Control Risks | OXFORD ECONOMICS AFRICA

The Africa Risk-Reward Index 2024

Opportunity through transformation

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Control Risks has been assisting clients in Africa for nearly 50 years. Today we have 5 offices across 5 countries on the continent supported by an experienced team of over 400 staff and consultants and an extensive on-the-ground network.

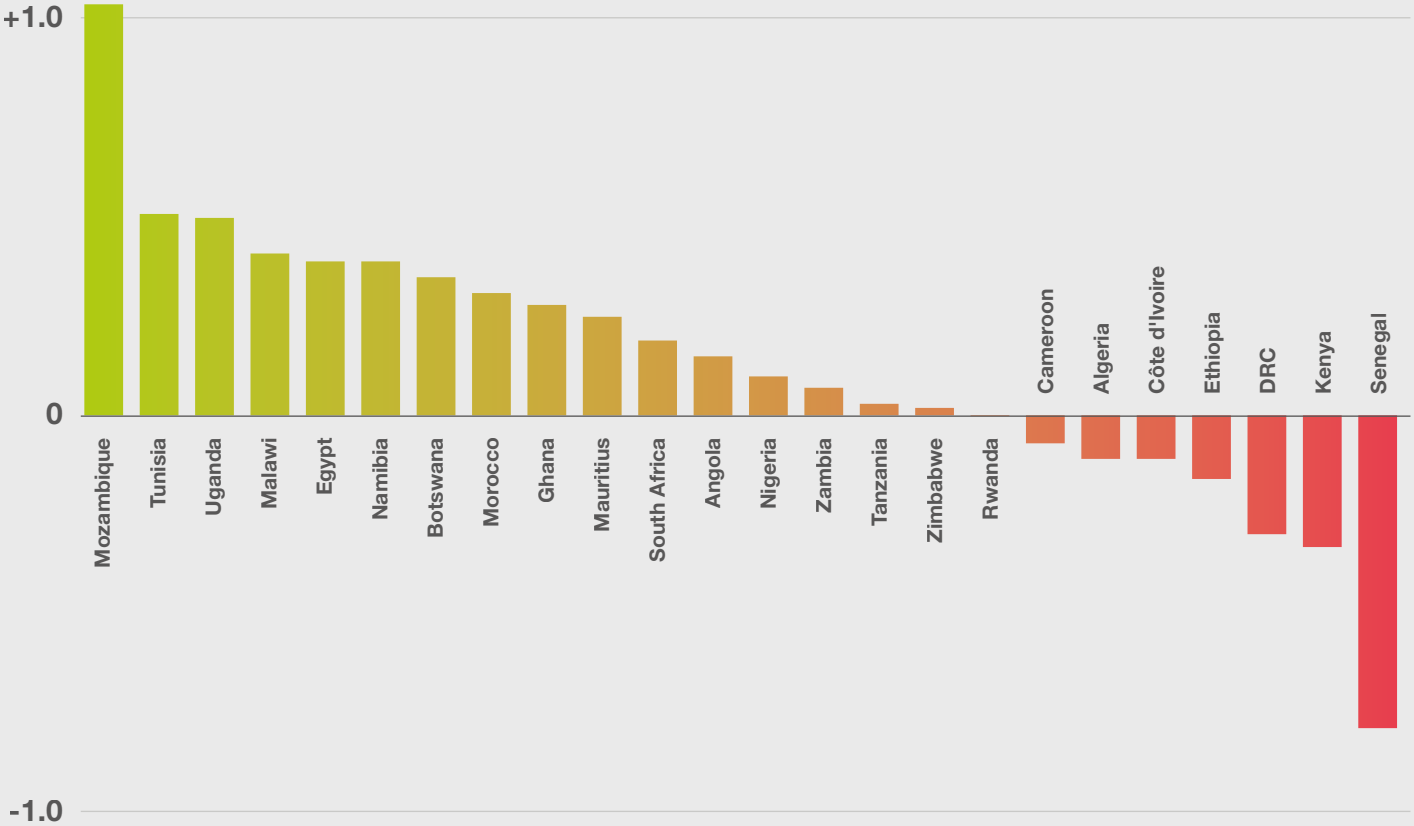
We work with some of the largest investors and multinationals across the region as well as the most respected African companies from mining and energy to NGOs, technology, telecommunications and financial investors.

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.

Oxford Economics is a leader in global forecasting and quantitative analysis. Our worldwide client base comprises more than 1,500 international corporations, financial institutions, government organisations, and universities. Headquartered in Oxford, with offices around the world, Oxford Economics employs 450 people, including 300 economists and analysts. The group's best-of-class global economic and industry models and analytical tools give us an unmatched ability to forecast external market trends and assess their economic, social, and business impact.

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

Fig.1 › How our scores have changed since 2023
Positive variations indicate a positive movement in overall risk-reward scores between 2023 and 2024



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 2023 and 2024. For some countries this is due to increasing reward scores, for some to declining risk scores, and for some a combination of both.

Mozambique
+1.04

Tunisia
+0.51

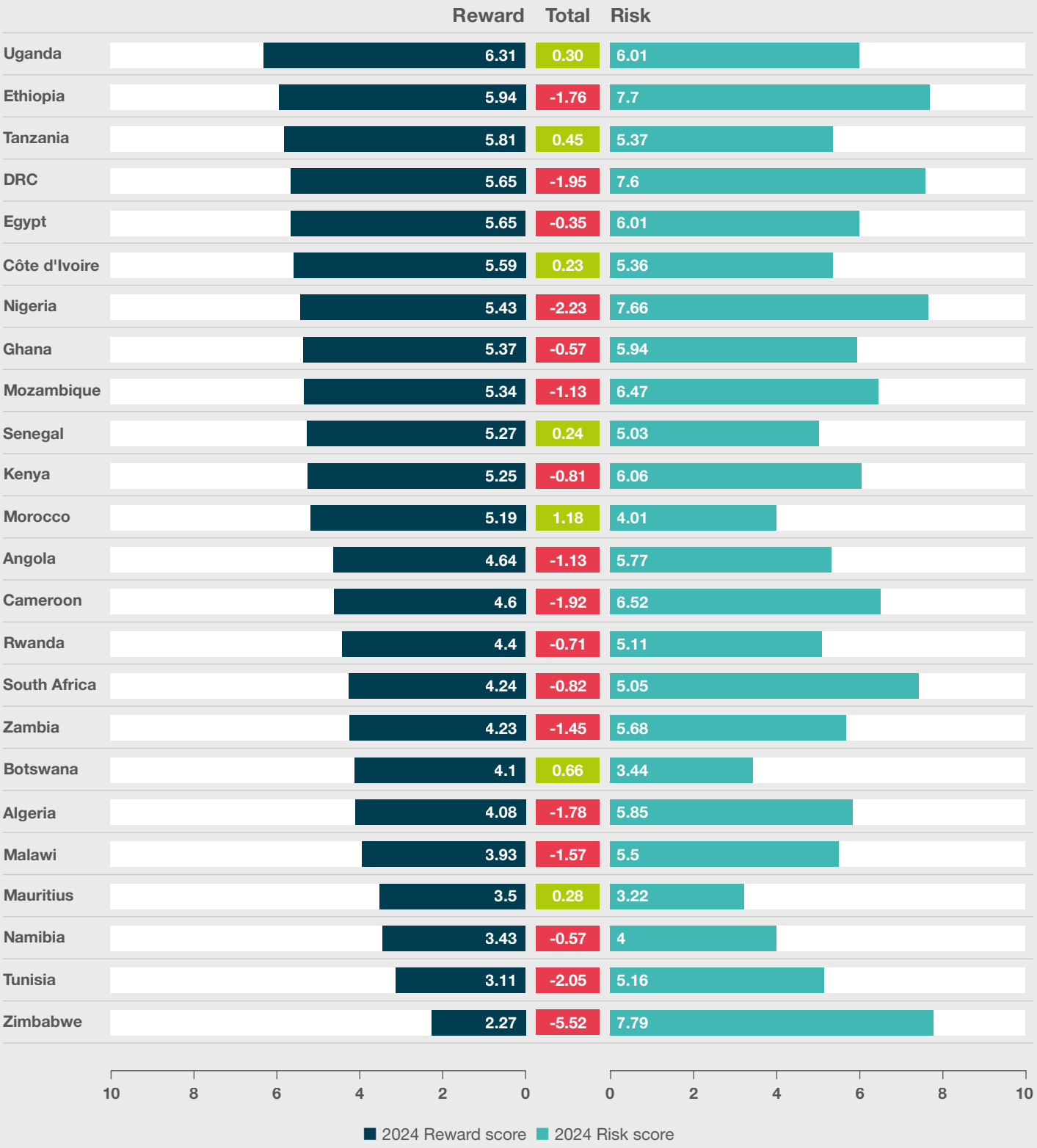
Uganda
+0.50

Malawi
+0.41

Egypt
+0.39

Boundaries and country names shown on this map do not imply endorsement or acceptance by Control Risks or Seerist.

Fig.2 › Risk and reward scores, 2024



Source: Control Risks and Oxford Economics Africa

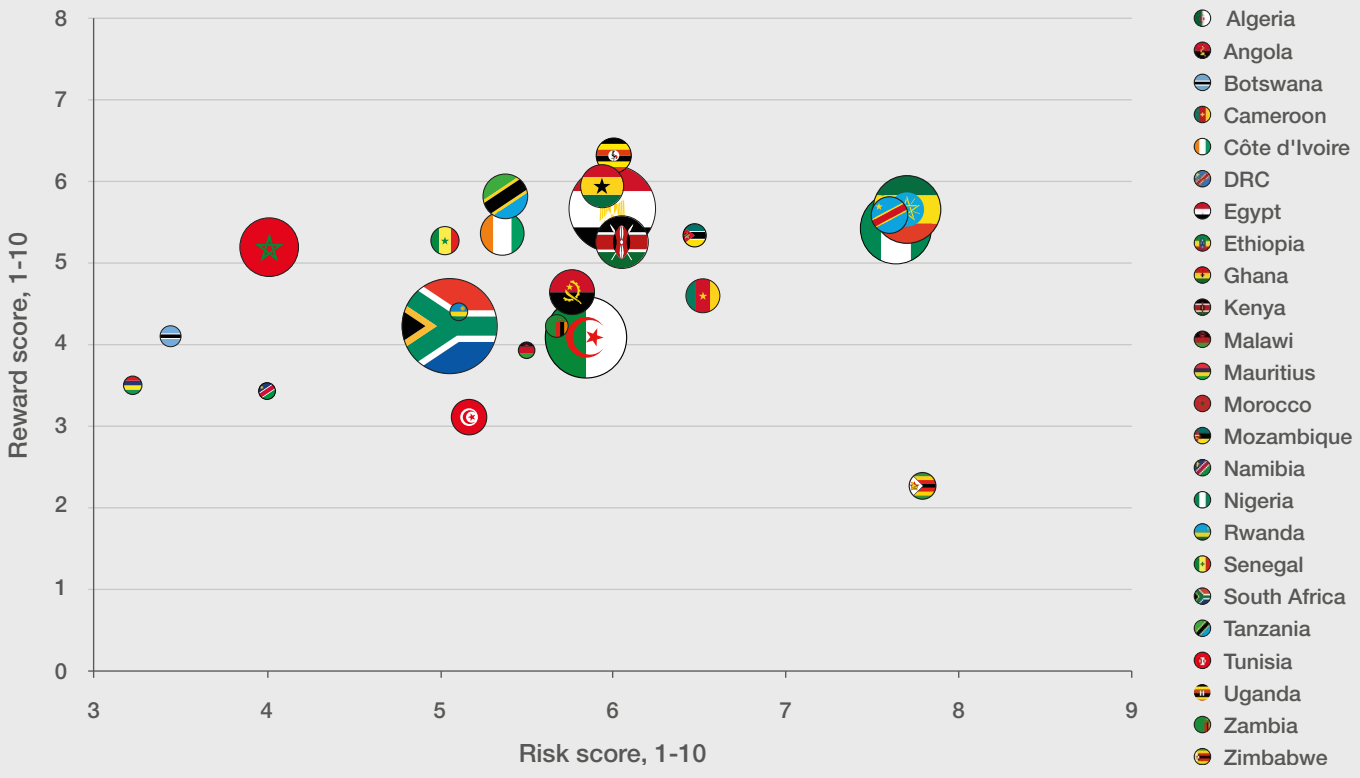
Introduction

Africa is at an inflection point. Some countries are on the cusp of deep institutional political change, as young people have taken to the streets and the polls to make their voices heard.

This has come as many have questioned their leaders' strategies, including their selection of geopolitical and business partners, especially after decades of high-profile deals have yet to translate into substantial employment opportunities. Meanwhile, developments in technology and specifically Artificial Intelligence are also driving existential questions on Africa's role and position in the fourth industrial revolution.

In the midst of continued macroeconomic uncertainty, social upheavals and technological change, governments and businesses alike are facing uncharted waters on the continent. Although the challenges are not to be downplayed, the opportunities for agile businesses are present and growing.

Fig.3 › 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.



Source: Control Risks


Votez
DIOMAYE
PRÉSIDENT
DIOMAYE moo SONKO

Bridging the generational divide – a new era for African politics

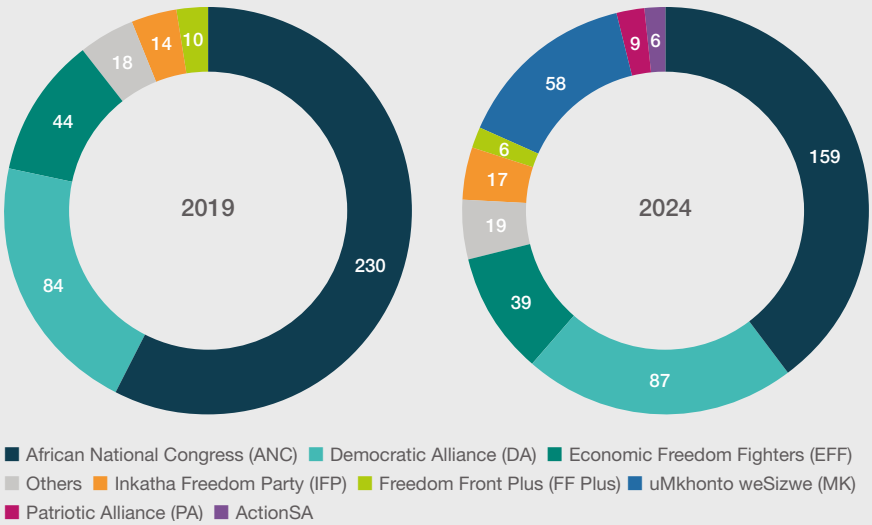
African political leaders have for some time been aware of the simmering frustrations of their young and growing populations. However, in the past year these have boiled over as young people are frustrated with the state of governance, impatient with the pace of development and disillusioned with political establishments.

The great humbling

It was a sombre President Cyril Ramaphosa who addressed a crowd on 2 June following his Africa National Congress (ANC) party's disappointing results in the 29 May general elections in South Africa. The ANC – which had enjoyed comfortable majorities since the end of apartheid in 1994 – had gained an astonishingly low proportion of votes. Ramaphosa and other ANC officials admitted to being "humbled" by the result, which forced the party into a coalition with the opposition Democratic Alliance and smaller parties in order to govern the country. The ANC's poor track record on public service delivery, particularly given an energy crisis ongoing since 2007, finally caught up to the party.

The elections in South Africa came after another giant of African politics – this time in West Africa –experienced a similar humbling. After 12 years in power, the party of former President Macky Sall (2012–24) was voted out in the presidential polls on 24 March. The 44-year-old Bassirou Diomaye Faye, who was behind bars on defamation charges until ten days before the election, was elected president. He subsequently named the leader of his African Patriots of Senegal for Work, Ethics and Fraternity (PASTEF) party and his political mentor, Ousmane Sonko, as prime minister. The two were propelled from prison to power following periodic yet intense social unrest since 2021, as the public turned on a government that seemed focused on courting international investment and big business, leaving ordinary citizens behind in the process.

Fig.4 › Parliamentary election results



The ANC was forced to form a government of national unity (GNU) in 2024. The GNU makes up 72% of the 400-seat National Assembly and also consists of the Democratic Alliance (DA), Inkatha Freedom Party, Patriotic Alliance, Freedom Front Plus, United Democratic Movement, Al Jama-ah, Rise, Good, Pan Africanist Congress and United Africans Transformation.

Source: IEC

More recently in June, a protest movement in Kenya organised via social media and without the involvement of main opposition parties, resulted in President William Ruto dismissing his entire cabinet and U-turning on planned tax increases. Ruto initially came out strongly against the unrest, even

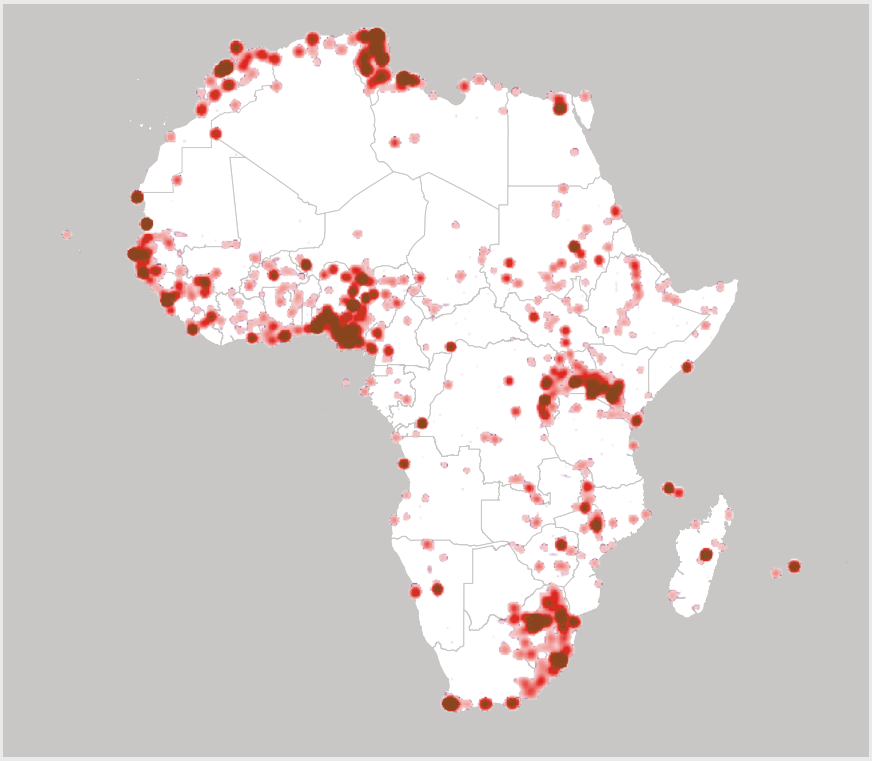
deploying the army against what he termed "treasonous elements". However, he too was humbled and forced to back down amid growing calls among young people for his resignation. The government's tax push was viewed as a betrayal of Ruto's election pledge to improve the lives of ordinary citizens; high inflation and a weakening currency had in fact had the opposite effect.

Gloomy futures

The palpable anger of young people towards their leaders is expressing itself both in the polls and on the streets. Previously, governments could ignore this and simply deploy state security forces to quell dissent. Step two of this strategy would be to co-opt opposition leaders with prestigious government positions. However, this playbook does not appear to be working properly anymore. In Kenya, following protests in June, anti-government sentiment has persisted even after the opposition cabinet appointments. Meanwhile in Nigeria, civil society and labour groups mobilised in August to call for governance reforms despite warnings from state security forces that such protests would be illegal. This failure of the usual pacification strategy has been propelled by a few key factors.

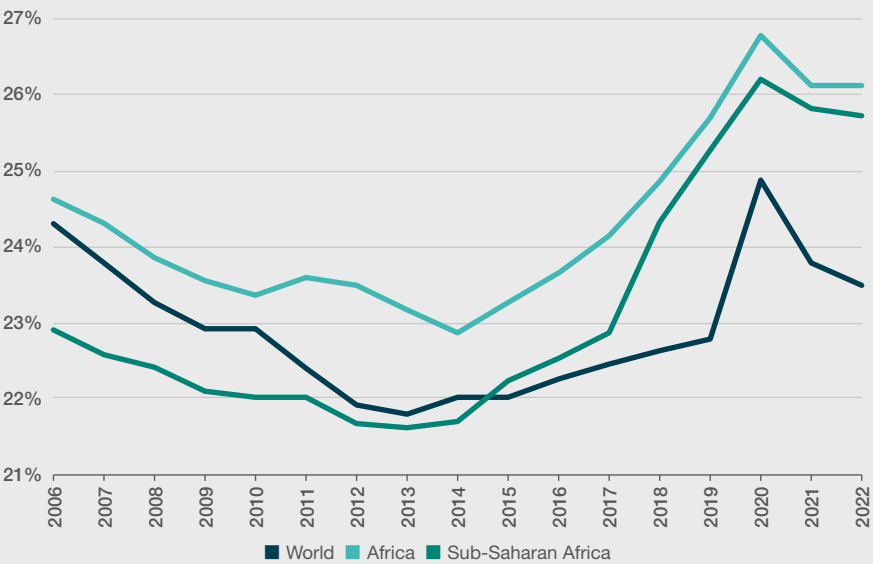
Firstly, governments are facing increasingly well-educated and young populations. African youth unemployment and underemployment rates are stubbornly high, even as education levels have increased. A growing number of people are graduating from secondary and higher education, but are not finding employment opportunities that match their skills. For decades, education systems and programmes have been geared towards producing workers for white collar and industrial jobs, but these roles are still few and far between and mostly concentrated in expensive capital cities. Economic growth has not been strong enough, consistent enough or job-intensive enough to absorb the wave of young workers (15-to-24-year-olds) entering the job market. Although there are differences in employment definitions and

Fig.5 › Recorded incidents of civil unrest, 2023–24



Source: Seerist/Esri/Tom Tom/FAO/NOAA/USGS

Fig.6 › Youth unemployment has been rising faster than the global average
Share of youth (15–24) not in employment, education of training



Source: ILO Modelled Estimates

interpretations, a consistent finding across countries is that the youth unemployment rate is much higher, often double or more, than the national unemployment rate.

The drivers behind these youth unemployment figures stem from both the demand and supply side. From a demand perspective, economic growth in most African countries has not been job-intensive, with many countries still largely relying on fiscal revenue from commodity exports being channelled back into the economy through public spending. From a supply perspective, demographic trends across the continent mean a youth bulge is entering the labour force. While fertility rates have declined in recent decades, those born when population growth rates peaked have now reached working age. Governments are not currently able to harness the so-called demographic dividend.

This educated population is more connected to global developments, with better access to information, including via social media. These groups have more awareness and clearer ideas about how governments should work to the benefit of their people. They see how public funds are put to use to improve infrastructure, education and healthcare in other parts of the world. They see how some of their global counterparts appear to have better lives as a result. And they learn from their counterparts within the continent: the recent anti-government protests in Kenya inspired civil society to mobilise in Uganda, Tanzania and Nigeria.

And yet, while young people languish in a lack of opportunity, their politicians appear to live lavishly off of government money. This may not have been as prominent an issue in previous decades when access to information was more limited, but bolder journalism and social media have cast a spotlight on the perceived excesses of African political leaders during lean times. Global exposure has also eroded the African norm that young people should treat their elders – whether they are rulers, longstanding opposition figures or labour leaders – with only deference and respect. Young people are openly questioning the direction their leaders are taking their countries.

Protesters take cover while holding stones as they clash with Kenya Police officers during an anti-government demonstration called following nationwide deadly protests over tax hikes and a controversial now-withdrawn tax bill in downtown Nairobi, on July 2, 2024.

Finally, governments have limited means to appease the anger. In previous decades, they could ride out downturns by tapping into external lifelines: development aid, Eurobonds or financing from bilateral partners with deep pockets. They could rely on the occasional windfall from high commodity prices. These options have diminished as the negative impact of global instability has rippled out into the continent. African governments are now increasingly reliant on IMF and World Bank support and raising domestic revenues to stay afloat.

A new compromise?

Faced with this volatile outlook, some governments appear to be directly addressing their populations' key concerns. In Senegal, the government issued an increased tax bill in August to one of the major oil companies, as President Bassirou Diomaye Faye seeks to fulfil his election pledge to increase the benefits of Senegal's nascent oil and gas sector for local populations. In South Africa, Ramaphosa's coalition government has reprioritised the energy situation in the country, speaking directly to concerns raised by the population during the election period. Ramaphosa has highlighted that the government has a significant pipeline of renewable energy projects, reportedly totalling 22.5 GW of power and worth over USD 21.9bn. It is unlikely that Ruto will fully abandon all the proposed tax measures that have brought Kenya to a policy standstill, but his next budget will tread softly on tax increases for essential commodities that could impact households.

Ruling establishments in North Africa are especially keen to demonstrate their responsiveness to local populations' concerns as they try to avoid another wave of popular uprisings. The experience of

the so-called Arab spring in 2010–11 has made governments both less tolerant of dissent and more anxious to placate popular grievances before they escalate. Tunisia in July 2023 boldly rejected a USD 1.9bn IMF bailout, stating that the cuts to food and fuel subsidies would be unpalatable for the population. Egypt has managed to access IMF funding but has similarly declined subsidy cuts. Others across the continent look for ways to manoeuvre around them despite IMF disapproval.

Military-led or -dominated administrations are not immune to this pressure. Having come to power promising security and economic prosperity, the juntas in the Sahel have yet to deliver on these. Militant groups instead appear to be gaining ground in parts of Burkina Faso, Mali and Niger, and militaries are sustaining heavy losses. These administrations have clamped down heavily on dissent, meaning that large-scale protests have not occurred. But a failure to meaningfully improve the prospects for their young populations will likely drive desertions from the military, recruitment by militant groups and emigration from the region.

People-centric policy?

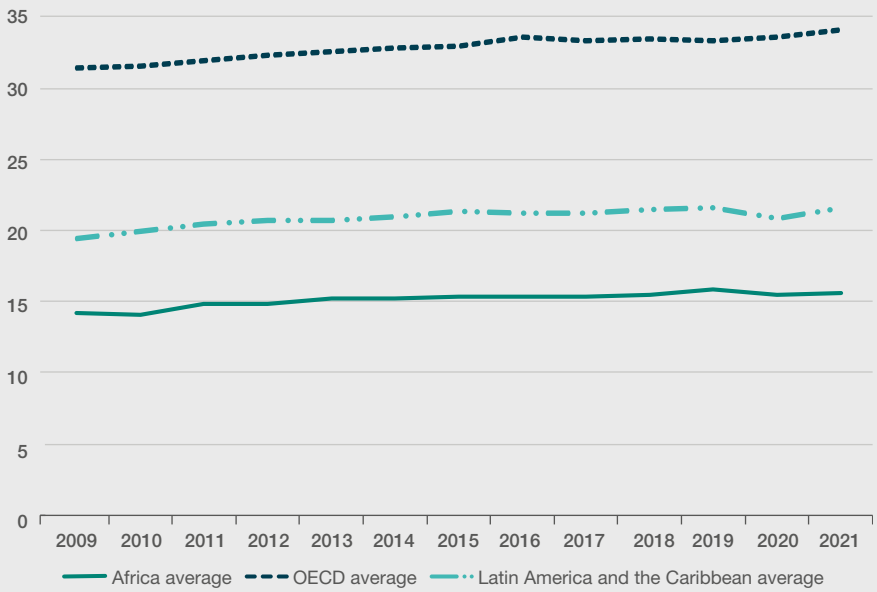
Governments are aware that for many young people the idea of tilling the land or working in mines and factories in the manner their parents and grandparents have for generations is distinctly unappealing. Consequently, a previous near obsession with industrialisation and boosting crop yields is being replaced by a more nuanced approach to job creation. This has driven a greater focus on domestic value addition across sectors. In the mining industry, several countries from Ghana to Tanzania and Zimbabwe are insisting on domestic processing of minerals and the creation of skilled, rather than un- or semi-skilled, labour in the mining sector so as to broaden out the sector beyond its current focus on extraction and raw export. Similarly, there is a push to situate higher-value parts of agricultural value chains within the continent, including processing in the cocoa, tea, coffee and edible oil sectors in countries such as Côte d'Ivoire, Ghana, Gabon, Kenya and Tanzania.

Governments are also seeking investment in the creative industries and sports, as young people look for more than just office, farming and factory jobs. Country-level deals with global streaming services, such as Netflix's move to set up local production in Nigeria, as well as continental sports deals with organisations such as the US National Basketball Association (NBA) have caught the attention of international media. Infrastructure and institutions supporting both these industries are also being prioritised. Reforms in national sports federations are ongoing and well-publicised, public support for creative industries is increasing, and the creation of a digital economy has become one of the central pillars of many political parties' manifestos.

Governments are also focusing on the treatment of workers. South Africa in March increased the minimum hourly wage by 8.5%, while Nigeria in July also passed an increase in its minimum wage. Other countries will follow suit. Even though enforcement is uneven, minimum wage laws and reviews are easy ways for governments to signal that they are listening to workers facing increased financial uncertainty. In countries with strong labour unions, governments will be required to reach compromises with public workers' unions seeking higher pay and better working conditions. For example, the Moroccan government and health workers in July signed an agreement to increase wages

Senegal's President Bassirou Diomaye Faye arrives to attend a Sport for Sustainable Development Summit at the Carrousel du Louvre (Louvre Carrousel) in Paris on July 25, 2024, one day ahead of the opening ceremony of the Paris 2024 Olympic Games.

Fig.7 › Average tax-to-GDP ratios



Note: The Africa average should be interpreted with caution as data for social security contributions are not available or are partial in a few countries.

Source: (OECD/ATAF/AUC, 2023[5]), "Revenue Statistics in Africa: Comparative tables", OECD Tax Statistics (database)

and improve working conditions, following weeks of nationwide protests led by medical workers' unions.

Businesses in the crosshairs

However, in what seems to be part of a global phenomenon, sentiment against big business is growing. Businesses will find themselves increasingly caught between government ambition and youth suspicion. Governments are embarking on a revenue drive across sectors, seeking to demonstrate to their populations that they are ensuring businesses are paying their fair share of taxes, creating jobs and contributing to value addition rather than merely extracting profits.

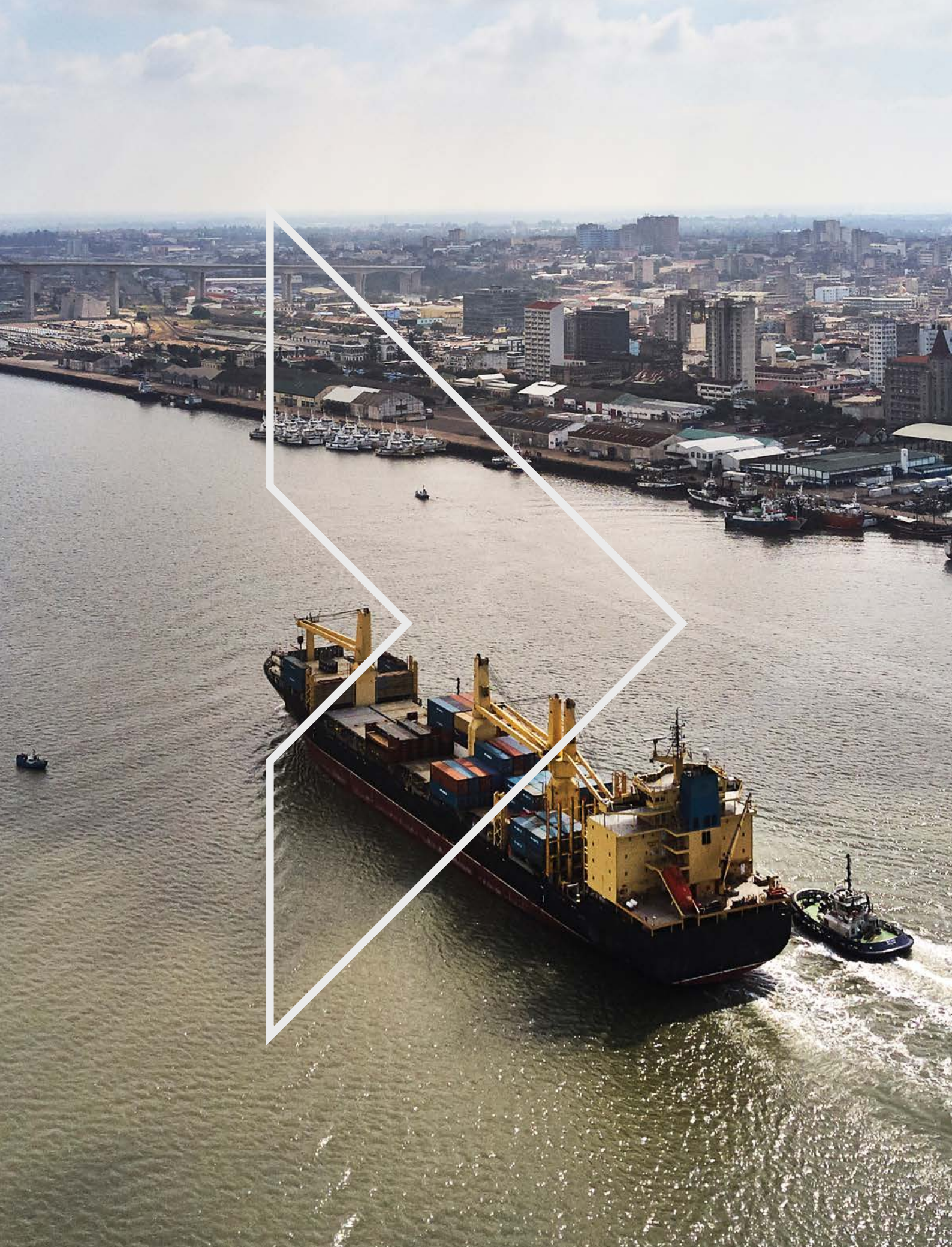
Businesses are therefore an easy target: we expect tax regimes to be reviewed and local content requirements tightened in the coming years, particularly in key foreign exchange earning sectors including mining, oil and gas, telecoms, and finance. Foreign companies, which are often believed to benefit more from generous investment incentives, are attractive targets for tax authorities and regulators. Regulators are likely to be quick to issue fines for non-compliance as administrations seek to show they are on the side of the people and not big business. In Nigeria, Meta Platforms was fined USD 220m in July for allegedly breaching data protection regulations.

Linked to this is rising "corporate patriotism" – a belief that large companies should be aiding everyone in tough economic times. Nigeria's banking sector is a prime example of this, where a tax on super profits from foreign exchange gains was proposed in July by President Bola Tinubu as he faced protests over the high cost of living.

The perception that international businesses remain loyal to their home countries makes foreign companies and personnel all the more liable to be swept up in political upheaval. This has been most visible in West Africa, where coups largely instigated by younger officers have deposed civilian governments closely tied to France and the broader West. Western companies have found themselves as collateral damage, treated with suspicion. Russian disinformation campaigns have further fanned this mistrust, harnessing the same access to information that is fuelling calls for transparency. Businesses will therefore need to tread a careful line on political and social issues or risk facing the ire of both young people and governments.

Meanwhile, businesses will need to put in place staffing plans that resonate with the priorities of younger workers. In the context of a higher cost of living and a higher tax burden for salaried workers, there is an expectation that wages and/or benefits will rise to match this despite a squeeze on profits. Expectations for training and skills development are high among young workers. This is particularly the case as many see entrepreneurship as their end game, and therefore see formal employment as a stepping stone – either to gain the skills they need or to build an initial financial base. Crucially for some companies, skilled workers are also being drawn into regional and global talent pools, meaning that large foreign companies on the continent are no longer the most (or sometimes only) well-paying roles.

At this inflection point in the African political and business environment, organisations and governments alike will need to adjust their posture to take advantage of youth energy or risk both reputational hits and financial losses. Companies that are able to invest the time, energy and resources into building strong and transparent relationships with local populations – and particularly younger segments – as community partners, consumers and employees will find themselves better able to navigate through the stormy political and social climate.



White elephants and lifelines – the megaprojects reshaping the continent

Many of Africa's key trade routes emerged out of colonial plans centred around the extraction of raw resources for processing outside of the continent. The result was a patchwork of "pit-to-port" roads and rail links resembling the spokes of a wheel without a hub: each transport route reaches outwards towards overseas destinations but fails to converge, leaving Africa's main cities and economic centres fragmented and disconnected.

Fig.8 › Africa's railway network remains concentrated around key trade routes

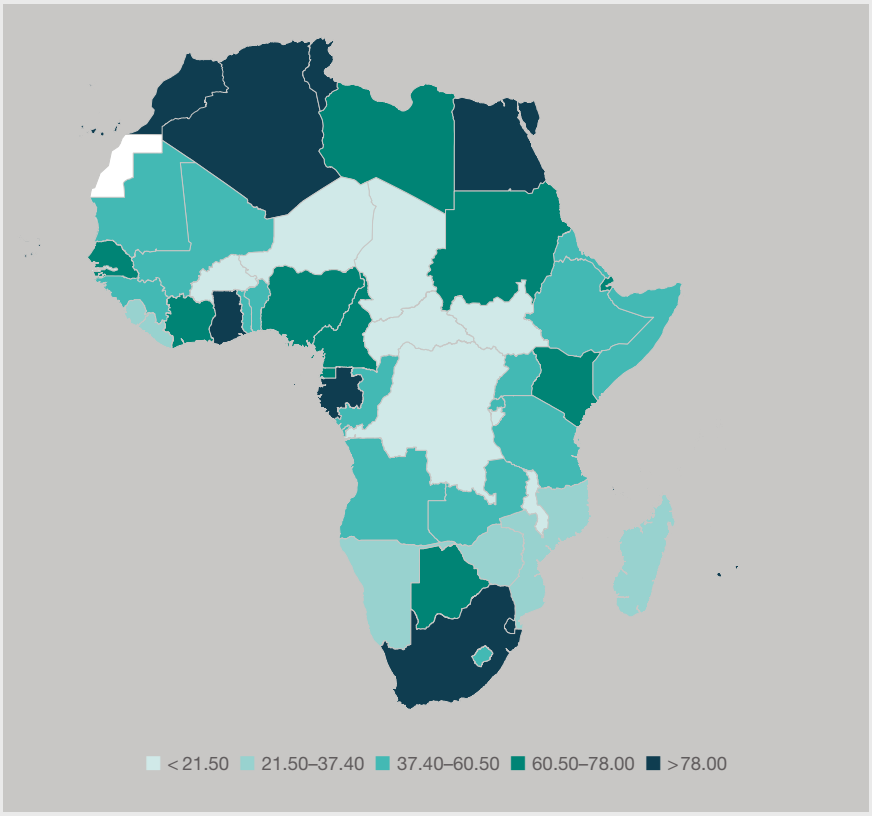
Source: Esri/Tom Tom/FAO/NOAA/USGS/OpenStreetMap

The upgrade game: unfinished business

However, infrastructure investment on the continent has surged in the last two decades, with high-profile energy, port and rail projects grabbing international media attention. Global and African multilateral institutions and Western development finance institutions have led the push on energy access, with electrification projects launched throughout the 2000s.

African ports rapidly expanded their capacity in the last decade: total container port throughput increased by 56% between 2010 and 2022, according to the UN. Much of this can be attributed to Chinese infrastructure largesse: through the Belt and Road Initiative and broader engagement, many of the largest port, road and rail projects have taken shape with Chinese funding, from the Kenya and Ethiopia-Djibouti Standard Gauge Railways (SGRs) to the Lekki Deep Sea port and Lagos Free Trade Zone in Nigeria, Kenya's ambitious Lamu Port South Sudan Ethiopia Transport corridor (LAPSSET), and the Nacala Corridor in southern Africa.

Fig.9 › Access to electricity (% of population)



Source: IEA, IRENA, UNSD, World Bank, WHO. 2023. Tracking SDG 7: The Energy Progress Report. World Bank, Washington DC.

These investments have boosted links with global markets, helping consumer goods move into the region and raw commodities move out. However, projects to connect Africa's economic centres to each other have not kept pace, leaving intra-continental trade networks underdeveloped. Although intra-African trade reached a record USD 192bn in 2023, according to the African Export-Import Bank, its share of Africa's total trade remains a paltry 15%. The full potential of the African Continental Free Trade Area (AfCFTA), established in 2018 as the world's largest free-trade area, could remain unrealised without efficient transport and energy infrastructure criss-crossing the continent.

Needs and wants

Compounding this challenge is a difficult fiscal situation. At a time when populations are struggling with the high cost of living and governments are weighed down by external debt burdens, expensive infrastructure feels ill advised. It has been difficult for governments to explain to their populations why megaprojects should be prioritised for government spending while basic needs for many households are unmet. Many African countries that are facing debt distress or are in default owe a significant portion of their external debt to China, with these loans almost entirely linked to infrastructure.

This does not mean all lights are off for infrastructure spending in Africa. There are indications of renewed interest in rail, a long-neglected area; toll road projects are progressing in some larger economies, with greater participation from the private sector than before; and port projects still show strong momentum, with recent agreements in Tanzania.

But in a tighter environment for borrowing, governments are having to be more selective about which projects to pursue and at what cost to the public purse. The continent is already littered with ambitious plans promising to boost power, connectivity and development, and vanity projects championed by politicians or their political parties intent on leaving a lasting legacy, regardless of cost or whether a market exists to make them viable in the long term.

Entrenching the extraction economy?

Meanwhile, underlying the lack of financing for many projects is often the lack of a viable domestic market. The Grand Inga Dam in Congo (DRC), which has the potential to produce up to 39 GW of power, is a classic example of this problem. The project was first designed with an aluminium smelter as the main offtaker for power. When this did not materialise, the government shifted to marketing the project as a power exporter to countries in southern Africa, including South Africa itself. The next iteration of the project conceived the dam as a source of green hydrogen for global export, but this faced backlash from local groups who prefer the project to power the region rather than foreign countries. Various lenders are now reportedly seeking to revive a version of the project that would see South Africa and Congo's neighbours as the main beneficiaries.

The same challenges have beset Africa's gas sector. The region accounts for 40% of global gas discoveries made since the mid-2010s, mainly in new gas frontiers such as Mozambique, Senegal, Mauritania, Tanzania and, more recently, Namibia. In total, the various liquified natural gas

(LNG) projects in development have the potential to add about 65m tons per year of annual capacity – enough to power a population greater than South Africa. However, only a fraction of this capacity will remain on the continent, as regional offtakers cannot guarantee enough reliable demand or be creditworthy enough to structure large gas power projects.

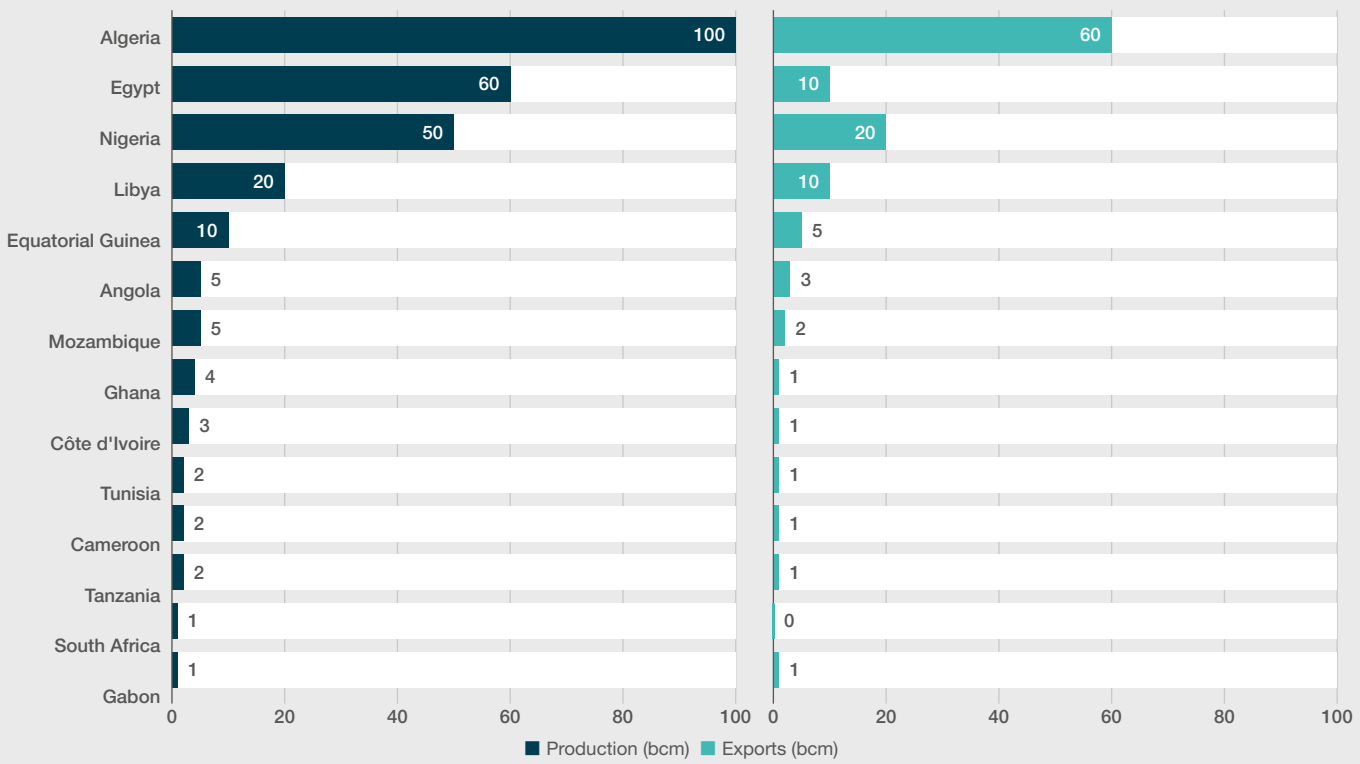
This explains why many of the emerging "megaprojects" on the continent are still oriented towards overseas exports rather than domestic demand.

A tense geopolitical context is also coming to exacerbate, rather than counter, this trend. The revival of rail projects has much to do with evacuating Africa's critical minerals to markets in the West or China. The US has thrown its weight behind the Lobito corridor project, an ambitious railway scheme to redirect Congo and Zambia's copper projects to Angola and the Atlantic coast. China is responding in kind by reviving plans to modernise a competing (Chinese-built) railway line that would connect the same mining regions eastward to Tanzania – without making the two rail lines compatible. Further west in Guinea, a long-delayed USD 10bn railway from the Simandou iron ore deposit to a new port on the coast is a more cooperative Chinese-Western venture, but equally reproduces the traditional pit-to-port trade model. Meanwhile in Namibia, the EU and Germany are pouring billions of dollars into a green hydrogen plan as the bloc seeks to reduce its reliance on Russia for its energy.

Growing interest from Gulf Arab states, as well as Turkiye, in Africa's infrastructure as an entry point into the continent makes the space even more crowded. Geopolitical competition will test African leaders' ability to maintain coherence in their infrastructure planning and could further entrench fragmentation between countries.

Companies working on these megaprojects will be more vulnerable to leaders shifting their stance on their preferred geopolitical partners. For example, a UAE port operator had its concession to manage the Port of Djibouti revoked in 2018 and the same concession subsequently granted to a Chinese company instead. Although the operator secured a USD 200m arbitration judgement following the revocation, Djibouti's government is unlikely to pay out the claim. Meanwhile in Tanzania, then-President John Magufuli (2015–21) in 2019 U-turned on the previous administration's plans to have Chinese firms redevelop the port of Bagamoyo and

Fig.10 › Africa's gas production is concentrated in four countries: Gas production and exports from African countries, 2023



Source: International Gas Union

construct Tanzania's SGR in its entirety, given his perceptions that China was coming to dominate the infrastructure space. The Bagamoyo project was placed on hold, while parts of the SGR construction concessions were subsequently awarded to a Turkish-led consortium.

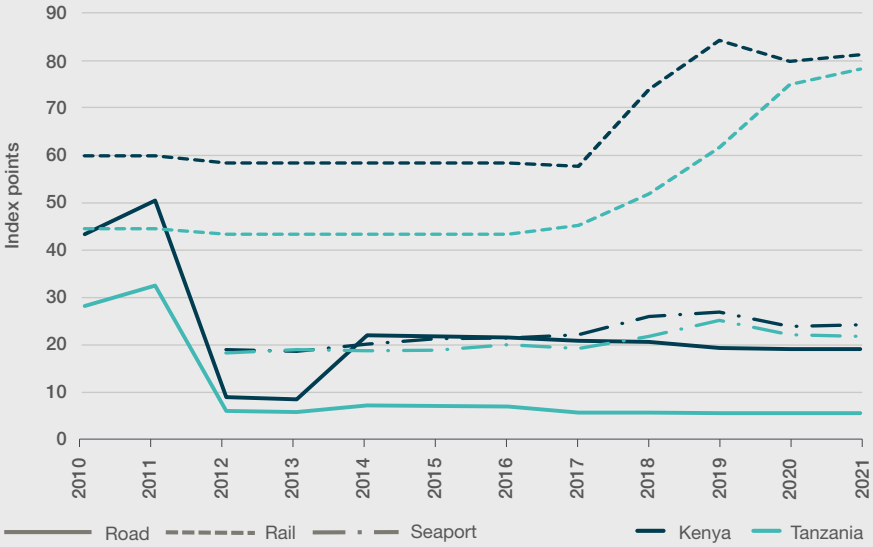
A net positive for business?

There are some concerns that the influx of investment may not necessarily be what the continent needs. In East Africa for example, it remains to be seen whether the region's growth prospects justify having several major transport corridors, including the two main competing ones in Kenya and Tanzania. Mombasa in Kenya and Dar es Salaam in Tanzania are the busiest and largest ports in the region. Both have well-developed feeder systems and serve as salient transhipment hubs that link with other African ports. There is little to separate the two in terms of the quality of port services: the World Bank's Container Port Performance Index ranked Dar es Salaam moderately better than Mombasa in 2022, but then Mombasa slightly outperformed Dar es Salaam in 2023.

One of several major construction projects being undertaken in the city centre as seen on April 05, 2024 in Kigali, Rwanda.

Fig.11 › While Kenya boasts the largest port in East Africa, the quality of Tanzania's port services is on par with that of Kenya

Quality of infrastructure index for Kenya and Tanzania, 2010–21



Source: Oxford Economics, Mo Ibrahim Foundation

With fiscal pressures mounting and government debt rising, there is a real risk that Kenya's ambitious transport infrastructure investment projects might be abandoned. Conversely, Tanzania is gearing up to develop into a major LNG exporter and has its sights set on being the preferred route for Uganda's oil exports. Greater trade and economic integration could boost growth enough to justify both corridors. But certain East African transport infrastructure projects could also become obsolete. Likewise, the Lobito corridor has hinged its future on a massive expansion of copper production from Congo (and Zambia, if a planned extension goes ahead) and could be left with overcapacity problems if mining projects fail to take off in time.

From the perspective of businesses operating in Africa, the increase in the quantity and quality of infrastructure projects is broadly positive. There are now options for companies to choose from, with the increasing number of trade corridors likely to lower the cost of importing and exporting, as well as providing greater resilience.

Realistically, many of the continent's infrastructure corridors will continue to be oriented towards overseas exports for the foreseeable future. However, governments and both African and multilateral lenders are increasingly backing projects to stimulate broader economic activity along these pit-to-port corridors. The World Bank will spend USD 300m to help the Angolan government develop agribusiness along the Lobito corridor, hoping to turn the railway scheme into a broader catalyst for economic diversification; Guinea has launched a "Simandou 2040" programme to create new special economic zones and agricultural projects along the railway route.

African institutions are increasingly keen to mobilise funding for regional transportation and energy projects connecting the region's main urban centres, and development finance institutions have a role to play in developing an ecosystem of projects that can strengthen the business case for large investments.

Emerging technologies – supercharging economic development

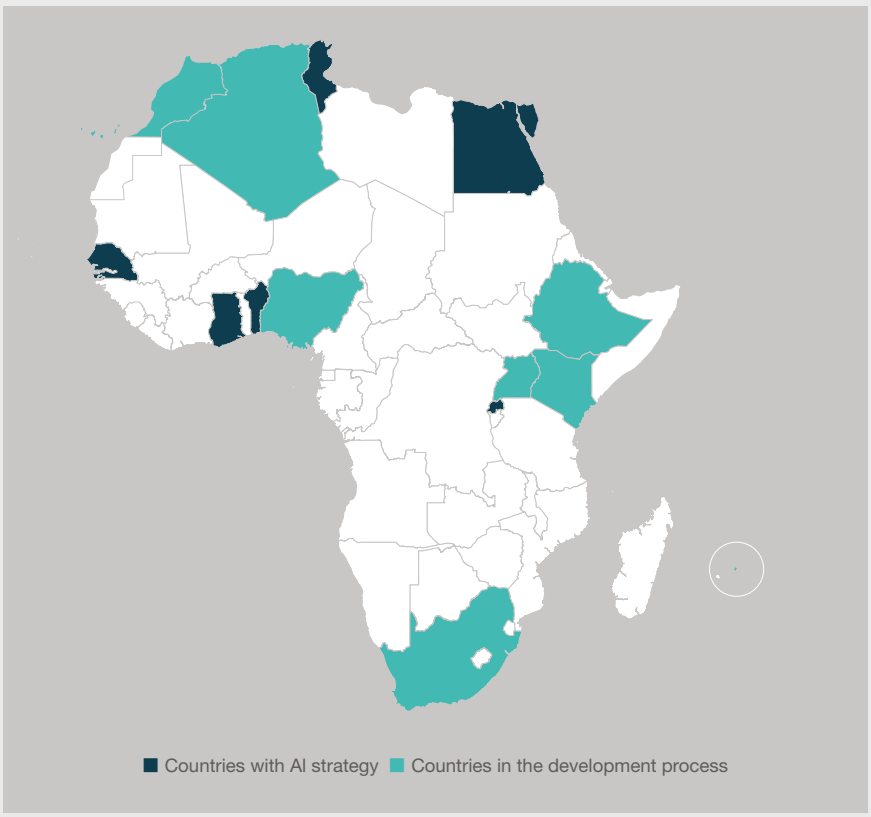
The technological breakthroughs related to Artificial Intelligence (AI) in the past year have opened up new avenues for innovation, as well as global competition and cooperation. Much of the excitement has been around developments in the generative AI space, fuelled by the public release of ChatGPT in 2022 and similar commercial applications thereafter, which have worked to somewhat democratise access to AI.

As a result, there is significant enthusiasm around the adoption of AI across sectors, and as the potential solution to many problems. However, in tandem with this has been a wave of caution primarily emanating from Western governments that are wary of the potential for AI to be misused, and for the potential wider negative impacts on workers as generative AI looks likely to automate many tasks across sectors.

Watching and waiting?

The pace of AI strategy and regulatory developments by African governments has felt slow compared to their global peers. Only seven African countries – Benin, Egypt, Ghana, Mauritius, Rwanda, Senegal and Tunisia – currently have national AI strategies in place, though South Africa, Ethiopia, Nigeria, Morocco and Kenya are all reportedly drafting theirs. Fewer still have in place laws to directly regulate AI, relying instead on a patchwork of data privacy, cybercrime and consumer protection regulations to apply to emerging technologies. The African Union (AU) in February developed a draft AI policy outlining a proposed continental approach to AI regulation but this has yet to be endorsed by member states.

Fig.12 › AI policy development in Africa (As of May 2024)



Source: Esri/Tom Tom/FAO/NOAA/USGS/GSMA

This policy lag is perhaps unsurprising as African countries had only just been catching up with data privacy, protection and localisation laws several years after countries in advanced economies. Moreover, with other urgent concerns including the precarious state of government finances and social unrest, regulating new technologies seems low on the list of priorities for several governments.

However, the sluggishness of governments to respond to emerging technologies leaves the continent vulnerable to being left behind as the "fourth industrial revolution", where companies move to swiftly digitise their operations amid the rapid advancement of technology, accelerates across the rest of the world. The IMF has constructed an AI Preparedness Index, which assesses 174 countries' level of AI preparedness and shows African countries, in general, being ill-prepared for effective AI adoption. In a continent that is still aiming to move away from resource extraction, Africa risks failing to harness the transformative potential of AI to solve some of its most critical challenges.

African governments may appear to be moving slower than others across the world, but they are not at all indifferent. Governments in the continent have in the past chosen to let companies test technologies before intervening to regulate. This has allowed local and international companies space for trial and error and to adapt technology to the needs of the continent. The most prominent case of this approach has been the mobile-related technology expansion. Governments in the 2000s largely allowed companies to lead the charge on mobile money deployment, only introducing laws and regulations for mobile-based financial services once they had a clearer picture of what these technologies would look like in their specific contexts. There are indications that this posture may be at play in the case of AI.

Business woman using innovative virtual reality technology in South Africa.

Powerful problem solving

AI startups across the continent are burgeoning as they look to deploy technology across sectors. Rwanda has, since 2019, contracted the use of autonomous drones or Unmanned Aerial Vehicles (UAVs) to deliver medical supplies, including vaccines, to mountainous regions. More than 75% of blood supplies outside the capital Kigali were reportedly delivered in this manner in 2022, and the project has cut down the time taken to deliver emergency supplies in rural areas by more than half.

AI is also being used to augment healthcare workers' knowledge. This is particularly important as the continent suffers from a shortage of doctors and nurses and relies on a network of community health workers as the backbone for public health systems. Through AI-powered training and diagnostic tools, healthcare can be expanded considerably even in the absence of skilled personnel. Researchers and startups have developed chatbots providing services from prenatal care in Nigeria to screening for infectious diseases in Tanzania, and sexual and reproductive health education in Ghana, Kenya and Uganda. Some companies are also trialling the use of aerial imaging to detect mosquito breeding sites to help tackle malaria, one of the leading causes of mortality on the continent. The use cases are vast and growing and will likely help improve health outcomes in the coming years.

The agricultural sector, which employs over 40% of the continent's working population, is also seeing a steady stream of interest

from AI startups. GSMA (the global industry association for mobile network operators) estimates that most of the AI use cases on the continent are targeted in the agriculture and climate space. In parts of East Africa, AI startups are seeking to tackle the lack of accurate information on weather and commodity prices, which has made it difficult for farmers to make informed decisions about what to plant and when, using AI tools. AI startups in South Africa are taking this a step further than weather information by using technology to monitor pest and disease outbreaks. AI applications are also being harnessed to improve water management and predict the impact of droughts and floods, making agriculture more climate resilient.

National and local governments are also looking to AI tools to boost public service delivery. Morocco in June announced that it would begin using an AI tool in its court systems to transcribe rulings and conduct research. Mauritius, Africa's earliest adopter of an AI strategy in 2018, has been trialling AI uses across its systems, including an AI-powered due diligence system launched in 2023 to allow investors to proactively identify potential risk issues in companies registered in the country. There is also research being conducted into how AI can be used to forecast and therefore adjust energy demand by mini grid developers in Nigeria; if successful, the potential for this to be scaled up to national power grids could be immensely beneficial for state utilities.

Many of these use cases are still relatively nascent, but their potential is vast, and their positive impacts will likely multiply as pilot projects consolidate and scale up in the coming years.

Productivity gains

There is increasing evidence that AI will have a significant positive impact on productivity growth. The surge in business investment in AI-related hardware and semiconductor manufacturing reflects this optimistic outlook. Nevertheless, any quantitative forecasts regarding the impact of AI on economic productivity are inherently speculative. The reason is that assumptions about AI adoption and its various future applications are, at best, educated guesses.

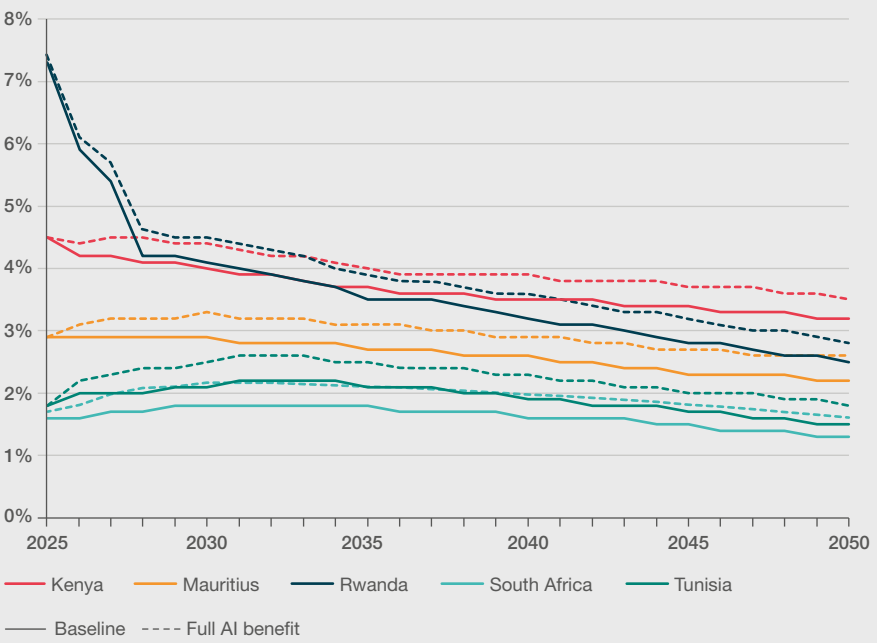
According to the US Census Bureau, about 5% of US companies have reported using AI as part of their regular production process. Adoption rates have been higher in industries that will benefit the most from AI, such as computing, data infrastructure, and information services. Recent academic studies on early adopters in the US have found that productivity gains due to AI vary, with the median productivity boost at around 15%. Grounding productivity gains on these findings, assuming the proliferation in gains across a wider spectrum of sectors over time, and assuming a similar acceleration in research and development investment to that observed during the strong productivity growth in the late 1990s, it is possible to estimate the potential impact of AI. While the studies mentioned above are based on the US experience, they allow for scenario analysis to project the potential gains in emerging markets if they, too, were to capitalise on AI technologies.

Back to the basics

To build technologically focused economies three main ingredients are required, and these are all currently in short supply on the continent. The first is access to reliable energy. Africa has a chronic energy shortage and even the main digital powerhouses in Sub-Saharan Africa – South Africa, Nigeria and Kenya – are unprepared to provide the power needed for a digital future, including the energy needed for data centres. South Africa's reliance on ageing coal-powered infrastructure and Nigeria's dependence on diesel generators are particularly problematic from a broader environmental sustainability perspective. Although Kenya has fared somewhat better on using renewable energy, it still has regular power blackouts, and in December 2023 government officials hinted at rolling out South Africa-style "load shedding" as

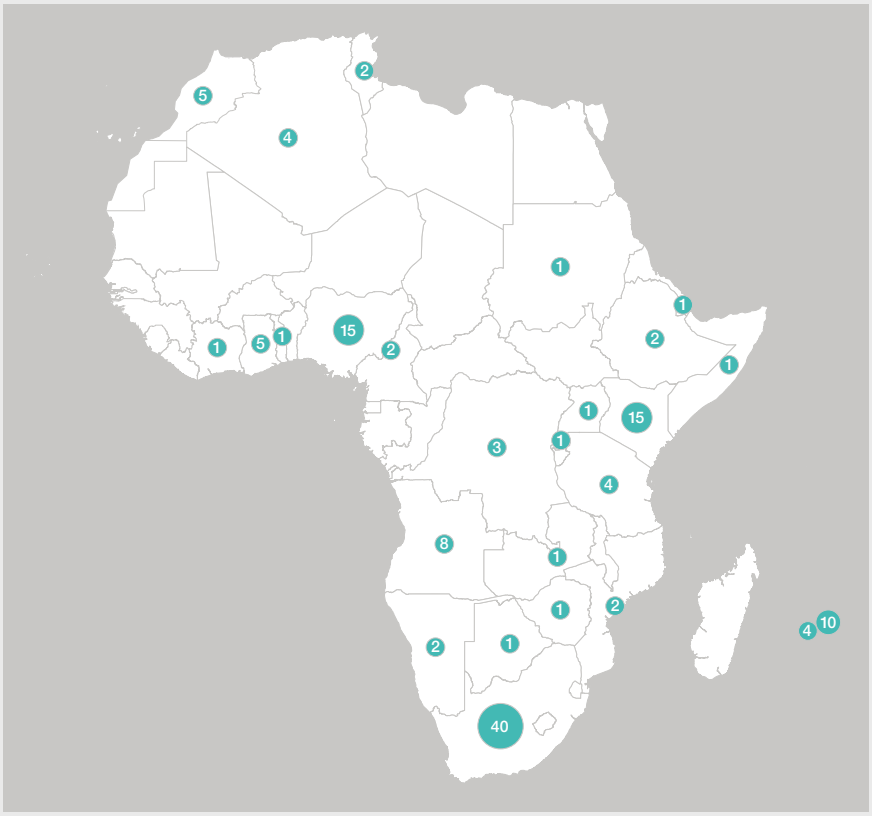
Fig.13 › Expected impact of AI on GDP growth forecasts

GDP growth forecasts in baseline vs full AI benefit scenarios, 2025–50



Source: Oxford Economics Africa

Fig.14 › Number of data centres per African country (as of September 2024)



Source: DataCenterMap/OpenStreetMap

it struggles to meet the rising demand for power. There is some optimism that critical energy gaps are being slowly plugged and perhaps will be eliminated in the coming decades. It remains to be seen whether this will occur in time for countries to capitalise on the emerging tech wave.

The second key ingredient is skilled labour. Despite significant investments and improvements in education systems, secondary and post-secondary education is still limited in many African countries. The GSMA study on AI in Africa highlights that even where countries and universities have AI and technology-related courses, their curricula are often quickly outdated as the technology field moves so rapidly. This is in part also due to the fact that there is a shortage of teachers and lecturers with enough experience to teach students in these fields. As a result, even where courses are available, university graduates' skills often do not match the requirements of the fields they seek to work in.

Private sector companies, including global technology giants such as Google and Microsoft, are working with governments and institutions to address these challenges with skills and training programmes. However, there is still much to be done in upskilling African youths to prepare them for the adoption of new technologies.

A final crucial element in the development and accurate deployment of AI, and generative AI in particular, is data. As many government services on the continent remain stubbornly paper-based, governments do not have the ability to use and deploy data models to effectively allocate resources as some of their counterparts in advanced economies are currently doing. Moreover, the large number of languages spoken across the continent contrasts significantly with the fact that most AI developments are dominated by English-language projects.

There is therefore a risk that AI technology developed to solve problems in advanced economies will be deployed in Africa without the appropriate contextual information. For example, research from the Carnegie Endowment for International Peace in January highlights how AI is being used by some African banks to determine the creditworthiness of individuals and companies. In rural African contexts where community or collective savings and lending schemes – such as women's and farmer's groups – are more common, an individualistic approach to determine creditworthiness may not be a useful measure.

Similarly in the healthcare space, AI models are often based on data collected from patients and trials in advanced economies, thereby missing out on crucial local information. The NGO Stop TB in 2023 noted that current AI models cannot distinguish between tuberculosis (TB) – a pulmonary infectious disease responsible for thousands of deaths annually on the continent – and silicosis, which is caused by inhaling dust and is common among mine workers.

Amplifying biases, replicating problems

Left unchecked and unregulated, AI could exacerbate existing challenges and imbalances. Governments have in the past used the personal data of individuals to track and target vocal critics, and AI applications could be similarly deployed. Generative AI tools are likely to be used by political factions to flood social media with mass-produced propaganda or deepfakes, which weak media regulators are currently ill-equipped to fight. In contexts where ethnic or sectarian divides exist, there is also a risk

that models developed reproduce the biases of the developers, resulting in resources being prioritised for the benefit of specific political or ethno-regional constituencies. This is especially the case if data deliberately neglects or excludes certain groups, including minorities or transient (pastoralist) groups.

As is the case elsewhere in the world, AI-related security risks are also growing. Criminals have rapidly adopted generative AI tools to enhance their tactics and conduct attacks, particularly leveraging AI tools to improve social engineering lures, with multiple global examples of deepfake-enabled fraud resulting in significant losses for victim organisations. The democratisation of generative AI globally will continue to lower the barriers to entry for less sophisticated cyber threat actors, including groups native to the continent, and increase the speed and scale of attacks. As such, the use of AI to commit financial fraud and identity theft is likely to increase in the coming years, especially as consumer awareness of these tactics is not particularly strong in remote and rural contexts.

In the coming years, more sophisticated and disruptive threats – including ransomware – are likely to continue to increase across the continent, while growing digitalisation will increase the potential disruptive impact of such attacks. South Africa's Transnet – the country's port and rail operator – and Kenya's government services portal e-Citizen both suffered a major attack in 2021 and 2023, respectively. These attacks caused severe disruption in both countries even prior to the more widespread availability of AI tools. With criminal and non-state actors' growing access to more sophisticated tools, governments will be required to significantly bolster their cyber security defences.

Future focused

Many civil society groups are actively engaging their governments and international partners to ensure that governments both regulate AI and emerging technology broadly, but also do so in a transparent manner and with their specific contexts in mind. Global technology companies are also playing a more active and supportive role in this regard – perhaps in contrast to the more fractious relationships they often have with regulators and governments in advanced economies. There are several ongoing tech company-government partnerships related to AI in Africa, while global companies including Meta have made some of their language learning models publicly available for African developers to adopt and use.

The critical need to bolster the infrastructure – from power to fibre optic networks to data centres – required to advance the adoption of AI also presents an enticing opportunity for businesses in the energy and telecoms space. Governments will be welcoming of private investors, particularly as they remain mindful of their limited ability to expand the related infrastructure in the context of their strained budgets.

Organisations in the tech space will also find African governments largely supportive of AI-related pilot projects, particularly those with a development-impact focus. African governments will aim to strike a balance between allowing innovation and preventing consumer exploitation in the coming years. In the interim, however, companies will need to be mindful that the existing framework for regulating AI will remain fragmented, thereby making multi-country projects more complex.

A technology expert presenting a seminar on Python computer coding

Annex 1

Fig.15 › 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 3.3% 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 2.2bn 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 2024 scores and changes from the September 2023 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 2023	Sep 2024	Change since last edition*	Sep 2023	Sep 2024	Change since last edition**	Overall variation
Algeria	4.18	4.08	-0.10	5.85	5.85	0.01	-0.11
Angola	4.39	4.64	0.24	5.68	5.77	0.09	0.15
Botswana	4.02	4.10	0.08	3.71	3.44	-0.27	0.35
Cameroon	4.68	4.60	-0.08	6.53	6.52	-0.01	-0.07
Côte d'Ivoire	5.89	5.59	-0.30	5.56	5.36	-0.20	-0.11
DRC	5.88	5.65	-0.23	7.53	7.60	0.07	-0.30
Egypt	5.55	5.65	0.10	6.30	6.01	-0.29	0.39
Ethiopia	6.04	5.94	-0.10	7.64	7.70	0.07	-0.16
Ghana	5.05	5.37	0.32	5.90	5.94	0.04	0.28
Kenya	5.33	5.25	-0.07	5.80	6.06	0.26	-0.33
Malawi	3.68	3.93	0.24	5.67	5.50	-0.17	0.41
Mauritius	3.55	3.50	-0.05	3.52	3.22	-0.30	0.25
Morocco	5.00	5.19	0.19	4.13	4.01	-0.12	0.31
Mozambique	4.44	5.34	0.89	6.62	6.47	-0.15	1.04
Namibia	3.46	3.43	-0.03	4.42	4.00	-0.42	0.39
Nigeria	5.42	5.43	0.01	7.75	7.66	-0.09	0.10
Rwanda	4.75	4.40	-0.35	5.46	5.11	-0.35	0.00
Senegal	6.01	5.27	-0.74	4.98	5.03	0.05	-0.79
South Africa	4.06	4.24	0.18	5.06	5.05	-0.01	0.19
Tanzania	5.76	5.81	0.05	5.35	5.37	0.02	0.03
Tunisia	2.89	3.11	0.22	5.45	5.16	-0.29	0.51
Uganda	6.15	6.31	0.16	6.35	6.01	-0.34	0.50
Zambia	4.21	4.23	0.01	5.73	5.68	-0.05	0.07
Zimbabwe	2.21	2.27	0.06	7.75	7.79	0.04	0.02

* 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.16 › How we can help

Risk assessment

- Measure full risk impact, including severity, speed and timing
- Assess spillover effects on countries, markets and risk categories

Benchmarking and modelling

- Identify traditional and non-traditional risks that could affect your business
- Determine risk linkages, such as those between economic, political and financial events

Scenario analysis and stress-testing

- Gauge vulnerability to future risks and assign probabilities
- Forecast the impact of alternative economic and political events on strategies and investments

Horizon scanning

- Spot emerging risks and forecast new ones through early-warning systems
- Compare changes in the global risk landscape

Control Risks

Control Risks is a global specialist risk consultancy that helps to create secure, compliant and resilient organisations. Combining unrivalled expertise, experience and reach with the power of data and technology, we provide the insight and intelligence needed to stay on track, realise opportunities and grow.

Our clients across the world come to us with a fascinating range of challenges and opportunities. Bringing together multiple skill sets, nationalities, backgrounds and outlooks, our teams are built for the world our clients work in. Control Risks is positioned to help you wherever and whenever required.

We keep opportunity moving forward and support organisations to benefit the communities and environments they work in. Through insight and experience, we help to mitigate threats, whatever form they take. In a changing world, we make the difference.

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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

Our partnership

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 nearly 50 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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