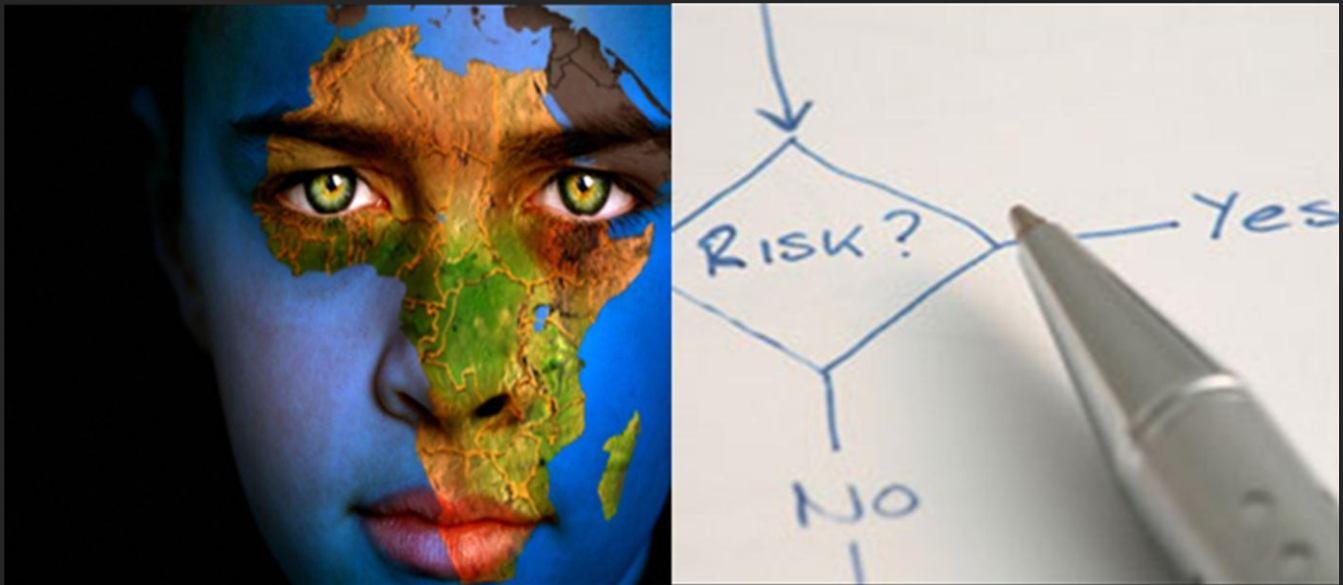


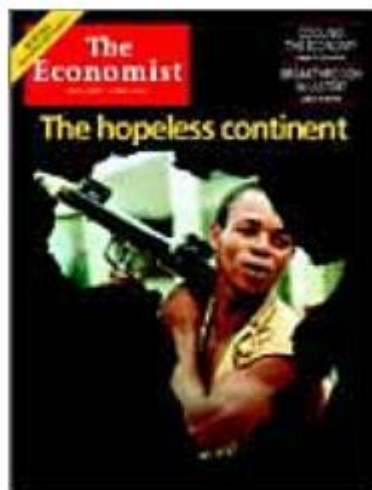
THE AFRICAN RISK LANDSCAPE



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Africa: Breaking New Ground

The Economist has made a monumental U-turn on Africa in the short space of eleven years. The magazine labelled Africa as “the hopeless continent” on the cover of its May 2000 issue. The reputable magazine attributed this outlook to the continual war, disease, famine and corruption that ravaged the continent. The dramatic shift in opinion was demonstrated in the December 2011 issue, which featured an article entitled “The hopeful continent: Africa Rising”. The cover presents an image of a boy flying a rainbow-coloured kite in the shape of the African continent.



The Economist – 2000



The Economist – 2011

Figure 1 – The Economist Front Cover Comparison

Africa continues to experience a flood of foreign investments - despite the ongoing Eurozone crisis and the persistent faltering of most developed markets - as a result of its higher returns and business sources that are only starting to be explored. The International Monetary Fund (IMF) expects Africa's Gross Domestic Product (GDP) to grow by 6% this year. The continent's growth does not appear to be a flash in the pan as The Economist points out that six of the world's ten fastest-growing countries over the past decade were African. Even more startling is the fact that the continent has grown faster than East Asia in eight of those ten years.

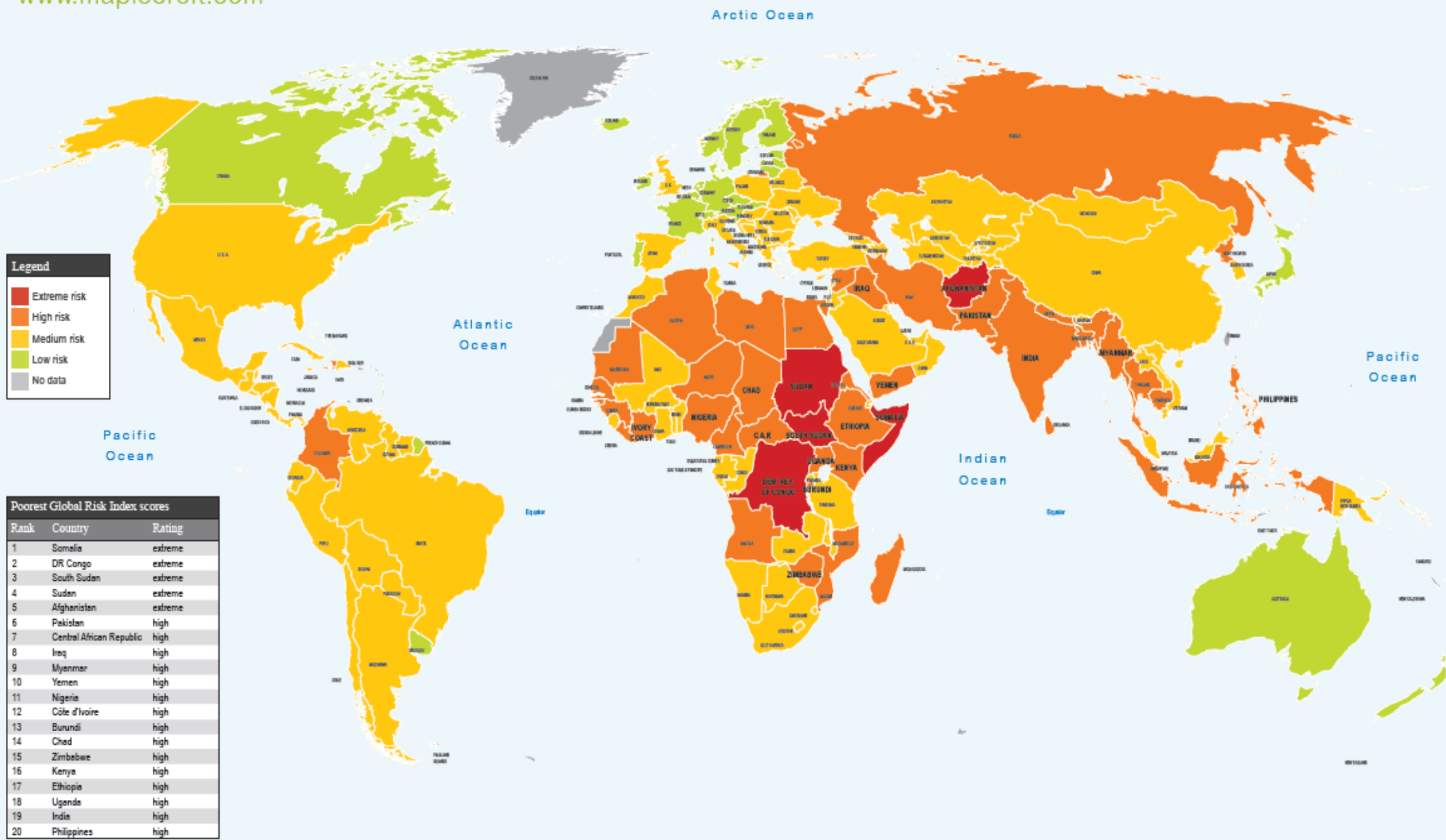
The Main Drivers according to The Economist

The commodities boom contributed significantly to Africa's rapid growth. Approximately 25% of its growth came from higher revenues from natural resources between 2000 and 2008. Africa's favourable demography has also been a key driver and will become increasingly important going forward. Approximately half of the world's increase in population over the next 40 years will be in Africa as fertility rates continue to decrease in Latin America and Asia. What is promising about the expected population surge is that the swell of young people of working age that is entering the job market is gradually becoming better-educated. It is anticipated that the proportion of working-age people to dependents will rise, mirroring the demographic situation that sparked growth in Asia. The continent's expanding manufacturing and service economies have also contributed to its growth and will stand it in good stead should the global demand for commodities drop. Countries like China, India, Brazil, Malaysia and Turkey have significantly boosted the continent's manufacturing sector and improved its infrastructure.

Africa is currently witnessing the rapid emergence of a genuine middle class. Standard Bank estimates that around 60 million Africans have an income of \$3,000 a year, and 100 million will in 2015. Finally, political analysts attribute much of Africa's growth to the adoption of democratic principles and the gradual transition toward peace and decent government. African governments will play an increasingly important role in the continent's growth moving forward. They need to ensure that the large number of young adults will be provided with sufficient employment or else this could lead to frustration, violence and political instability.

Global Risks: What do they mean for Africa and its Business Landscape?

Whilst African growth is expected to continue on an upward curve it is important to note that there are significant challenges that continue to plague the continent. Companies doing business in Africa are grappling with political, economic, regulatory, social and environmental issues that sometimes surprise even the most experienced. The Maplecroft Global Risks Index for 2012 (provided overleaf) clearly illustrates these difficulties. Thirteen out of the twenty poorest global risk index scores come from African countries. The index assesses the strategic risks that impact across global value chains of business, and considers the ability of national institutions to mitigate these risks. It combines seven global risks indices assessing the relative vulnerability of countries and businesses operating in them to macroeconomic risk, security risk, governance risk, resource security, climate change, pandemics and infectious diseases and societal resilience.



Global Risks Index 2012

Figure 2 - Global Country Risk Index

The World Economic Forum Global Risks 2012 report separated the myriad of global risks faced by Africa (figure below) into the following categories: economic risks, environmental risks, geopolitical risks, societal risks and technological risks.

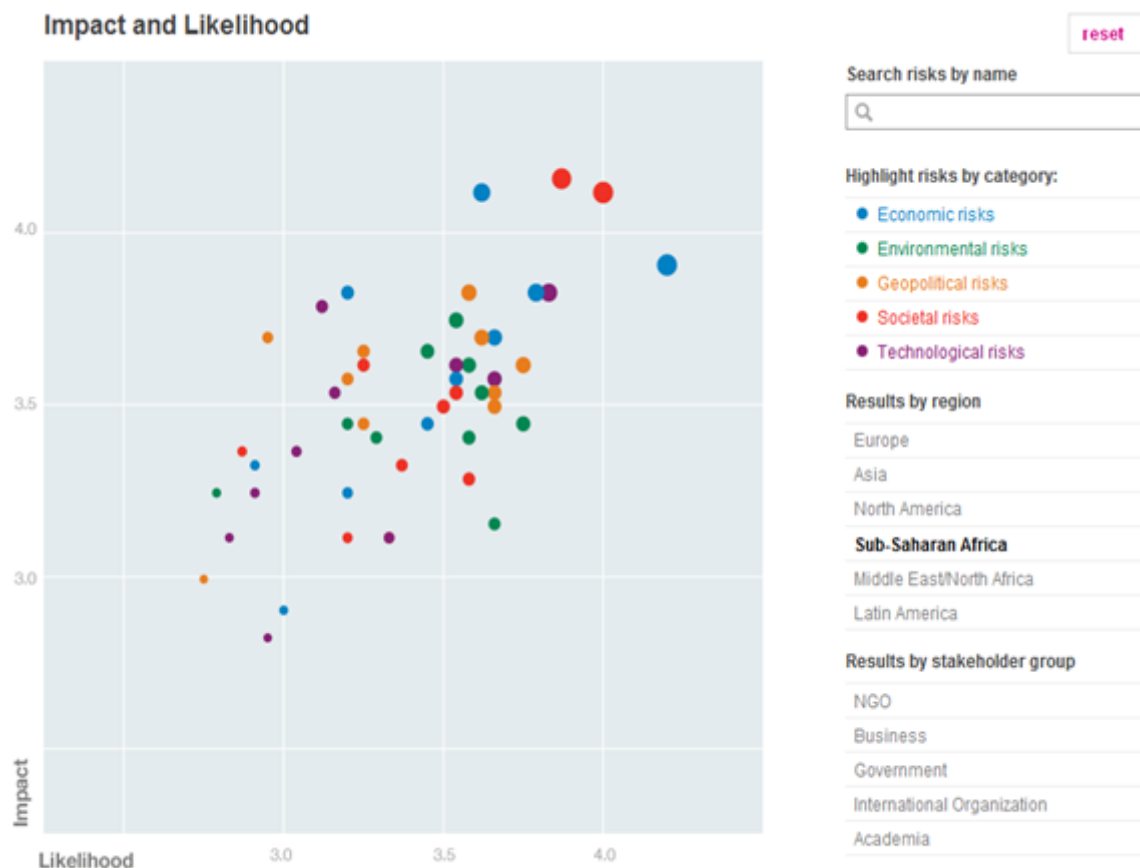


Figure 3 - WEF Global Risks for Africa

The breakdown of significant risks in these categories with a high impact and likelihood are as follows:

Economic risks:

Extreme volatility in energy and agriculture prices ||
 Severe income disparity || Chronic fiscal imbalances ||
 Chronic labour market imbalances || Unforeseen negative
 consequences of regulations

Environmental risks:

Rising greenhouse gas emissions || Land and waterway use mismanagement || Persistent extreme weather || Mismanaged urbanisation || Failure of climate change adaptation

Geopolitical risks:

Terrorism || Entrenched organised crime || Pervasive entrenched corruption || Critical fragile states || Widespread illicit trade || Unilateral resource nationalisation

Societal risks:

Water supply crises || Food shortage crises || Rising rates of chronic disease || Rising religious fanaticism || Vulnerability to pandemics

Technological risks:

Cyber-attacks || Massive incident of data fraud or theft || Massive digital misinformation || Critical systems failure || Mineral resource supply vulnerability

Are these Risks really that Independent?

Global risks can be viewed in isolation on various levels, from the global and national to the regional and project specific levels in a selected country. It is important to note that global risks can also be dealt with in combination. By looking at the possible integration of these risks one can prepare for the potential knock-on effects that are set in motion by an apparently isolated risk.

Example:

The Strauss Centre's Climate Change and African Political Stability (CCAPS) programme points out that exposure to climate-related hazards produces a completely different assessment when viewed in conjunction with related risks. The Centre states that

"Parts of the continent—such as the Democratic Republic of the Congo (DRC), Sudan, and Somalia—may be less physically exposed to climate-related hazards, but more vulnerable due to other factors, such as weak governance and low household and community resilience" whereas "Other parts of the continent—such as South Africa and the coastal region of northern Africa—have high physical exposure to climate hazards, but are likely less vulnerable than other regions thanks to more robust social and political resources".

It is therefore imperative to understand that many African countries have a low adaptive capacity to these hazards due to enduring challenges in their economies, governance, infrastructure, and healthcare and education systems. It is not enough to say that a country is vulnerable without explaining which parts are particularly vulnerable and why.

Application:

The World Economic Forum provides a user friendly tool to demonstrate risk interconnections. The chart places risks that are seen as being connected to several other risks, closer to the center, and in larger size. The risks are still presented within their respective categories. Some examples have been provided overleaf indicating the manner in which certain risks connect with others. The chart shows how strong each of the other risks is connected to the selected risk in center.

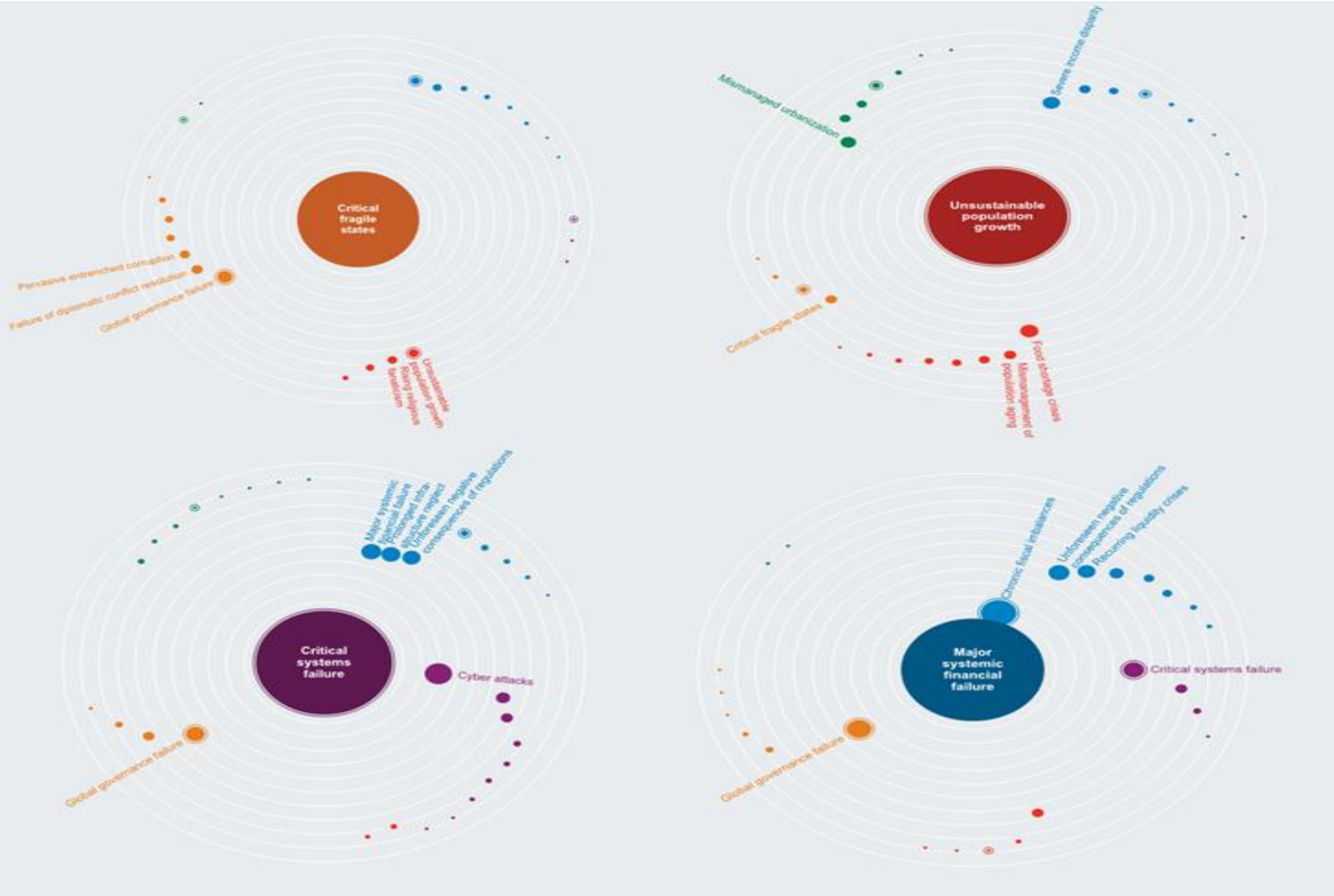


Figure 4 - Global Risk Interconnections

In Conclusion

More effective management of these global risks can help companies overcome fear and uncertainty by protecting their investments and by creating the necessary platform to take advantage of new opportunities. This requires integrating the management of global risks into a systemic process embedded throughout the company's business units and processes. Taking big risks in Africa forms a natural part of a company's global growth strategy, making it more important to be an informed risk taker.

References

- ❖ **The BBC**
- ❖ **CCAPS**
- ❖ **The Economist**
- ❖ **The Economist Intelligence Unit**
- ❖ **Maplecroft**
- ❖ **University of Stellenbosch**
- ❖ **US Department of State**
- ❖ **World Economic Forum**