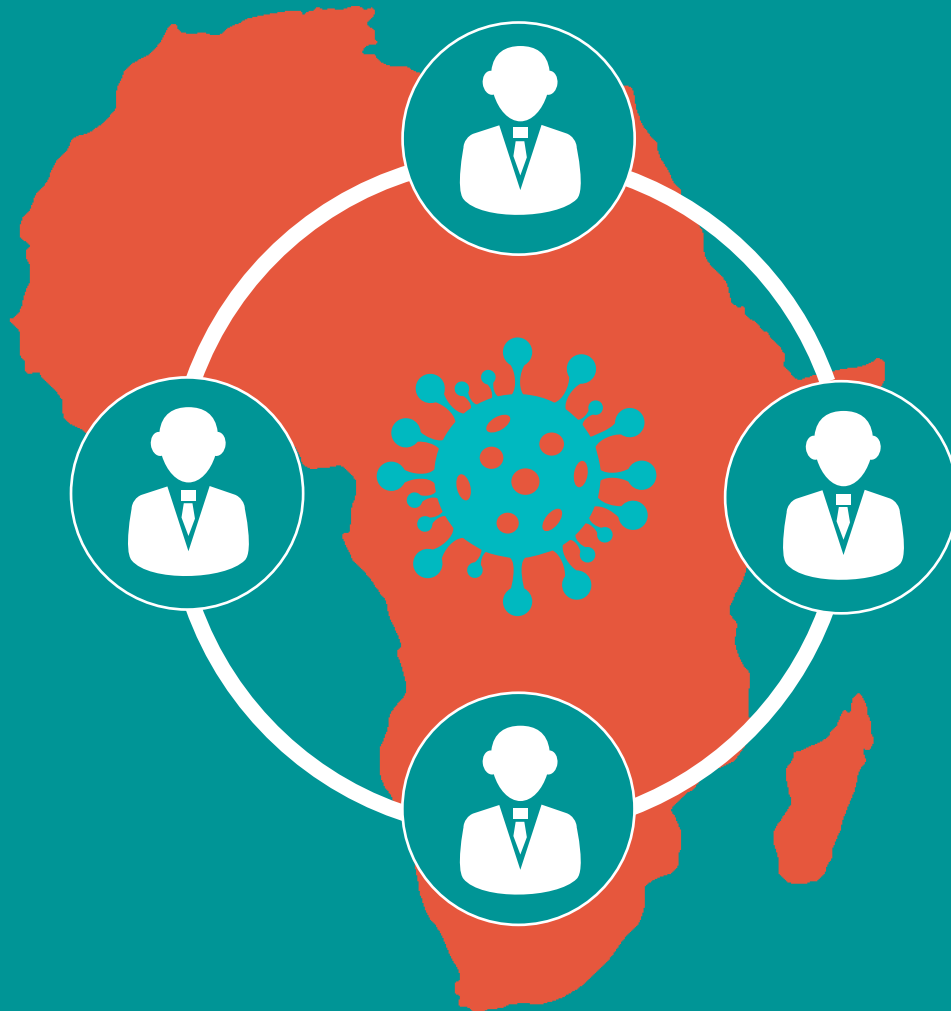


WHITEPAPER

A NEW BUSINESS ENVIRONMENT IN AFRICA: UNDERSTANDING THE POST-COVID-19 CONTEXT

AN ALTERNATIVE SCENARIOS APPROACH

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JANUARY 2021





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Introduction

Doing business in Africa has always required a heightened level of agility and responsiveness from business. The Covid-19 pandemic has highlighted fault lines and the vulnerability of the continent, and exposed structural weaknesses within regions and countries. This is exacerbated by the fragility of the global economic, social and political order. These global changes and African challenges present a new and evolving landscape for business. “The crisis presents an opportunity for Africa to reset its development trajectory and focus on efforts to improve its competitiveness” (Games, 2020, para. 2¹). Businesses operating across the continent need to respond to these challenges and seek opportunities arising from the economic instability on the continent.

The Covid-19 pandemic has had a particularly stark impact in Africa, where the majority of the population depends on the informal sector for their livelihoods, the measures to mitigate against infection have had limited success. This has resulted in increased food insecurity, and job losses in vulnerable sectors such as tourism, transport and entertainment. Across Africa, the pandemic’s global recessionary effects have resulted in deep downturns, especially in nations dependent on commodity exports. Our analysis shows that these impacts will be felt in the medium-term, and are likely to lead to constrained market conditions, spur an increase in state-led efforts at development, and produce waves of social discontent and populist calls for fundamental social redress. However the Covid-19 induced changes also present an opportunity for business to revise existing practices, to forge new partnerships, and to accelerate trends in business to contribute in a meaningful way to development on the continent.

This study sought to engage with a number of stakeholders and experts across the African continent and globally, to consider various scenarios and the impact that Covid-19 may have on the continent. Making use of the environmental scanning method, stakeholder dialogues and the Delphi technique, we derived three scenarios at the continental level. These are a high-road, middle-



road, and low-road scenario. The ‘high-road’ scenario posits that Covid-19 catalyses change, bringing together government, business, and civil society. This response delivers reform and improved transparency in governance, drives economic diversification and innovation. The ‘middle-road’ scenario allows for some gains in supply chains and innovation, and governance improvements, while business is required to manage slower economic growth and rising social pressures. Finally the ‘low-road’ scenario examines the potential of repeated waves of lockdowns and associated negative economic impacts, hobbling governments and economies, driving up poverty and instability, hostile corporate activity and exacerbating existing socio-political challenges.

Businesses operating in Africa will be faced with new challenges and opportunities as countries and markets open, readjust and seek to recover from the health, socio-political, and economic impacts of the Covid-19 pandemic. Despite these issues, business has an opportunity to make a concerted effort to engage in responsible business practices and assist communities and governments in attaining their Sustainable Development Goals (SDGs).

*“Business is not an isolated institution that stands alone in some kind of moral free zone. ... We need to come to see business as embodied in the world ... We also need to see business as capable of transforming those constraints into new opportunities”*²
(Freeman, Martin & Parmar, 2020, p. 21).

¹ Games, D. (2020, June 15). Pandemic highlights importance of AfCFTA. *African Business*. <https://africanbusinessmagazine.com/in-the-news/afcfta/pandemichighlights-importance-of-afcfta/> Accessed 29 June 2020

² Freeman, R. E., Parmar, B. L., & Martin, K. (2020). *The Power of And: Responsible business without trade-offs*. Columbia University Press.



The Post-Covid Context in Africa

Across the continent, the SDGs provide a development roadmap for countries to pursue, as they seek to improve the livelihoods of their citizens. The target for attaining these goals is 2030, and there has been a concerted effort to working towards attaining these goals. However, these gains will be eroded to a greater or lesser degree, depending on the severity and duration of the Covid-19 pandemic. If the SDGs and other development priorities are neglected across the continent, the implications may be severe for business.

The Covid-19 crisis is a pandemic that affects the continent but is not of its making, yet the impacts are likely to be more keenly felt on the continent than elsewhere. In terms of socio-economic factors, there is a stark level of income inequality in parts of the continent, within and between countries. Lockdown measures designed to mitigate the spread of the virus are unlikely to be effective in often overcrowded urban centres, with dilapidated infrastructure. However lockdown severely constrains the ability of people to make a living and sustain themselves in familiar ways. Furthermore, there are large declines expected in remittances and declines in levels of Aid inflows - which will particularly hamper the recovery of the poorest of the continent's countries. Similarly, high levels of informal activity on the continent, coupled with declining government revenues, will lead to peoples' livelihoods coming under increased pressure.

Conflict and instability across parts of the continent continue to expose migrants and internally displaced peoples (IDPs) to increased risk of failing access to livelihoods. This places a strain on already burdened countries, potentially leading to increased cases of xenophobic violence and inter-cultural

conflict. Consequently, already fragile and strained economies will weaken, while militia groups fill the voids left by weak states and under-developed institutions. Therefore, the pandemic is a potential catalyst for clusters of crises to worsen, and accelerate in pockets on the continent.

Countries with higher levels of indebtedness are far more likely to suffer a slower economic recovery. This group of countries will be less likely to be able to provide short and medium-term stimuli to their economies, or to provide the required social grant assistance. This is further exacerbated by lower government revenues stemming from slower economic growth associated with the pandemic. It is expected that this will exacerbate the impact of pre-existing development problems such as food insecurity, political instability, and low levels of social capital across parts of the continent. We see high levels of debt in countries like Kenya, Ethiopia and Angola fuelled by large infrastructure loans. In addition the cost of debt servicing is significantly higher, relative to the USA and Europe, reflecting the poor credit ratings across the African continent (Mutize³, 2020). In light of the Covid-19 pandemic, there have been a number of calls for debt relief and, in some cases, cancellation, with signs of willingness to support these measures.

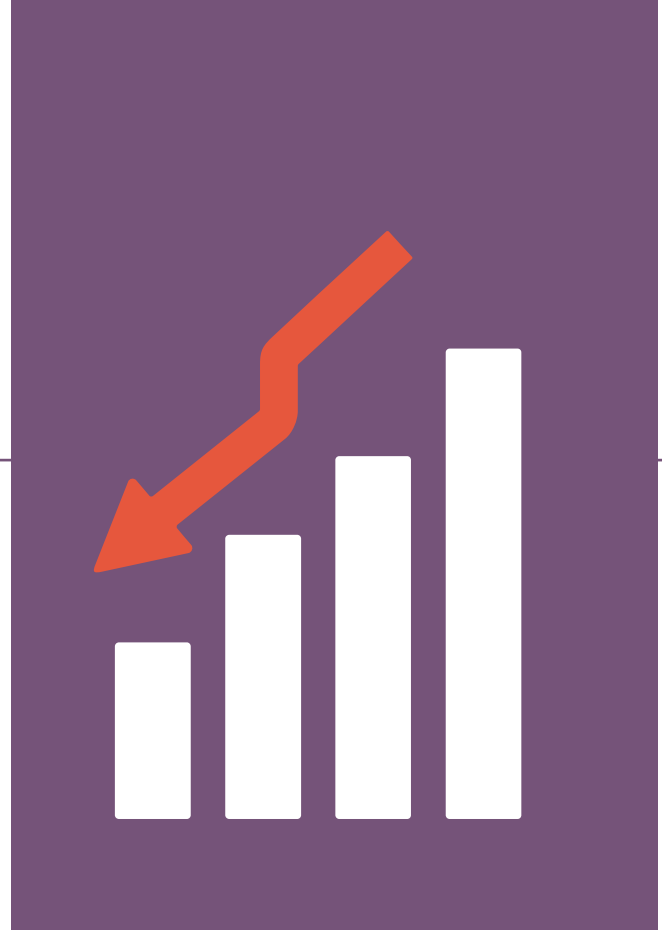
The Covid-19 pandemic has highlighted a range of weaknesses in African states' current development levels, and problems unaddressed over the previous two decades. The impact of Covid-19 on the African continent is characterised by a dichotomy. Wealthier countries, with more stable governments and a balanced socio-economic environment, will be more likely to have the required social and economic capital to mitigate

³Mutize, M. (2020, February 19). African countries aren't borrowing too much: They're paying too much for debt. *The Conversation*. <https://theconversation.com/african-countries-arent-borrowing-too-much-theyre-paying-too-much-for-debt-131053>

at least some of the worst effects of the pandemic. Across the continent, this dichotomy between more and less developed, stable, prosperous, and safe countries will become starker, with implications for business. Varied levels of fiscal space exist among states to respond to the pandemic and the knock-on socio-economic effects will impact business, and so increasingly due-diligence and research on countries and markets will need to be reassessed. As a consequence, business is likely to be seen increasingly as a vital partner in meeting some of the challenges in the markets in which they operate and leading economic transformation efforts. “As the expectations of companies continue to evolve, companies will need to evolve with those expectations” (FSG & Shared Value Initiative ⁴, 2020: 5).

Countries formerly experiencing rapid GDP growth levels and an increase in consumer markets, will struggle to regain these levels of growth, with obvious adverse implications for business. In addition, government revenues will decline, putting pressure on people’s livelihoods and their ability to cope. In the short term, companies doing business in Africa should support economic revival and boost employment, including protecting livelihoods and assisting with education. It is likely that business will be required to invest in education and training, and pay increased attention to gender imbalances. The Covid-19 pandemic has led to progress in education for many children being deferred and possibly compromised long-term, a factor which particularly impacts girls and women. In the long term, business should work in partnership with governments, international development agencies, and other stakeholders to craft and implement innovative policies and programmes that can deliver progress towards the same goals, but with reduced financial resources.

Many of these opportunities and structures for cross-sector collaboration have been established in the response to the Covid-19 pandemic, and can be redeployed to build towards



developing inclusive growth economies. From a governance perspective, increased engagement and cooperation between government institutions and other stakeholders, including civil society, may provide a roadmap and a ‘proof of concept’ of a new way of governing and moving forward in a collaborative and transparent manner.

Furthermore, the pandemic highlights a number of unmet societal needs which companies can direct their attention and resources to, in order to bring about positive change, lead to social value creation and improve businesses competitive positioning in the market⁵.

Despite the significant negative impact on people’s livelihoods and the economies of African countries, the Covid-19 pandemic also brings about a number of opportunities for business. The weaknesses exposed across countries have become more prominent and may catalyse a more effective response in future. “The presumed trade-offs between economic efficiency and social progress have been institutionalized in decades of policy choices. Companies must take the lead in bringing business and society back together.” (Porter⁶ & Kramer, 2011, p. 4). In the response to Covid-19, we see a number of solutions emerging to long-standing problems. Inequalities in the quality of education could be reduced through digital education, which has been accelerated due to the Covid-19 pandemic. In particular, public

⁴ FSG & Shared Value Initiative. (2020). *Purpose playbook*. <https://www.sharedvalue.org/resource/purpose-playbook/>

⁵ FSG & Shared Value Initiative. (2020). *Purpose playbook*. <https://www.sharedvalue.org/resource/purpose-playbook/>

⁶ Porter, M. E., & Kramer, M. R. (2011). Creating shared value. *Harvard Business Review*, 89(1/2), 62-77.

institutions can learn from, and work with, private education institutions in the provision of high quality education. Therefore the Covid-19 pandemic represents the potential for the acceleration of a trend towards more responsible capitalism, with a focus not just on shareholders, but on all stakeholders. Evidence of this growing trend emerged recently with an announcement by the Business Roundtable, committing to “delivering value to our customers, ... investing in our employees, ... dealing fairly and ethically with our suppliers, ... supporting the communities in which we work, ... [and] generating long-term value for shareholders”. (Business Roundtable⁷, 2019, "Statement of the purpose of a corporation" section)

While global supply chains are reconfigured, there may be an opportunity for African countries to play an increasingly important role, signalling that the continent is open for business and willing to play a more prominent role in global production.

There may be a growing appetite among multinational companies for shorter and more localised supply chains, according to a report by the Economist Intelligence Unit. Companies are adapting their business models out of necessity and opportunity and looking for ways to reduce risk ...[and while these are currently underdeveloped] supply chain diversification fits well with Africa's existing industrialisation agenda (Games,2020⁸, para. 16)

This is true within countries, at the regional level and across the continent. Countries in need of a stimulus to pursue economic diversification programmes may find the will and momentum to begin to drive such programmes.

Furthermore, changes in the geo-political landscape mean that relationships with countries in the East will become more prominent. China's importance on the continent will likely



grow, relative to the USA. This is in part due to China's existing willingness to offer loans and infrastructure support to African nations. However, Africa should be cautious of getting drawn into geo-political blocs, favouring one or the other trading partner, especially in light of the deteriorating US-China and UK-China relationships. “African leaders are going to have look for new points of reference to guide their policies as they try to balance critical interests with both Washington and Beijing” (Olander, 2020, para. 8).

The implementation of the African Continental Free Trade Agreement (AfCTA), at a time when much of the world may be turning inward, also opens up many opportunities for economic growth and development. The challenge of focusing on regional trade within the continent will initially be the lack of funding, infrastructure, and human capital to drive this shift; yet, in the long run this will provide a significant boost to Africa's economies. There is the opportunity for increased industrialisation across the continent, drawing in more of the continent's labour-force. In addition, many African countries have experienced strong economic growth in recent years,

⁷ Business Roundtable (2020, August 19). *Business Roundtable redefines the purpose of a corporation to promote 'An economy that serves all Americans'*. <https://www.businessroundtable.org/business-roundtable-redefines-the-purpose-of-a-corporation-to-promote-an-economy-that-serves-all-americans> Accessed 30 June 2020.

⁸ Games, D. (2020, June 15). Pandemic highlights importance of AfCFTA. *African Business*. <https://africanbusinessmagazine.com/in-the-news/afcfta/pandemichighlights-importance-of-afcfta/> Accessed 29 June 2020

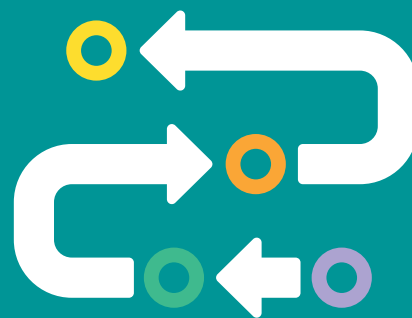
⁹ Olander, E. (2020, August 31). Africa isn't alone in trying to find space between the U.S. and China. *The Africa Report*. https://www.theafricareport.com/39832/africa-isnt-alone-in-trying-to-find-a-space-between-the-u-s-and-china/?utm_source=newsletter_tar_daily&utm_campaign=newsletter_tar_daily_31_08_2020&utm_medium=email&utm_content=top_stories_article_1

and should these economies be able to revert to these levels of growth, there remain significant opportunities for business.

The business landscape may have shifted in ways that are daunting, yet this also brings about the opportunity to not only deliver shared value and act in increasingly responsible ways, but also to entrench organisations' competitive advantage, and positively shape the markets in which they operate.

At a very basic level, the competitiveness of a company and the health of the communities around it are closely intertwined. A business needs a successful community, not only to create demand for its products but also to provide critical public assets and a supportive environment. A community needs successful businesses to provide jobs and wealth creation opportunities for its citizens. This interdependence means that public policies that undermine the productivity and competitiveness of businesses are self-defeating (Porter & Kramer, 2011:6).

The research undertaken by GIBS and the ISS help organisations to think differently about the various touchpoints business has across society. The state of flux and current transformation in the African economy is an opportunity to revisit and revise existing practices. Therefore companies, in collaboration with government and civil society, can assess numerous potential paths out of the Covid-19 pandemic and actively work towards reaching the 'high-road' scenario for the continent.



Methodology

In response to the Covid-19 pandemic, The Gordon Institute of Business Science, The Institute for Security Studies and University of Denver's Frederick S. Pardee Centre, convened four expert panels, across three weeks, to discuss the impact of the pandemic in Africa. The somewhat 150 delegates convened across the process, represented a wealth of experience and expertise across the continent and countries of focus.

The facilitated online sessions implemented a dual and simultaneous qualitative and quantitative scenario development process. In these sessions, the pandemic was clearly framed as a multi-dimensional systemic problem. Discussions were held and led around health, economic, social, political dimensions.

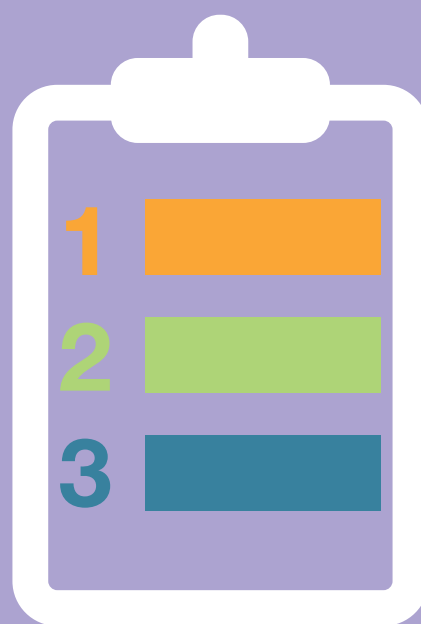
The qualitative process made use of environmental scanning (based on the PESTLE framework), stakeholder dialogues and the Delphi technique. A range of qualitative foresight methods Delphi study and scenarios, which are said to rely on 'intuitive logics' (Wright, Cairns, O'Brien, & Goodwin¹⁰, 2019). For each of these processes – some of which took place concurrently – the level of focus was initially the individual 15 countries. In the second week the dialogue focussed on the regional level, and finally propositions and policy recommendations (discussed at length in the report, "Impact of COVID-19 in Africa: A Scenario Analysis

¹⁰ Wright, G., Cairns, G., O'Brien, F. A., & Goodwin, P. (2019). Scenario analysis to support decision making in addressing wicked problems: Pitfalls and potential. *European Journal of Operational Research*, 278(1), 3-19.

to 2030”) at the continent level were discussed. In addition, a fourth dialogue, engaging specifically with African healthcare professionals was conducted. The 15 countries¹¹ included in the sample were purposively selected to ensure representation of the various regions of the continent, the presence of anchor economies and certain indicative cases.

Each of the interactive Zoom sessions were facilitated in order to allow for the use of Delhi-polling in a dialogue context. This allowed the research team to test the assumptions held by the expert delegates regarding the potential future impacts of the pandemic and possible change outcomes. Therefore a set of country-level assumptions was presented to delegates, and the discussion led to the production of synthesised insights. This was repeated for the region-level and continental assumptions, synthesising insights. Finally, this allowed the research team to crafting well-informed and tested country, region and continental forecasts.

The quantitative forecasting component of the methodology – although not discussed in-depth here – served to strengthen the discussion. Three scenarios presented at the continent level provided further content and insight into the discussions, allowing for comprehensive and rigorous discussions.



Recommendations and conclusion

The impacts of the Covid-19 are still unfolding, with high levels of uncertainty evident globally and across the African continent. However the lockdowns have provided pause for thought, and the opportunity for business to reconsider its role as a key stakeholder in Africa’s future. Organisations are reliant on vibrant and growing economies, a productive, educated, and healthy workforce, and effective infrastructure; and are now presented with the prospect of helping to build these types of efficient African economies. A number of recommendations follow for businesses to pursue in light of the attainment of a high-road scenario.

- Agility, resilience and responsiveness needs to become the mantra of businesses operating on the continent. The effects of the current pandemic are still being felt, and the knock-on effects and consequences in health, and stemming from mitigation measures, are yet to be fully seen.
- An optimistic and opportunity-driven perspective is crucial to businesses’ success on the continent going forward. Challenges and obstacles should be viewed as opportunities. These present opportunities for renewal and innovation, and businesses can craft social value creation strategies.

¹¹ Tunisia, Algeria, Sudan, Ethiopia, Kenya, Malawi, South Africa, Mauritius, Angola, the Democratic Republic of the Congo, Cameroon, Chad, Nigeria, Sierra Leone, and Mali.

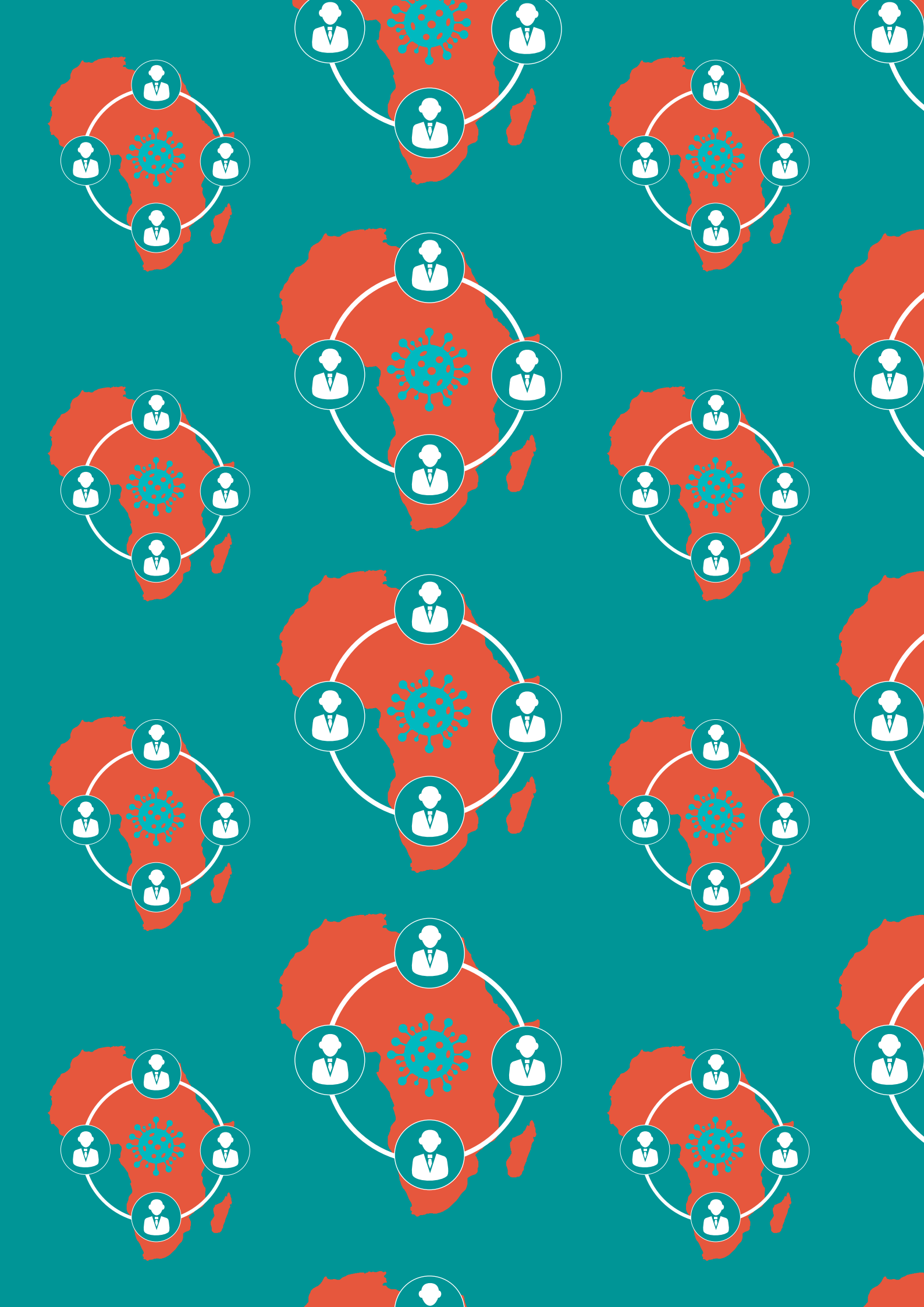
- The ‘shake-up’ across the continent presents opportunities for business to support government in improving the strength and transparency of national and regional institutions.
- For business operating in countries with higher levels of indebtedness and weaker economic recovery, a patient, long-term strategy needs to be adopted. Businesses in these contexts need to adapt a stakeholder approach to their operations, engaging and investing at multiple touchpoints, to build towards a durable business plan and market creation.
- Businesses partnering with wealthier countries, with more stable governments and a balanced socio-economic environment, may see the need for rapid investment and the opportunity to work closely with the government. Opportunities for targeted investment into sectors that can boost economic growth are critical, and should be proactively identified and pursued. These economies can serve to anchor the recovery of their regions, bringing much needed stability.
- For those countries that had previously seen rapid GDP growth levels and an increase in consumer markets, business will need to develop supportive and inclusive models to assist in stabilising these economies, as they settle into potentially significantly lower growth rates.
- Across the continent increased dialogue and rapid-response structures for cross-sector collaboration have been established to respond to the pandemic. These structures can be strengthened and supported to build towards developing inclusive and transparent institutions that support economic growth and business operations.
- Good corporate citizens, who remain dedicated to the countries in which they operate, have the potential to build lasting and genuine brand loyalty, and increase their legitimacy across markets and consumer segments.



- Where possible businesses should seek the opportunity to contribute towards the successful attainment of the African Continental Free Trade Agreement (AfCTA), which will establish a market of 1.2 billion people with a gross domestic product (GDP) of \$2.5 trillion¹¹.
- Finally, businesses should remain vigilant of the changing institutional framework. As geopolitical events unfold, and tensions potentially rise, acting in the best interests of local communities, implementing inclusive business and ethical practices will help business to retain market share in the face of shifting trade and political winds.

The Covid-19 pandemic represents a call to action for business to be more in touch with their societal context. It is an opportunity to reassess the way in which organisations engage with all stakeholders – from local communities, employees, the environment, government and suppliers. Business has the potential to lead a recovery on the continent, leapfrogging into best practice, making use of this significant environmental jolt to repurpose and retool for a more ethical, inclusive, and sustainable ways of doing business.

¹¹ "Sarkodie, A.O. (2019, July 18). AfCFTA'S New Home: Ghana to become the hub for Africa's free-trade future. *The Africa Report*. <https://www.theafricareport.com/15444/ghana-to-become-the-hub-for-africas-free-trade-future/>



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