AFRICA: SPECIAL FEATURE: SUPPLY CHAIN RISK IN AFRICA

Transport logistics are a vital and promising sector for business in Africa. However, traversing land, sea, and air routes across the continent comes with a plethora of political and security risks. EXX Africa explores the key concerns in this regard, their manifestation, impact, and outlook.

Doing business in Africa is beset with a number of political and security risks. Recent research by Aon reveals that 70 percent of countries in sub Saharan African are currently at risk from strikes, riots, and other types of civil unrest while 25 percent are at risk from sabotage and terrorism. Although government assets are most frequently targeted during such events, these risks ultimately affect the viability and profitability of private entities and investments as well.

The latest Emerging Markets Logistics Index, which ranks 50 emerging economies across the world, places these concerns in the transport logistics sector. Agility Logistics produces this index. Rankings are pulled from data from institutions such as the IMF, the OECD, the World Bank, the UN, and the WEF, among others, and is supported by a survey of trade and logistics industry professionals. Findings from the 2018 Index reveal that many of the top supply chain risks in sub Saharan Africa relate to political and economic
concerns, with industry professionals citing corruption (23 percent), government instability (18.3 percent), terrorism (9 percent), and piracy (4.1 percent) as major risks. In North Africa, terrorism (43.8 percent) and government instability (19.9 percent) together represent almost two thirds of the primary concerns.

A similar long-term study by Willis Towers Watson echoes these findings. Its 2016 Transportation Risk Index, compiled from data and insights derived from 350 interviews with executives in the sector, noted that the number one long-term (up to ten years) megatrend for logistics across the continent concerned geopolitical instability and regulatory uncertainty.

Such political and security risks tend to affect transport logistics across the continent in three ways: border closures or delays, the targeting of state assets, or the targeting of private assets. We explore each of these manifestations, identifying their major trends, impact and outlook below.

**Border closures and delays**

Government and geopolitical instability frequently result in the planned or unexpected closure of land, sea and air routes, affecting the movement of goods and services. Such closures most often arise as a result of a change in government – whether by democratic or undemocratic means – or as a result of bilateral tensions between neighbours.

Election periods pose one of the primary threats in this regard. Even votes deemed free and fair, and organised by democratically elected governments can cause disruption. During the General Elections in Nigeria in February 2019, for example, the government announced the closure of all borders and implemented various restrictions on vehicular movements for the voting weekend. A similar elections-related border closure took place in December 2018 when the Democratic Republic of Congo (DRC) closed its borders with its nine neighbours as it held its long-awaited polls.

Unexpected changes of power, such as via an insurrection, coup, revolution or rebellion, further results in risks to the logistics sector and induces high levels of uncertainty. During the successful removal of President Omar Al-Bashir in Sudan in April 2019, following weeks of anti-government protests, the transitional military council closed the country's airspace for 24 hours as well as all border crossings until further notice.

Unsuccessful attempts at regime change can also result in panic, as witnessed in January 2019 when Gabon suddenly closed its border with Cameroon following an attempted coup against President Ali Bongo. All cross-border trade ground to a halt forcing local businesses to divert their goods to Equatorial Guinea.

Poor bilateral relations can further limit the flow of goods and services. While there are some known long-standing tensions between neighbours that have resulted in border closures, such as between Morocco and Algeria (ongoing for 26 years) and Ethiopia and Eritrea (borders have closed again despite a peace deal in July 2018), emergent socio-political developments can cause abrupt stoppages to cross-border commerce as well. In February 2019, Rwanda unilaterally decided to close its busiest border with Uganda over mutual allegations of threats to national security. The decision not only affected bilateral trade but impacted trade to Burundi, the DRC and Zambia as well. One month later, borders were again closed in Southern Africa, this time between South Africa and Mozambique following xenophobic attacks in Kwa-Zulu Natal province. During this incident, a crowd of around 200-300 Mozambicans barricaded the N4 and began targeting trucks with South African license plates.

**Targeting of state assets**

Beyond broader political threats and the closure of borders, the logistics sector is often impacted by security-related incidents in which non-state actors target key state infrastructure assets. Such incidents may emerge during acts of militancy, labour unrest or sabotage.

The strategic importance of a country's infrastructure – particularly its ports - often renders these assets prime targets for militant attacks and activity. This has been demonstrated repeatedly in conflict zones over the past 12 months, with attacks reported against sea and
air ports in Somaliland (Bosaso Port), Somalia (Mogadishu International Airport), Libya (Ras Lanuf and Es Sider Ports, and Mitiga International Airport), Niger (Diffa Airport), and Mali (Sevare Airport). Militants may even attempt to seize such assets for political leverage. In March 2019 in the Central African Republic, a local rebel group stationed at the border post with Cameroon blocked cargo to impede commercial traffic in an attempt to force the government to include them in the newly formed government.

The economic importance of logistical infrastructure further incentivises established worker unions to target such assets during labour disputes and negotiations. In this instance however, disruptive events are not limited to conflict zones but can be found across all countries, including the major economies. In a 2019 survey on supply chain risk management in South Africa, all 20 participants identified socio economic factors, such as labour unrest, as a key source of vulnerability. South Africa has also been impacted by frequent incidents of sabotage within the logistics sector, with arson and derailment attacks having recently been carried out against both its passenger and cargo rail services.

**Targeting of private entities**

Political and security risks may also affect private commercial entities and their assets directly as well. One of the primary security threats in this regard is posed by piracy. While this threat is location and sector specific, its impact is significant - particularly
considering that 90 percent of African imports and exports are moved by sea. According to the 2018 Oceans Beyond Piracy report, in East Africa alone, the annual cost of maritime piracy was estimated at USD 1.4 billion in 2017 (down from USD 7 billion in 2010) while in West Africa it was estimated at USD 818 million (up from USD 719.6 million in 2015).

Most concerning, according to the latest statistics released by the International Maritime Bureau, the threat from piracy is increasing in West Africa. Since 2014, there have been approximately 250 actual and attempted attacks in the Gulf of Guinea, with a 70 percent increase in incidents being reported between 2017 and 2018 alone. This surge is expected to result in associated rises in the cost of maritime business, particularly with regard to insurance. In 2017, the total costs of additional premiums incurred by ships transiting the Gulf was calculated at USD 18.5 million. Moreover, it was estimated that 35 percent of all ships now take out Kidnap & Ransom insurance, totalling USD 20.7 million.

Companies operating in the transport logistics sector are also frequently targeted by corrupt individuals. The sector remains particularly vulnerable to corruption given its close engagement with customs officials who are often underpaid and look to increase their wages through opportunistic facilitation payments. Extensive red tape and delays further amplifies this risk: according to the African Development Bank, the average customs transaction across the continent could involve 30-40 different parties. In addition to increasing commercial operating costs and affecting intraregional and international trade, such corruption at ports of entry and exit frequently facilities a range of illicit activities as well, such as the smuggling of people and goods, and tax evasion.

INSIGHT

Despite these challenges, there remain sound opportunities for transport logistics in Africa. Egypt, Morocco, Algeria, Tunisia, Libya, South Africa, Nigeria, Ethiopia, Ghana, Tanzania, Uganda, Kenya, Mozambique, and Angola all featured within the Emerging Markets Top 50 Logistics Index last year.

Looking more closely at the data, Egypt and Ethiopia were identified as having made significant strides in the logistics sector. The improvement in business conditions in Egypt, including the reduction in business costs associated with crime, violence and terrorism, has been identified as one of the primary reasons for it jumping six places in the index last year – the most of any country. Similarly, Ethiopia’s goal to become a low-cost manufacturing and textiles hub along with the opening of Africa’s largest cargo terminal in Addis Ababa has attracted much attention. However, ongoing security concerns, especially the threats posed from ethnic conflicts and terrorism along border areas with Somalia and Kenya, were identified as setbacks.

In another promising development, South Africa, Nigeria, Egypt, and Kenya were identified within the pool of countries that have the most potential to grow as logistics markets within the next five years. However, sub Saharan Africa’s two largest economies – South Africa and Nigeria – each fell down the index, with Nigeria falling seven spots. Both countries were nevertheless identified as turning a corner, particularly with regard to corruption and political instability and uncertainty in 2019.

As demonstrated above, supply chain risks vary wildly from country to country across Africa. From isolated events that cause single points of impact (such as a militant attack), to ongoing events that generate a localised yet sustained impact (such as strikes), to all-encompassing events (such as a coup), companies in the transport logistics sector are advised to stay abreast of political and security dynamics to navigate and forecast their threat environment. In addition, transport logistics should consider using political risk insurance to insulate their operations against disruption.