KCS Country Risk & Threat Advisory

KCS Group Europe
Risk & Threat Advisory Paper

Political Risk Advisory Briefing: ECOWAS
October 2019

Business Briefing: ECOWAS

Snapshot overview

Strengths	*Weaknesses*
• Nigeria and Ghana among the continent's strongest economies attracting investment • Youthful and tech-literate workforce, 'untapped potential'	• A distrusted region by many Western investors • Plagued by corruption across all markets, and economies still struggling with internal problems
Opportunities	***Threats***
• Africa's 'boom town' which could potentially have closer links through currency • One of the next great investment areas aimed at rivalling the BRICs	• Corruption is prevalent across multiple sectors and industries in each country • Terrorism still likely from the Boko Haram heartland • Increasing risk of shadow involvement from Russia and China

Introduction: expanding economies, expanding frontiers?

Western Africa, specifically the Economic Community of West African States, could be on the verge of a major change. Fifteen countries in the region have agreed to adopt a single currency, the Eco, as of 2020, after a thirty-year negotiation. While the adoption will not be immediate and absolute for all, the idea is for a gradual rollout that will nonetheless unify the fifteen states and allow for a united advancement of monetary policy and, it is hoped, mutual economic benefits.

The world's only current existing unified currency, the Euro, has hardly been smooth sailing but there is no denying that it has unified much of the European continent's monetary policy and pushed the contributing economies to a higher level. However, in that situation the participants were half developed and strong economies, and half emerging, so the currency was able to work for all. In the ECOWAS nations, the situation is arguably much different: Ghana and Nigeria are the only two truly advanced economies, and of even these two Nigeria would be expected to dominate and imbalance the arrangement. Could the Eco be a success? Certainly, it would allow members to proof themselves against shocks, and bring the strength of 15 to solve problems and create new opportunities. However, there are existential problems with the currency: only Liberia currently meets all the criteria designed to give the Eco a firm start, and there is concern that the real problem is one of diversification of industry, not of currency itself.

However, the Eco is (even if ideological form) a step forward and signifies that the Ecowas area is on track to become Africa's most important region for trade, development and investment in the years ahead. What remains to be seen is how all the countries can cope.

Politics

The Ecowas region is comprised of fifteen separate states which at times have very differing views and strategies. However, integration is at the base level an act of politics in itself, in which all are invested, and the fifteen states have committed to the Ecowas project for the long term. While the primary objective is monetary, there is a political affiliation as well: it is impossible for there not to be when so many nationstates pool their economic resources. The rebirth of Ecowas from its 1990s catatonia to the organisation of today has prompted an expansion in not only the depth of how closely the members work together (with the Eco being a prime example) but also in the breadth of the mechanisms for doing this, not least the various Treaties, but also in supranational bodies such as the Community Court of Justice and the Bank for Investment and Development. As these organisations and agreements bind the West African states closer together we can expect to see a degree of discomfort (not unlike the current-day complaints about the EU) - not least from the 'big beasts' if Ghana and Nigeria perceive themselves as having to do, and pay, more to keep the union afloat – but in general it is predicted that Ecowas will bind itself closer together in all respects, which can only be good for both the nations themselves and those that look to invest in them.

As to the question of whether Ecowas is fundamentally imbalanced if the big beasts are seen as the leaders and the smaller countries are 'hanging on the coattails. However this mischaracterises the purpose of the union, designed as it is to bring all constituent members 'up' in terms of socio-economic growth factors and indeed promote the less obvious countries such as Mali and Sierra Leone as destinations for development and investment (to the rather high degree to which these go hand-in-hand). As much has been stated by Issoufou Mahamadou, the President of Niger who is currently the ECOWAS chair, who has indicated that his priorities are to strengthen the democratic institutions not only of ECOWAS itself but of the member states, increase the economic productivity and integration of all states, and support the proffering of peaceful and legitimate elections across the continent. All of these are measures that will buoy or restore investor confidence in the West African countries and arguably can only come from a supranational body.

Corruption

As recently as August 2019, Ghanaian and Nigerian representatives from Ecowas spoke openly of the need for the region to raise the 'political will' to fight corruption. This is certainly a major limiting factor: the sense perhaps that corruption is so deeply, so widely embedded that there is no point fighting it. However, what individual countries may not be able to accomplish alone, Ecowas can certainly drive towards as a true group effort. One might look at the Ecowas Protocol 'Fighting Against

Corruption' which, while requiring more refined implementation, is a protocol that may not have been introduced solo and is an indicative example of this 'will'.

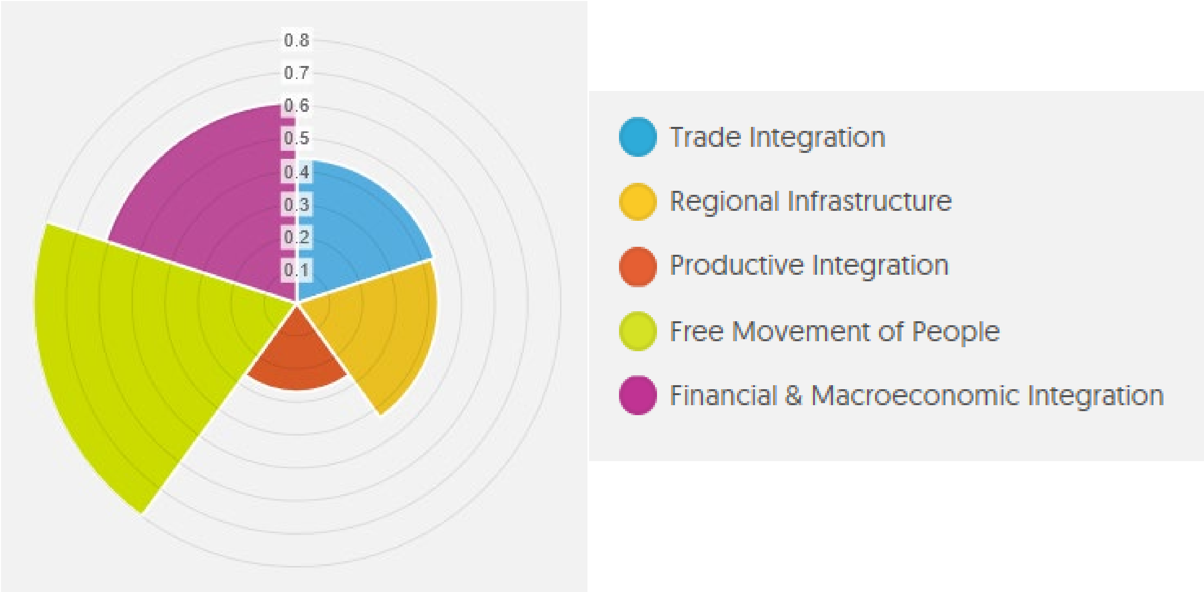
However it is noted that six countries (Senegal, Liberia, Ivory Coast, Guinea, Guinea-Bissau and Cabo Verde) have not yet ratified that Protocol and without this, it is extremely unlikely that an appropriate monitoring committee can be established for regular investigation and reporting to keep a more constant track of the corruption and attempt to stem it.

Ecowas is also seeking to agree an annual Forum to this effect, and to enshrine a law protecting whistle-blowers across the West African region (which would greatly serve to reduce the pressure on those wanting to alert authorities to corruption. With Ecowas, it seems that there is greater will to challenge illegalities, but the mechanism must allow for greater opportunities for these to be identified.

Economy & Business Environment

It is not too glib to say that the Ecowas attractiveness has so far been built on two foundations: one, the oil, which many nations are reliant on (even to the point of self-combustion), and the fact that it is not the Sahel. This north-western region of the African continent is so riven by conflict that getting more than a passing foothold in business is difficult, and security concerns are always looming. In Ecowas, while certainly there are security issues these are less all-encompassing. Why invest in the Sahel when an oil-rich comparatively safer region lies just to the south?

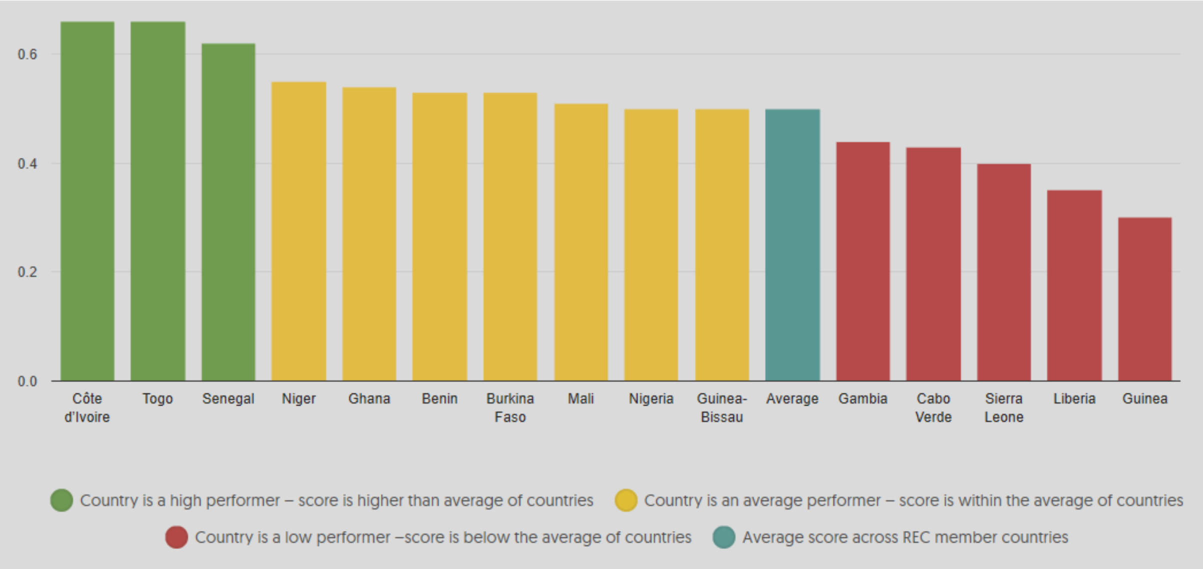
The key to the flourishing of the business environment is for all elements (and indeed countries) to work *en concert*: that trade integration rises alongside infrastructure, which feeds free movement of goods and people and so in – in a recursive loop.



The above chart illustrates that while there is progress to be made, Ecowas is scoring acceptably in key social indicators of integration and improvement.

West Africa also benefits because it hosts the continent's arguably only pan-national airline that is not reliant on European stopovers. ASKY Airlines, based out of Togo, serves nineteen destinations from Senegal to Cameroon without changeovers in former colonial powers – a habit of single-country African airlines (the ones that have not collapsed, at least) that mean a trip of a few hours' crow flight can take upwards of two days. This is intended to speed up the pace of business and promote 'Pan-Africanism' – and move goods and services a lot quicker.

It is also recognised that the Ecowas region does not revolve around Nigeria – not least by Ecowas itself. As can be seen from the below graph, relative surprises of Togo and Niger sit squarely in the top five performers, with Nigeria itself down in ninth[1].



Of these top performers, it is key to note that the Ivory Coast is a growing economy with excellent infrastructure and is an established high performer, but the less heralded Niger is benefitting from high prices for oil and uranium and both foreign and private investment (not least into a solar plant in Niamey and the reconstruction of a Niamey-Cotonou transport corridor), while Togo benefits not only from the hub of ASKY airlines being based in Lome, but possessing West Africa's only deep-water port (in the same city) and reforms of the financial and banking systems. This is evidence that ECOWAS is not simply comprised of 'big hitters' and that the region as a whole is advancing – even if, in the lowest ranked Guinea and Liberia, there is still some way to go.

Oil & Energy

West Africa possesses approximately one-third of Africa's entire oil and gas reserves and the resources are by far the biggest money-spinners in the region. Nigeria alone is estimated to have five billion tonnes, Ghana 90 million, Niger 20 million, and Cameroon 18 million. The West African Gas Pipeline has been running since 2007 (albeit with delays and difficulties) from Nigeria through Benin and Togo, to Ghana. It is the first project of its kind below the Sahara and was intended, from conception, to

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1 Source: ECOWAS rankings, https://www.integrate-africa.org/rankings/regional-economic-communities/ecowas/

expediate and deepen the oil work in the region. Recent developments include development of four wells in three new fields and planned new refinery at Takoradi in Ghana, and a billion-dollar Bonga Southwest project comes online, development of Trans-Saharan pipeline for Nigeria. A Morocco-Nigerian pipeline is also being developed.

While these reserves are significant, there is still a gap between how much is processed and how much could be (particularly in Nigeria) – a lack of infrastructure, and embedded corruption, have meant that the sector has never reached its true potential. The objectives therefore are twofold: to accelerate production and enhance the downstream capabilities across the region to enhance the overall 'oil offering' and to see greater profit/benefit. (It goes without saying that the endemic corruption will need to be tacked too). In practical terms, this would the biggest such oil-related undertaking ever undertaken in Western Africa and proof that there has never been a better time to get onboard.

While oil is well-founded, the region is looking towards gas to carry it forward into the next decade. Senegal in particular should be on the radar of anyone looking to get involved in the Ecowas gas scene: its Yakkar field contains 15 trillion cubic feet of natural gas alone. However, as with oil and West Africa in general, the downstream/refining capability is sorely inadequate. If gas is to expand by 2020 the sector will need to put on a par with oil, in intent if not in action. Electrification is key, with developments particularly in Nigeria and Togo, for the suitability of gas as a secondary source to (and diversification away from) oil. While the West African Pipeline has hardly been an unqualified success – Ghana has halted all its LNG imports and Nigeria is riven by twin problems of sabotage and product diversion – this is not necessarily the end of the matter, as the potential accumulates more and more each day and awaits a dedicated business strategy (perhaps accompanied by a from-above strategy that requires a patron across much of Ecowas) in order to flourish.

One might also look at West Africa as a key area for renewable energy. Ecowas operates a defined renewable energy policy that looks to create the West Africa Clean Energy Corridor, promoting renewable power on utility-driven, large-scale basis. The implementation of this is set to identify suitable sites for renewable power generation, establish channels of investment, and operate and maintain high-capacity grids. There is clearly a lot of untapped potential here, and opportunities for firms to help take Ecowas' renewable power initiative to the next level.

A note of warning must be sounded about the very real likelihood that Africa is developing into a new cold war battleground involving, primarily, Russia and China against the 'Western' states. Both have already made great inroads (literally) into the African continent, building roads and railways, powerplants and facilities (not least the African Union's headquarters in Ethiopia… which China was promptly found to have bugged). China has invested just shy of $300 billion in sub-Saharan Africa to date, and Russia sees investment in the energy and mineral sector as key to expanding its own footprint and increasing its own soft power: by offering the African states loans, investment and infrastructure, they can entwine themselves with the region and potentially start to dictate and influence policy.

How to Succeed in Business

As at March 2019 study by Deloitte's has highlighted, the domestic connection is vital: local partnerships, local knowledge and local culture will all go a long way to making a foreign venture successful. This engagement however must be constant: not only picking a partner and using their knowledge for a specific deal, but developing the relationship in terms of offerings, involvement and time. There is no point getting involved in West Africa for the short term.

However, there is a major threat to industry, not least energy, in West Africa, and it lies on the not-so-high seas. Piracy is one element that has migrated to Western Africa in recent years. With Somali piracy still being the tentpole image, this has in fact massively declined and the majority of the threat now lies in the Gulf of Guinea off the coast of Nigeria for kidnap-to-ransom and bunkering (theft of oil). Given that all of West Africa's naval-transported oil trade must pass through the Gulf of Guinea, this is something of a chokepoint and the pirates know it, with 112 attacks in 2018 alone – the most-targeted region. Not only is the focus on the extractive industries specifically putting investments and investors at risk but given the closeness of the coastline between Benin and Cameroon, the majority of attacks occur within territorial waters, making an international response very difficult. There is no multi-national effort to tackle the problem, as proved so effective in Somalia, and the comparative low-technology threshold (boats and guns) means that piracy can be anyone's game.

This is clearly a troubling situation: a threat tooled towards outside investors, and one which the domestic governments in question have shown themselves unwilling or unable to meet. Matched, perhaps, by growing resentment (particularly along Nigeria's coastal regions) against any foreign intervention at all and the sense that African oil should be for Africa, this is a complex situation.

Can businesses still operate? Of course, but there is no escaping that the delta regions across Ecowas are some of the most dangerous with the threat specifically focused on foreigners.

But it is not just energy – West Africa is also the world's pre-eminent minerals location, with significant quantities of the world's reserves manganese (10%), bauxite (8%), uranium (7%) and iron all emanating from the Ecowas states. However, much of this extraction concludes with the 'raw form' and the lucrative, and beneficial, transformation stages do not take place – a paucity of industrialisation means that social, economic and infrastructural development does not occur in the nations from whence the resources come, and where they are needed most. This is clearly a gap in the market for industrialisation: not just extracting these resources but ensuring that the communities above them can benefit in a manner that is more than just extraction without remuneration.

Benin and Nigeria are the latest states to sign up to the African Union's free trade zone, further enhancing not only the continent's economic integration and trade-boosting capabilities but tying this specific Western African region closer together. Nigeria in particular is the MVP, as for the biggest economy to refuse to join would not look good for the AU project. It is intended that the Free Trade agreement will start in 2020.

Altogether, the future looks bright for West Africa, but is as always tempered with a voice of caution. Although the region's plans to work broader and deeper together arguably go beyond what is happening elsewhere on the continent, and the opportunities for investment and involvement in the long-term are significant, neither is without a good degree of risk in terms of the corruption found both internally and externally, and the rapacious attitudes of others looking to continue the exploitation of the continent.