# Doing business in Sub-Saharan Africa is getting riskier

With the slump in global commodity prices and the slowdown in emerging markets continue to weigh on export revenues and fiscal positions of key companies in the region, operational risk for companies doing business in Sub-Saharan Africa is on the increase.

Andre Coetzee

Supply chain risk in Sub-Saharan Africa worsened from 5.526 points to 5.544 during the second quarter of 2016, as measured by the CIPS Risk Index, powered by Dun & Bradstreet. Global supply chain risk climbed to 80.8 in the second quarter of 2016, which is amongst the highest levels since records began in 1995. This continued the worsening trend in global risk which has been following this trajectory since the fourth quarter of last year. The Index, produced for the Chartered Institute of Procurement & Supply (CIPS) by Dun & Bradstreet economists, tracks the impact of economic and political developments on the stability of global supply chains.

Sub-Saharan Africa's contribution to the overall CIPS risk index increased slightly from 2.47 in the first quarter to 2.50 in the second. Lower commodity prices have placed pressure on the tax revenues of governments in Sub-Saharan Africa – including South Africa.

André Coetzee, managing director, CIPS Africa said: "The weak global growth environment and especially the slowdown in the Chinese economy will continue to weigh on growth in Sub-Saharan Africa in the near term. As China continues its transition from an investment-led to a consumption-driven economy, its demand for African commodities will weaken even further.

"This can hamper crucial public sector spending on categories like infrastructure, education, and healthcare. A comprehensive policy response could help South Africa and the region weather the latest period of sub-par growth, positioning us to accelerate over the medium term."

## Brexit's impact on supply chains across the region

Amid sluggish growth across developed and emerging market economies in the second quarter, the UK's vote to leave the EU at the end of June marked an unprecedented event that is expected to have a reverberating effect on supply chains in the region, and also across the rest of the world. Brexit's immediate impact on Sub-Sahara Africa has been limited in the wake of the UK's referendum vote, but could increase uncertainty.

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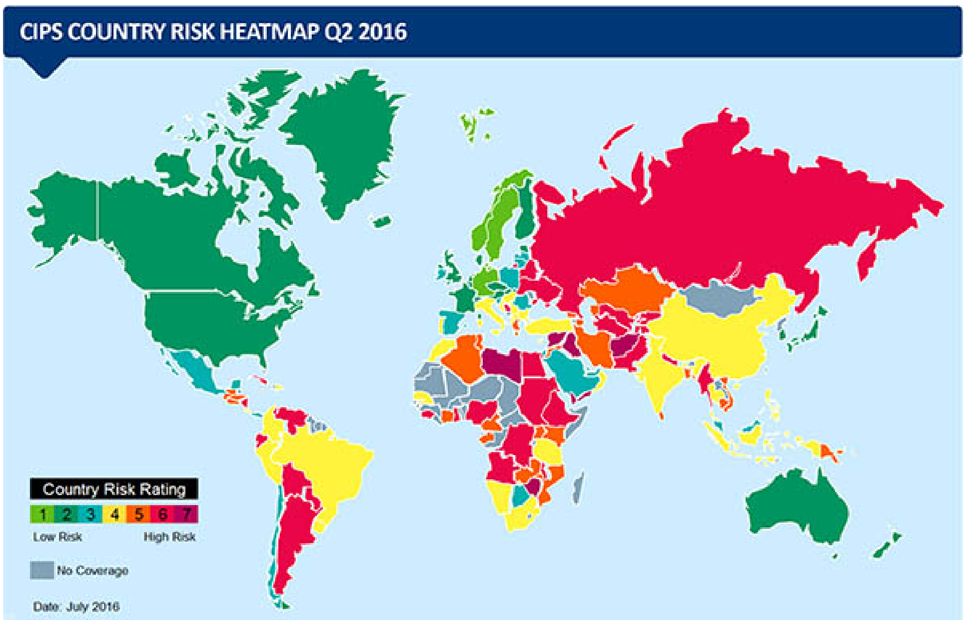
At a global level, the Brexit vote underlines concerns about a wider shift towards protectionism in global trade policy. In France, the UK vote has given a boost to the Front National which is campaigning for more economic protectionism; the party also wants to hold an EU membership referendum. A victory for Marine Le Pen, the party's leader, in the parliamentary and presidential elections next year is an unlikely scenario, but if it happens, it could lead to another sharp rise in supply chain risk.

In the US, the presidential election shows that a significant proportion of the population feel that global trade has not been in their interest. While the US risk score remained stable in the second quarter, the outlook is uncertain. If Donald Trump wins, he is likely to seek to increase trade barriers with countries such as China and Mexico, two countries at the top of the global manufacturing food-chain. This, in turn, will have a significant impact on global supply chain networks.

Likewise, the partial recovery in oil prices in the second quarter took some pressure off oil-producing countries in the Middle East and North Africa. This, however, has not been strong enough for governments to revise plans to slash public spending. At the same time, the threat of political uncertainty and presence of Islamic State continued to increase the difficulties businesses endure, amplifying supply chain risk. Overall, the Middle East and North Africa's contribution to the CIPS risk index increased slightly from 7.25 in the first quarter to 7.37 in the second.

## Global supply chain risk Q2 2016



John Glen, CIPS economist and director of the centre for Customised Executive Development at The Cranfield School of Management said: “The UK’s departure from the EU could lead to some of the most dramatic shifts and severe implications for global supply chains in the coming years. While the full impact of the 'leave' vote is still unfolding, the confusion and uncertainty surrounding the current situation have already driven supply chain risk to a worryingly high level.

“In these volatile times, businesses must develop bespoke contingency plans for possible scenarios. This must start with gaining clear visibility of the supply chain in order to accurately assess emerging risks. The next step would be to ensure supply chains are agile and flexible to adapt and react quickly to changes and disruptions.

“In the short term supply chains will be exposed to exchange rate volatility risks which may be difficult to hedge. It may, therefore, be appropriate to crystallize exchange rate exposure by paying suppliers ahead of contracted payment days to avoid any further exchange rate downside risk. In the longer term, measures such as dual sourcing of key components should be considered so that, where practical, key supplies are not purchased exclusively from Europe. Businesses should also consider more local sourcing, to avoid a potential rise in costs of key supplies imported from overseas. In the end, businesses may need to rebuild their distribution channels to match the new trade map.

“While there is a lot of uncertainty, we need to avoid talking ourselves into a recession. This requires business leaders and politicians to develop a narrative which outlines actions that can be taken to meet the economic challenges which the UK faces as a result of Brexit. At the moment Governor Mark Carney and the Bank of England are lone voices in trying to provide this narrative and they require broader support.”

Bodhi Ganguli, lead economist, Dun & Bradstreet, says “The global operating environment remains high-risk, reflecting the slowdown in emerging markets and the failure of developed economies to embark on a robust recovery. The weak oil price, in particular, and weak commodity prices in general have, to date, had a far more visible effect in reducing growth in oil- and commodity-exporting countries than in stimulating consumption and investment elsewhere. Political and economic uncertainties, such as the extent of the growth slowdown in China, emerging markets’ financial vulnerabilities, the impact of terrorism on cross-border movements, and the fallout from Brexit, continue to weigh on global business sentiment.”