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Ten Key Issues to Watch in Africa in 2018

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In this blog, Covington's Africa practice highlights ten key issues to watch in Africa in 2018.

1. **U.S. Policy:** The derogatory remarks that President Trump made about Africans and Haitians, which he denies having said, create a negative image for the U.S. across the region as the year begins. Nevertheless, the administration will push forward on several fronts. Commerce Secretary, Wilbur Ross, is expected to visit Sub-Saharan Africa in the first quarter of 2018 along with members of the Presidential Advisory Committee on Doing Business in Africa (PAC-BIA), an Obama-era initiative continued under Trump. Secretary of State, Rex Tillerson, may also visit the region. As we analyze here, the Administration's National Security Strategy focuses on combatting corruption in Africa, moving toward

more reciprocal trade relationships and modernizing development finance tools. On January 17, 2018 the House passed the African Growth and Opportunity Act (AGOA) and Millennium Challenge Account (MCA) Modernization Act. The bill will provide technical assistance to help eligible partners fully utilize AGOA and, perhaps most significantly, enable the Millennium Challenge Corporation to enter into concurrent, regionally-focused compacts to promote trade among eligible partner countries. The bill is now in the Senate and will likely be passed later in the year.

2. **Anti-Corruption:** Next week the African Union will meet for its 30th Summit, with the theme "Winning the Fight Against Corruption: A Sustainable Path to Africa's Transformation." Consistent with this focus, anti-corruption initiatives are on the rise throughout the continent. For example, Angola's new president, João Lourenço has taken swift and decisive actions to root out nepotism and corruption. In December 2017, he changed the leadership of nine public utilities and companies, including oil and gas producer Sonangol and the diamond mining company Endiama. The election of Cyril Ramaphosa as president of the African National Congress and the prospective state prosecution of companies involved in the sprawling "state capture" investigation are likely harbingers of a continued focus on anti-corruption enforcement in South Africa in 2018. The extraterritorial application of the Foreign Corrupt Practices Act ("FCPA"), as well as other foreign anti-corruption laws such as the U.K. Bribery Act, is well-established. The extent to which the effort of African governments to fight graft will result in an increase in FCPA enforcement activity related to the continent is something to watch over the course of the year. Against this backdrop, corporates would be well-served to focus on developing and maintaining anti-corruption compliance programs.

3. **Project Finance:** Project Finance projects in Africa are likely to increase in 2018, especially in energy/power and transport sectors. For example, spending on electricity production and distribution in Sub-Saharan Africa is expected to reach $5 billion by 2025. The Power Africa initiative launched by former President Obama, and continued by the Trump Administration, is expected to contribute significantly to increased investment in infrastructure projects. The initiative's 150 public and private sector partners have already mobilized $14 billion in actual investment in the 85 Power Africa projects that have reached final close, which will add more than 7,000 megawatts of new power generation. Additional finance is expected from China, India, and Japan. Sub-Saharan Africa's wealth of natural resources, particularly in the oil and gas sector, will continue to attract investors. Infrastructure spending for petroleum and natural gas extraction is expected to grow at an average annual rate of 7.1 percent between now and 2025, resulting in a total investment of $8 billion over that time period. Notably, funding models are changing in Africa, and models such as public-private partnerships (PPPs) are to become more prevalent. However, in the energy sector, the preferred model of funding remains privately financed Independent Power Producers. Larger state-owned companies in South Africa have made progress in issuing bonds to raise capital, but with South Africa's sovereign credit rating under pressure, debt capital raising by smaller State Owned Enterprises (SOEs) may prove challenging.. The African Development Bank is expected to continue to provide a platform for bridging finance, direct

loans and loan guarantees supporting infrastructure financing. Southern Africa will account for the largest share of infrastructure spend and capital project activity on the continent, and most of the activity is likely to occur in the South African energy sector. Other important investment destinations include Angola, Ghana, Nigeria, and Mozambique.

4. **South Africa:** There is a palpable sense in South Africa that the country has turned a critical corner in the fight against government corruption with the election of Cyril Ramaphosa as president of the ANC. Ramaphosa's 2018 agenda is significant: root out the corruption tied to President Zuma by prosecuting individuals and entities implicated by Guptagate, restore the reputation of the ANC as a genuine party of the people, and revive South Africa's economy. Ramaphosa must also prepare for a decisive election in 2019 while delivering on job creation and managing the tension between market-based land reform and expropriation. An early indicator of Zuma's fate will be whether he delivers the February 9 State of the Nation address to Parliament; the expectation is that Zuma will be forced out of office over the near-term. It's more a question of when, not if. Analysts will also be watching to see how Ramaphosa will revitalise the State Owned Enterprises (SOEs) and whether he will act against executives in the country's key SOEs, who have become widely regarded as having facilitated "state capture."

5. **Angola:** President João Lourenço continues to move forward on the reforms he initiated immediately upon assuming the presidency. The government has announced plans to tap the Eurobond market, probably by June, and it announced that it will repay contractors $5 billion of arrears by 2019. The government has also published a mid-term national development plan (2018-2022) that identifies 88 actions it will take to reform the economy. Key actions include strengthening the financial sector and assessing the vulnerability "of every and any" commercial bank. Whether the government seeks a deal with the IMF to support its reform efforts will be an important issue to watch in 2018.

6. **Zimbabwe:** One of the most pressing questions facing the new government in Zimbabwe is whether it can hold "free, credible, fair and indisputable" elections, as President Emmerson Mnangagwa has promised. Mnangagwa has said electoral observers from the EU, the Commonwealth and the UN would be invited to monitor the polls, a welcome departure from Mugabe's refusal to allow international election observers. Whether the more than 3 million Zimbabweans in diaspora will be able to vote will be important to the credibility of the elections. The success of the elections will have an important bearing on whether the international community is willing to support an economic reform package, which the government needs desperately. Finance Minister Patrick Chinamasa has announced a bold economic reform program which he hopes will lead to 4.5 percent growth in 2018; how he deals with government spending, the country's $1.8 billion to the IMF, agricultural and civil service reforms will be key early challenges.

7. **Nigeria:** With presidential elections scheduled for early 2019, political jockeying will intensify in 2018 with a prime focal point being on President Buhari's health and whether he will stand for reelection. Elections for

governorships in Ekiti (July) and Osun (September) will be important indicators of the preparedness of the Independent National Electoral Commission (INEC) to manage next year's presidential elections. The government's action on the enduring challenges of corruption, petroleum shortages, and unreliable access to power will continue to dominate the political debate. Economic growth is expected to accelerate to 2.5 percent (it was 1 percent last year). This growth will be spurred by improving oil prices and reforms in the financial, manufacturing, and other sectors.

8. **Kenya:** Warning that "lingering political uncertainty can further undermine business confidence and stunt a robust recovery," the World Bank has downgraded its 2018 growth forecasts for Kenya from 5.5 percent to 4.9 percent. Political turmoil during the 2017 elections caused corporations to take a cautious approach to Kenya and delay investments. Healing the ethnic divisions that divide Kenya, rooting out endemic corruption, and addressing drought that has caused food prices to spike are just a few of the challenges facing President Uhuru Kenyatta. Initiatives to foster lasting reconciliation among Kenyans and regaining the confidence of investors will be key challenges for Kenyatta in 2018.
9. **Mobile Money:** Mobile money will continue to grow throughout 2018 as a significant engine of economic growth and inclusion, perhaps faster in Africa than in any other region. Currently, there are 277 million mobile money accounts and 177 million bank accounts in Africa and 30 countries have enacted mobile money enabling regulation in Sub-Saharan Africa. Since 2011, there has been a ten-fold increase in the number of mobile money agents reaching approximately 1.5 million, creating a range of opportunities for small and medium enterprises.
10. **Business and Human Rights:** Companies with operations in Africa should track the following legal developments in 2018. Legislative proposals in states including Australia, Netherlands, and Hong Kong may, if passed, impose additional modern slavery and child labor reporting and due diligence obligations on relevant companies with respect to their global operations and supply chains, including on the African continent. Also, coinciding with the increased promotion of "access to remedy"—the third pillar of the UN Guiding Principles on Business and Human Rights—recent judgments in the UK and Canadian courts have seen claims allowed to proceed against UK/ Canadian headquartered companies in respect of alleged human rights offences connected to their foreign subsidiaries in Zambia and Ethiopia. Judgments on the merits are pending. Companies should consider appropriate risk mitigation strategies and measures.

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