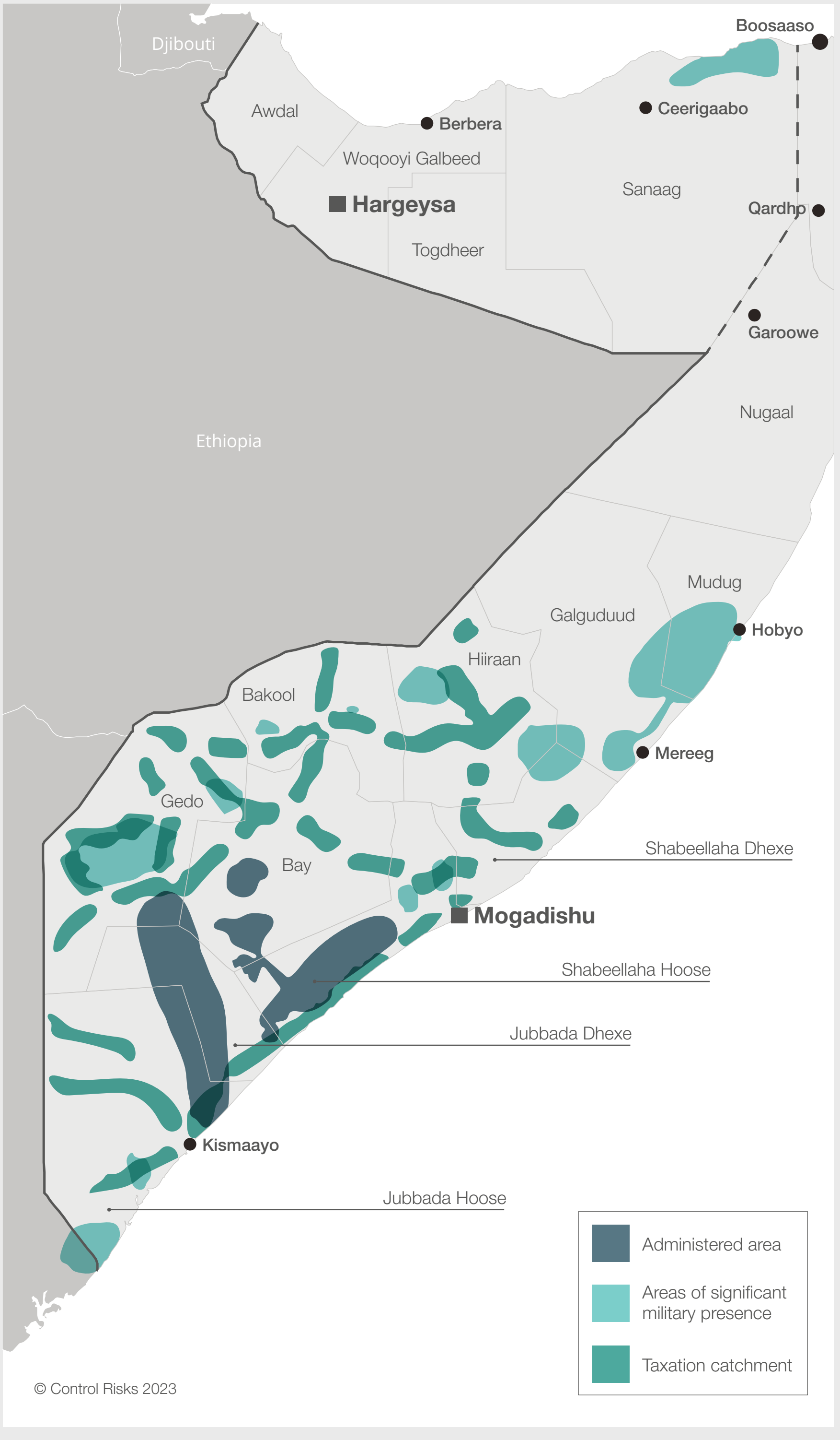
Elsewhere in the West, appetite for direct security interventions is also rapidly diminishing. The US will always strive to keep a counter-terrorism presence in the region, as well as strengthen various forms

**Fig.6 › Islamist militant attacks in Burkina Faso, Mali and Niger**




Source: Seerist

**Fig.7 › Extent of Al-Shabaab control in Somalia**




Source: UN Panel of experts on Somalia

of military and security cooperation as a hedge against China and Russia. But post-Afghanistan, the prospect of US deployments in countries where it lacks a strategic interest is virtually nil. British forces have not deployed unilaterally in Africa since Sierra Leone in 2000. EU countries are now looking east and prioritising high-intensity warfare; they will be reluctant to take military resources and planning energy away from more vital interests.

## The Wagner alternative?

Some countries looked to Russian private military company Wagner Group to fill security gaps left by the UN and France – and skirt demands for social and political reforms. Wagner significantly expanded its footprint in Africa after 2017 by providing a range of security services to governments and armed groups, including in Sudan, Libya, CAR and Mali, often in exchange for lucrative commercial contracts, particularly in the mining sector. Wagner's presence also acts as an entry point for strengthening relations with Russia – especially for fledgling military juntas in Mali and, most recently, Niger.

However, increasing cooperation with Russia and Wagner has had mixed results. There are few signs that Wagner has enhanced security in Mali or other countries where it operates. Meanwhile, alleged human rights abuses – including reportedly killing over 500 civilians in Moura (Mali) in March 2022 – invite international condemnation and amplify local grievances. Wagner's future in Africa is also unclear following the mutiny and subsequent death of its founder in Russia in 2023.

## African security solutions

African governments are assuming a greater role in responding to regional security crises, but face persistent organisational, financial, and operational challenges. An African peace and security architecture has been in the works since the 2000s, when the African Union (AU) created provisions for an African Standby Force to lead regional interventions. In East Africa, AU-led forces in Somalia regained considerable territory from Islamist extremist group al-Shabaab, recapturing the capital Mogadishu in 2011. However, al-Shabaab remains resilient, and troop contributors like Kenya, Uganda, and Ethiopia have been exposed to retaliatory terrorist attacks.

In West Africa, the Multinational Joint Task Force (involving Benin, Cameroon, Chad, Niger and Nigeria) made some progress against Nigeria-based militant group Boko Haram. However, the G5 Sahel coalition involving Burkina Faso, Chad, Mali, Mauritania and Niger never proved effective in combatting regional militancy due to competing objectives among its members and a lack of funding. Most recently, a succession of military coups since 2020 is challenging the credibility and authority of the Economic Community of West African States (ECOWAS), where threats of military intervention are undermined by challenges in coordination and financing.

In Southern Africa, the Southern African Development Community (SADC) deployed to Cabo Delgado province in northern Mozambique in 2021 against Islamic State (IS) affiliate al-Sunnah. Despite some initial successes, however, the SADC Mission in Mozambique (SAMIM), is struggling with capacity, and financing issues. Coordination issues between participating countries in SAMIM and a separate Rwandan force in 2021 are also undermining the effectiveness of the mission, which is reportedly looking for an exit.

In Central Africa, the East African Community (EAC) in 2022 launched the EAC Regional Force (EACRF) in eastern Congo to assist in operations against the M23 rebel group, only for political rivalries and competing objectives among contributing countries to stymie operations. Congolese authorities have accused EACRF contributing countries of not acting against rebel groups and, in failing to do so, indirectly colluding with its rival, Rwanda, which Kinshasa has repeatedly alleged was supporting the M23.

A lesson of regional interventions over the last ten years is that complex security threats can easily outlast the funding and political will of fractious coalitions.

## Enter Rwanda

Dispensing with the coalitions entirely may be a solution to the security challenge. Rwanda, for example, is emerging as a key regional security actor under the auspices of an 'African solutions for African problems' doctrine. In addition to being a major provider of manpower for UN operations, it is undertaking major counterinsurgency interventions in CAR and Mozambique. Well-trained and well-equipped Rwandan troops are pushing back armed groups and militants in both places. Rwanda also looks likely to deploy troops to northern Benin to assist local troops against the expansion of Islamist militants.

Rwanda's interventions are also a major foreign policy asset. Its reputation for effectiveness positions it as a key regional security provider and stability guarantor. This both boosts Rwanda's diplomacy and insulates it from international criticism (for example, over its interventions in eastern DRC).

It also unlocks business opportunities. Rwandan companies are benefitting from favourable relationships with local authorities in countries where it conducts military operations, such as Mozambique and CAR.

## Businesses caught in the middle

Insecurity and militancy will continue to present challenges for policymakers and businesses in Africa in the coming years. The region's complex security landscape defies quick and easy solutions by external actors or local players. But one way or the other, the future of security interventions will likely be less foreign and more African.

This will gradually erode the aegis long enjoyed by European (especially French) and other Western companies, while expanding commercial opportunities for new security guarantors, from Russia to Rwanda (to China). As elsewhere, companies will also face rising pressure to localise and indigenise their operations – not least to avoid nationalistic backlash.

Regional security has strategic significance. The global energy transition is predicated on African critical minerals and global trade hinges on regional maritime chokepoints. African LNG is globally significant in a post-Ukraine world. Post-pandemic public health surveillance and long-standing counter-terrorism interests remain of global concern.

Companies should monitor Africa's more diverse security provider landscape. This may mean reviewing existing country scenarios, security threat registers, and insurance provisions to account for changing realities on the ground. Companies should also consider whether changes in security regimes and relationships pose operational or regulatory risks, including based on perceived corporate nationality.

More broadly, as bilateral arrangements become more common and other players emerge to aid host governments in tackling security challenges, conflict resolution itself will likely become more complex and challenging. Negotiations in countries such as CAR and Congo will have to involve warring parties and a multitude of private and third-party state actors, with the departure of the latter two potential conditions for any agreements.

Businesses will be forced to navigate more complex operating environments, where military force, regional competition, and political and business interests are intertwined. This will require careful monitoring of rapidly evolving security dynamics, as well as heightened efforts to maintain neutrality and avoid the potential reputational fallout. Indeed, operators working in conflict zones will also potentially have to navigate interactions with foreign or private military forces. This will in turn expose economic operators to growing reputational and integrity challenges.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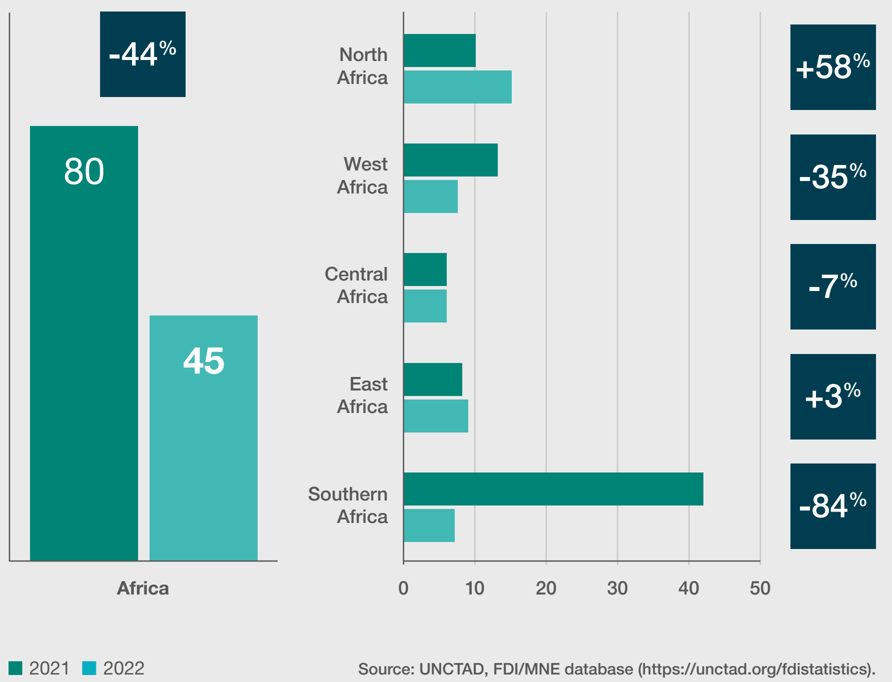
# Financing for the future

**As we highlight in our first theme, we anticipate that increased geopolitical competition will translate into new opportunities for African countries in the longer term as global powers seek to extend their influence in Africa. In the meantime however, and even as competition ramps up, African economies will contend with challenging economic environments.**

The COVID-19 pandemic and the Russia-Ukraine conflict have unnerved international financial markets in recent years. The challenging macroeconomic environment saw most countries tighten monetary policy to tackle high global inflation. In Africa, these issues have been compounded by high public debt levels and weakening currencies, which have elevated the risk profile of African economies.

Consequently, private investors have somewhat retreated to the perceived safe havens of advanced economies. The UN's Conference on Trade and Development (UNCTAD) 2023 World Investment report notes that global foreign direct investment to Africa declined by 47% in 2022 to USD 45bn from a record high of USD 80bn in 2021, prompting concerns that African economies and companies are facing a "funding winter" in 2023.

**Fig.8 › FDI inflows in Africa, by subregion 2021–2022 ($Bn)**




Source: UNCTAD, FDI/MNE database (https://unctad.org/fdistatistics).

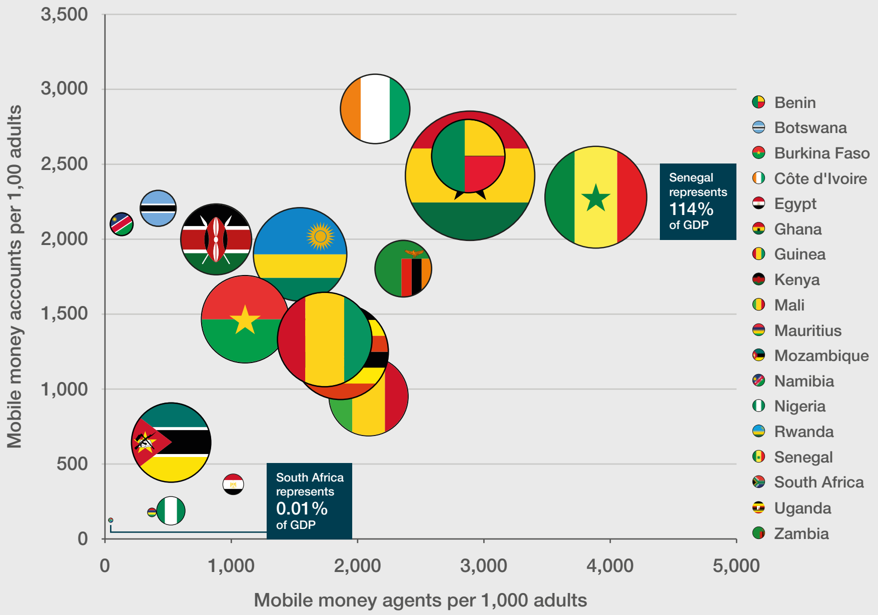
### Stepping up and in

However, home-grown African champions are emerging to fill this funding gap and are steadily consolidating their dominance in Africa's financial services industry. The continent still has a long way to go to reach financial inclusion to the extent seen in more advanced economies. However, financial institutions from regional economic powerhouses South Africa, Egypt, Nigeria, Morocco and Kenya are stepping in to help bridge access and inclusion divides. South Africa-based Standard Bank, Africa's largest bank by assets, is considering expansion into North Africa. In turn, recent studies suggest that Moroccan banks enjoy a market share of at least 20% in the Economic Community of West African States (ECOWAS), and there too expansion plans are in the pipeline.

Significantly, the way in which these institutions are bridging this divide has taken on a uniquely African character. The distinction between access to telecommunications services and access to financial services is blurring. An absence of the infrastructure required to replicate the financial systems of advanced economies has accelerated the adoption of mobile and digital banking services. Specifically, mobile money services have made more inroads in Africa than in any other region, with West African countries – namely Senegal, Ghana and Côte d'Ivoire – leading the way.

In fact, there seems to be an inverse relationship between the maturity of a country's financial sector and that country's

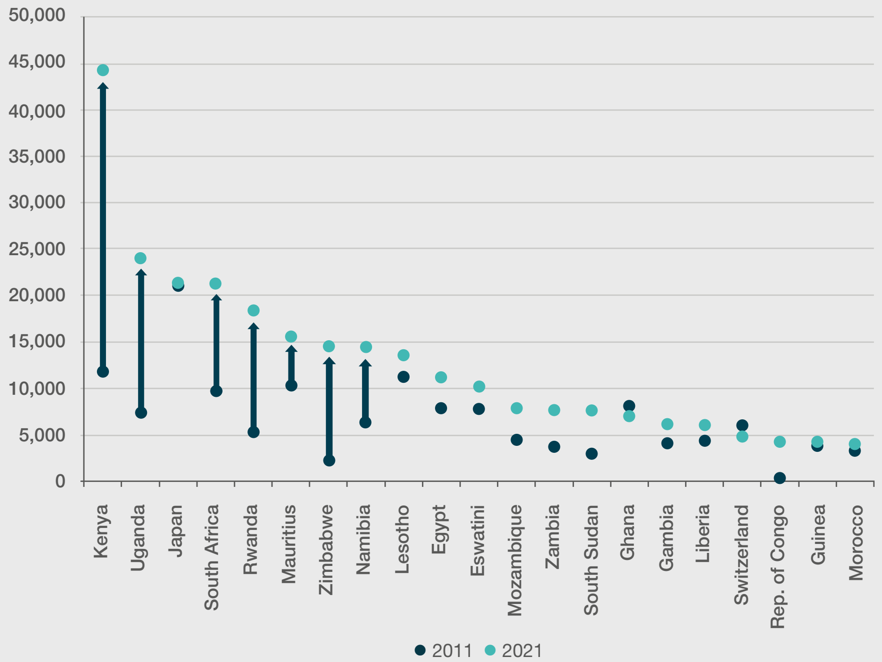
**Fig.9 › Proliferation of mobile money services**




Note: Size of bubbles represents value of mobile money transactions (% of GDP)

Source: Oxford Economics Africa/IMF

**Fig.10 › The ratio of deposit accounts to bank branches**




Source: Oxford Economics Africa/IMF

uptake of mobile money services – indicative of the need (and desire) to leapfrog traditional financial infrastructure. The value of mobile money transactions in South Africa equates to under 1% of GDP, while the corresponding figures for Senegal and Ghana are well above 100% of GDP.

Another way to get an idea of how access to financial services has improved despite the very measured expansion of traditional financial infrastructure is by looking at the relationship between deposit accounts and bank branches over time. In Kenya, the ratio of deposit accounts to commercial bank branches per 100,000 adults has increased nearly three-fold over the past decade. In Uganda, this figure has more than doubled. To put these figures into context, Uganda's ratio is now slightly higher than that of Japan, while Kenya's figure is nearly ten times higher than that of Switzerland. Africans are increasingly embracing digital banking, with little need for retail banking outlets.

This embrace of online banking has not happened by chance. African financial institutions and telecommunications companies have been at the forefront of ease-of-access innovation, and investors have piled into the continent's fintech sector. Data from DisruptAfrica shows that African tech startup funding exceeded USD 3bn in 2022, having stood at below USD 500m three years earlier. Nearly half of this funding was directed towards fintech startups. The bigger players are increasingly taking note too, driving scale with them: for example, global payments giant Mastercard in August announced a minority investment in the fintech division of African telecommunications company MTN.

The continent's banking giants were also the main funding destinations: around three-quarters of funding was directed towards Nigeria, Egypt, Kenya and South Africa. These regional financial centres will be launchpads for African financial institutions pushing into their immediate regions, with technological innovations extending their reach in underserviced markets.


***A customer is served at the Kenya Commercial Bank (KCB) in Nairobi.***

The proliferation of crypto currencies and digital tokens is another international technological trend that is also well established in Africa. In 2021, the Central Bank of Nigeria was the world's third monetary authority to issue an official digital currency – the eNaira – after similar moves by the Bahamas and the Eastern Caribbean Central Bank. Many Nigerians will be familiar with the use of digital currencies, with Nigeria generally considered to be the world's third-largest user of cryptocurrency after the US and Russia. The central banks of Tanzania, Kenya, Uganda, Rwanda, Zambia and Morocco are currently researching the benefits and risks associated with central bank digital tokens (CBDC), while the central banks of South Africa and Ghana are already experimenting with the issuance of CBDC. Mauritius in 2021 passed an act to regulate crypto and digital assets, while Namibia passed a crypto bill earlier in 2023.

### Regulatory considerations

This push by regional banks and financial institutions to reach underserved markets will provide opportunities for foreign investors evaluating the financial services industry specifically, and the fintech and impact investing space more broadly. McKinsey in 2022 estimated that Africa's financial services market is set to grow by 10% per annum, potentially reaching USD 230bn by 2025.

Even Ethiopia, which for decades has resisted foreign intervention in its financial services industry, is looking to open up the sector to allow international banks to enter into joint ventures with local financial institutions. The entry of Kenya's Safaricom – which dominates Kenya's mobile money segment – into the telecoms sector in 2020 is also expected to catalyse financial inclusion and has already spurred innovation. In August, Safaricom launched its M-Pesa mobile money platform in Ethiopia. M-Pesa will compete with state crown jewel Ethio telecom's Telebirr mobile money service, which boasts more than 34m subscribers. As part of a wider privatisation agenda, Egypt in February also announced plans to sell stakes in three of its large state-owned banks.

Other markets including Nigeria, Uganda, Kenya, Angola and Zambia are all also actively pursuing foreign investments in their banking and financial services sectors. Investors will be closely watching Nigeria, where resistance from large banks has constrained the uptake of mobile money services in recent years. New President Bola Tinubu will likely seek to remedy this situation – potentially with the aid of foreign and regional financial investment – to achieve wider financial inclusion.

Noting the potential of the industry, regulators across the continent have been broadly supportive of financial services reforms and innovations. Central banks and other sector regulators have cautiously overseen the development of the financial services industries, striking a difficult balance between allowing innovation and further financial inclusion, and protecting consumers. Investors in the sector will therefore find themselves under close scrutiny, subject to variations in compliance and reporting requirements depending on the maturity of the market in which they operate.

Investors and operators alike will also need to be aware of rising international scrutiny of illicit financial flows. The "greylisting" in 2023 of two major African economies – Nigeria and South Africa – by intergovernmental watchdog the Financial Action Task Force (FATF) highlights that the growth in Africa's financial services industry has not come without risks. A greylisting indicates that there are "strategic deficiencies" within a country's anti-money laundering and countering the financing of terrorism (AML/CFT) frameworks. Of the 26 countries on the FATF grey list, 11 are from Africa. Although governments will take steps to prevent the proliferation of illicit flows and step up their scrutiny of transactions in the coming years, the process will be slow given limited capacity among regulators. Investors will therefore be required to thoroughly vet any local financial services partners.

### Financially integrating Africa

The Africa Continental Free Trade Agreement (AfCFTA), which came into effect in 2019, will aid efforts by African banks and financial institutions to extend their reach on the continent in the coming years. Along with merchandise trade, the AfCFTA aims to facilitate services trade by harmonising national regulatory frameworks. Financial services is one of five key sectors that have seen the formulation of proposals for national treatment and to increase market access. Some 25 countries have already submitted their proposals.

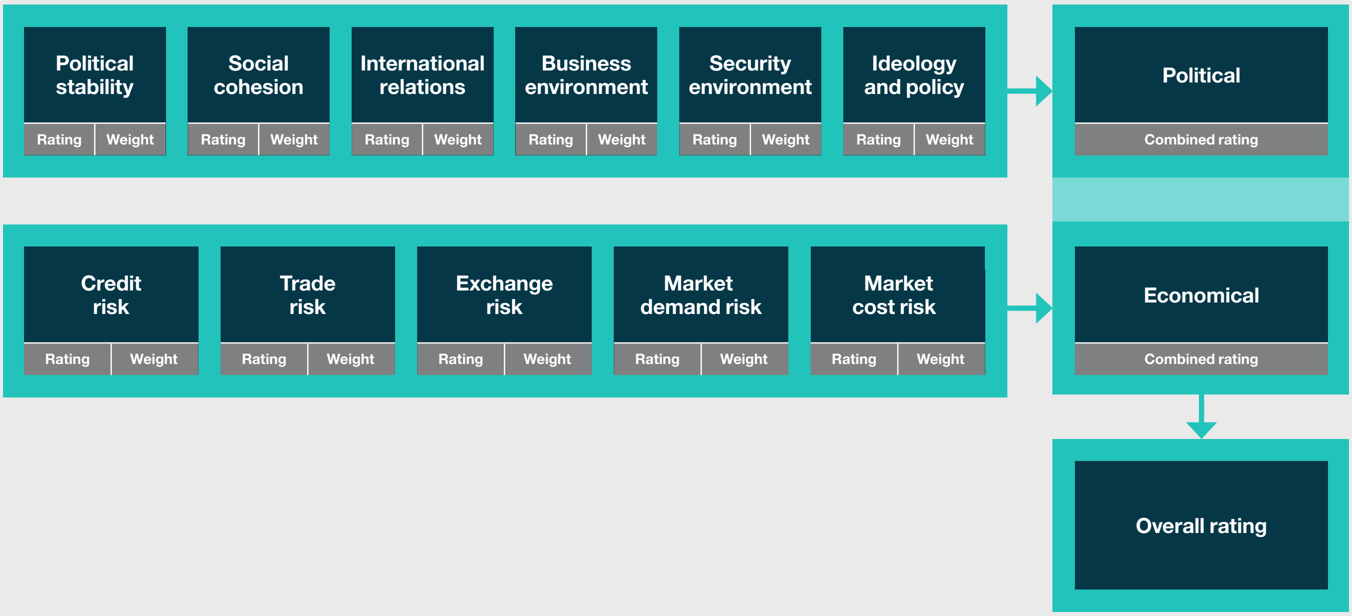
Furthermore, the Pan-African Payment and Settlement System (PAPSS), launched in January 2022, provides a regional real-time gross settlement infrastructure for cross-border payments in local African currencies. The plan is to have all central banks signed up to the system by the end of 2024 and for all commercial banks to be part of the infrastructure by the end of 2025.

The impact of a pan-African centralised payment and settlement system on the dominance of well-established regional financial institutions remains uncertain. Indeed, regional expansion could take on a decidedly different form if seamless cross-border payments become a reality. But what is certain is that a more financially interconnected region with a knack for fintech adoption presents substantial investment potential. This is particularly true for companies operating in sectors where economies of scale matter, where direct access to consumers is critical, and where access to financial services compounds consumer demand.


***A poster advertising Safaricom's mobile money service M-Pesa is seen at a kiosk in Nairobi, on 11 May, 2023. Ethiopia's central bank said on 11 May 2023, that it had issued a mobile money licence to the Kenyan telecom giant Safaricom, the first time it was granted to a foreign company in Africa's second most populous country.***

# Annex 1

Fig.11 › 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: the 3.2% real GDP growth in Nigeria in 2022, for example, represented extra value added of nearly USD 44bn, while 8.2% growth in Rwanda translated into just under USD 2.3bn 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.

# Annex 2

**Africa Risk-Reward Index: September 2023 scores and changes from the September 2022 edition.**
See page 22 for full details of the methodology and scores framework.

| COUNTRY | REWARD SCORE (OUT OF 10)* | | | RISK SCORE (OUT OF 10)** | | | VARIATIONS |
|---|---|---|---|---|---|---|---|
| | Sep 2022 | Sep 2023 | Change since last edition* | Sep 2022 | Sep 2023 | Change since last edition** | Overall variation |
| Algeria | 4.84 | 4.70 | -0.13 | 5.68 | 5.85 | 0.17 | -0.30 |
| Angola | 4.13 | 3.84 | -0.29 | 5.97 | 5.68 | -0.29 | 0.00 |
| Botswana | 4.10 | 4.05 | -0.06 | 3.81 | 3.68 | -0.13 | 0.07 |
| Cameroon | 4.16 | 4.39 | 0.23 | 6.54 | 6.53 | -0.01 | 0.24 |
| Côte d'Ivoire | 5.72 | 5.77 | 0.05 | 5.57 | 5.56 | -0.01 | 0.06 |
| DRC | 4.93 | 5.15 | 0.22 | 7.44 | 7.53 | 0.09 | 0.13 |
| Egypt | 5.88 | 5.38 | -0.50 | 5.97 | 6.30 | 0.33 | -0.83 |
| Ethiopia | 6.50 | 6.58 | 0.07 | 7.65 | 7.64 | -0.01 | 0.08 |
| Ghana | 4.74 | 4.39 | -0.35 | 5.24 | 5.85 | 0.61 | -0.96 |
| Kenya | 5.37 | 5.22 | -0.14 | 5.89 | 5.80 | -0.09 | -0.05 |
| Malawi | 2.58 | 2.77 | 0.19 | 5.61 | 5.67 | 0.06 | 0.13 |
| Mauritius | 4.80 | 4.00 | -0.79 | 3.71 | 3.52 | -0.19 | -0.60 |
| Morocco | 4.89 | 4.99 | 0.10 | 4.29 | 4.13 | -0.16 | 0.26 |
| Mozambique | 3.52 | 3.73 | 0.21 | 6.59 | 6.62 | 0.03 | 0.18 |
| Namibia | 3.00 | 3.03 | 0.03 | 4.54 | 4.42 | -0.12 | 0.15 |
| Nigeria | 5.69 | 5.50 | -0.20 | 7.25 | 7.65 | 0.40 | -0.60 |
| Rwanda | 5.05 | 4.90 | -0.15 | 5.21 | 5.46 | 0.26 | -0.41 |
| Senegal | 5.06 | 5.41 | 0.35 | 4.89 | 4.98 | 0.10 | 0.26 |
| South Africa | 4.99 | 4.49 | -0.50 | 4.69 | 5.06 | 0.37 | -0.87 |
| Tanzania | 5.21 | 5.19 | -0.02 | 5.43 | 5.35 | -0.08 | 0.06 |
| Tunisia | 3.31 | 3.45 | 0.14 | 5.55 | 5.45 | -0.10 | 0.24 |
| Uganda | 4.84 | 5.53 | 0.69 | 6.17 | 6.22 | 0.05 | 0.64 |
| Zambia | 2.46 | 3.38 | 0.92 | 6.00 | 5.73 | -0.27 | 1.19 |
| Zimbabwe | 2.71 | 2.53 | -0.18 | 7.56 | 7.65 | 0.09 | -0.27 |

* 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

# About us

**Fig.12 › 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.

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.

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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.

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