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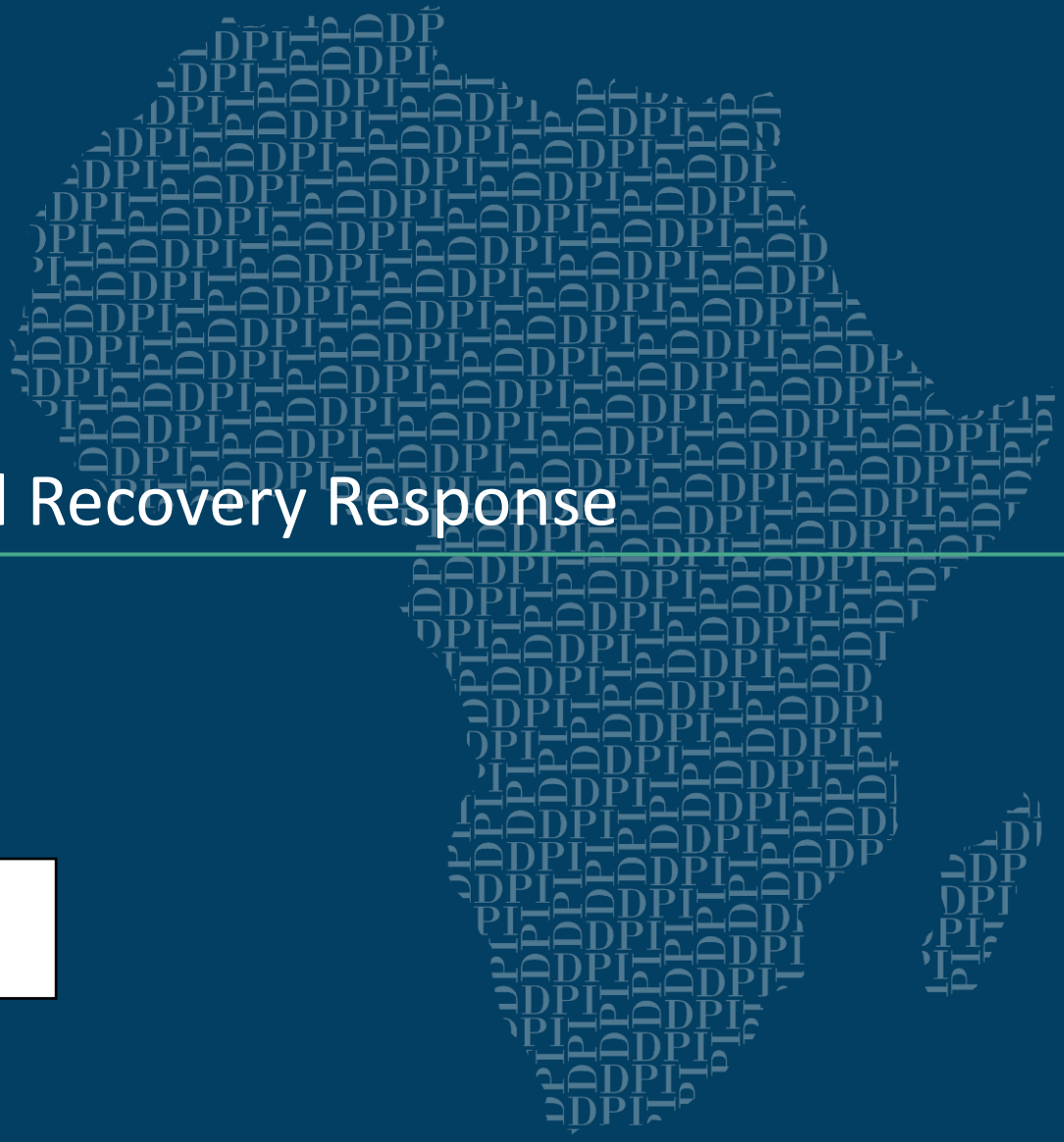

# COVID-19 Crisis and Recovery Response

**The Africa CEO Checklist**

*Latest As Of: 28/05/2020*

Please check our website and LinkedIn for updates to this document as the situation unfolds

DPI Development Partners International

# The Africa CEO Checklist

**Dear CEOs and senior management**

Since our last "Checklist", global reported cases of the SARS-Cov-2 virus have increased from ~50,000 to ~6.7mm. As at 15th May, the African continent with 16% of the world's population, has suffered 0.53% of the world's reported deaths.

There is no shortage of macro analysis out there. However we have seen little practical information for African CEOs. This checklist aims to share the daily best practices we see on the ground from our 18 companies and their remarkable leadership teams in a clear and simple way.

The emphasis has now shifted. DPI portfolio companies moved highly effectively to implement "Phase 1" interventions - protecting people, customers and assets, and ensuring liquidity. The focus is now on Phase 2 - stress testing liquidity against scenarios for the coming 3, 6 and 12 months and Phase 3 – preparing to adapt and thrive in the coming 12-18 months. The winners will be those who adapt their products and channels most effectively to regain lost revenues and restore growth. For companies with stronger balance sheets – now is a good time to be alert for carefully selected M&A opportunities.

We succeed in uncertainty by rediscovering the art of scenario planning. Again, there is no shortage of scenarios being discussed. Our base case is a "W" recovery – a rebound, but with dialling up and down of government intervention in the coming 18 months to keep the infection rate (R0) below 1. This phase will be as much about managing public behaviour as epidemiology – social distancing and shielding measures will be the price of resumed activity, until enhanced therapies or vaccines become impactful in 2021.

We have kept the key points from our last checklist and added a Phase 3 assuming a "W" shaped recovery including a deep-dive on global trends we observe and "so what" for African CEOs.

Many African countries simply don't have the fiscal and monetary tools at their disposal to stimulate economies. How state, multilateral and private sector actors treat the continent's debts will be pivotal in the coming months as states battle falling tax revenue and huge demands on healthcare systems. This makes the private sector vital in driving recovery and we are determined to play our role in this. Please share this document as widely as you believe it is useful.

We are humbled by the sheer resilience and innovation we see every day and sincerely thank the 42,000 people working for DPI companies and their leaders for all they do every day.

With warm regards,
**The DPI Partners**

# At this time of health and economic crisis DPI wants to remind everyone that Africa remains a sound region, full of opportunity

**The basis for the Africa growth story of the last two decades remains true, and will pick up pace in the coming two decades**

| | |
|---|---|
| **Excellent demographics** | • Large young and working age population; working age population to be world's largest by 2034 at 1.1bn<br>• 15 / 21 largest economies have literacy over 70% vs 2 / 21 in 2000<br>• Falling dependency ratios will notably benefit N Africa, Ghana, Kenya growth 2020-2030 |
| **Growing middle class** | • Africa's middle class has grown to 350 million people (34% of Africa's population) and is projected to grow and reach 1.1 billion (42% of the population by 2034)<br>• Increasing consumption and demand for goods and services |
| **Rapid urbanisation** | • The fastest urbanisation rate in the world; approx. 190 million people expected to move to urban regions by 2025<br>• Expected increase in productivity due to rapid urbanisation |
| **Technology leapfrogging** | • Technology penetration rate still the lowest at 31.2%, compared to 55.8% in the rest of the world<br>• Multiplier effect of technology on the economy; telecoms, financial services, education, retail/wholesale, etc |
| **Natural resource endowments** | • Substantial share of global resource reserves e.g. 10% of global oil exports<br>• These reserves can competitively meet continued global demand for these resources |
| **Great companies** | • African companies have resilience in their DNA with typically low leverage, strong balance sheets, and extremely strong execution abilities<br>• DPI is proud to partner with companies in key sectors for the present situation, notably healthcare |

Source: WHO, FAO, IMF, World bank, RenCap

# Despite the continent's huge potential it is vulnerable to the pandemic

**A number of underlying public health issues which may increase the harm done by the virus**

- Above average levels of malnourishment and co-morbidities in some countries
- ~58% of people living in sub-Saharan Africa have access to safe water supplies

**Real economy is vulnerable**

- GDP per capita of US$1,900 for the Africa continent vs. ~US$18,380 global average
- 1/3 of formal workforce at risk of salary reduction or job loss[3]
- Nigerians and South Africans more likely to say income has suffered – even though they are much less likely to have been personally affected by CV19[4]

**Lack of medical infrastructure and services**

- 0.2 doctors for 1,000 inhabitants in sub-Saharan Africa, vs. 3.6 per 1,000 in the European Union
- 1.2 hospital beds for 1,000 inhabitants in sub-Saharan Africa, vs. 5.6 in the European Union
- 1.7 ICU beds per 100,000 people vs 3.6 in China and 29.4 in the USA[2]

**Risk of contagion**

- Urban environment makes social distancing and hand washing challenging

**Limited government resources to fight the virus and boost local economies**

- Challenges in scaling testing and accessing testing even when available
- Informal information networks and sometimes weak data
- GDP per capita of US$1,900 for the Africa continent vs. ~US$18,380 global average
- 3% of the world's foreign exchange reserves
- Governments do not have the same access to cheap debt and unconventional monetary policy to re-inflate economies
- Sovereign debt and repayment worries plus downgrade concerns
- Stimulus measures to date are much smaller as a proportion of GDP than China / US – only Côte d'Ivoire, Morocco, SA and Kenya are > 4%

Source: WHO, FAO, IMF, World bank

2 https://sccm.org/Blog/March-2020/United-States-Resource-Availability-for-COVID-19

3 Finding Africa's path: Shaping bold solutions to save lives and livelihoods through the crisis; 4 McKinsey & Company Consumer Pulse Survey

# Macro update
## *The "Must Knows"*

Most Impacted — Least

| | Growth | Inflation | Fiscal burden | External funding | Commodity dependence | Tourism dependence | Remittance dependence | Openness | Exposure to China | Health system | Vulnerable share of population |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Algeria | 🟡 | 🟡 | 🔴 | 🔴 | 🔴 | 🟢 | 🟡 | 🟡 | 🔴 | 🟢 | 🔴 |
| Botswana | 🔴 | 🟢 | 🟢 | 🟢 | 🟢 | 🔴 | 🟢 | 🔴 | 🟡 | 🟢 | 🔴 |
| Egypt | 🟡 | 🔴 | 🟡 | 🟡 | 🔴 | 🔴 | 🔴 | 🟢 | 🟡 | 🟢 | 🔴 |
| Ghana | 🟢 | 🔴 | 🔴 | 🟡 | 🟡 | 🟢 | 🔴 | 🟡 | 🟢 | 🟡 | 🟡 |
| Ivory Coast | 🟢 | 🟢 | 🟢 | 🟡 | 🟢 | 🟡 | 🟡 | 🟡 | 🔴 | 🔴 | 🟢 |
| Kenya | 🟢 | 🟡 | 🟡 | 🟡 | 🟡 | 🟡 | 🔴 | 🟢 | 🔴 | 🟡 | 🟢 |
| Morocco | 🔴 | 🟢 | 🟡 | 🔴 | 🟡 | 🔴 | 🔴 | 🔴 | 🔴 | 🟡 | 🔴 |
| Namibia | 🟡 | 🟢 | 🟡 | 🟢 | 🟢 | 🟡 | 🟢 | 🔴 | 🟢 | 🟢 | 🔴 |
| Nigeria | 🔴 | 🔴 | 🔴 | 🟢 | 🔴 | 🟢 | 🔴 | 🟢 | 🟡 | 🟡 | 🟢 |
| SA | 🔴 | 🟢 | 🔴 | 🟡 | 🟡 | 🟡 | 🟢 | 🟡 | 🟡 | 🟢 | 🔴 |
| Tunisia | 🔴 | 🟡 | 🔴 | 🔴 | 🔴 | 🟡 | 🔴 | 🔴 | 🔴 | 🟢 | 🔴 |
| Uganda | 🟢 | 🟡 | 🟢 | 🟡 | 🟡 | 🔴 | 🔴 | 🟢 | 🔴 | 🔴 | 🟢 |
| Tanzania | 🟡 | 🟡 | 🟢 | 🟢 | 🟡 | 🔴 | 🟢 | 🟢 | 🟡 | 🔴 | 🟢 |
| Senegal | 🟢 | 🟢 | 🟡 | 🔴 | 🟡 | 🟡 | 🔴 | 🟡 | 🟡 | 🔴 | 🟡 |

Source: IMF, UNCTAD, World Bank, JEDH, **Credit to RenCap for the chart**

**Key messages**

- **Growth:** IMF projects SA, Botswana, Algeria to see economies shrink by 5%+ and overall economy to contract 2.7% (the first recession in 25 years overall)
- **Deficits:** Algeria, SA, Ghana have deficits of 10%+ GDP
- **Government debt:** Botswana strong with less than 20% GDP
- **Debt to revenue (more important):** Nigeria and Ghana have debt 5x revenues; Botswana, Algeria, Morocco much more comfortable
- **Commodity exposure:** Tunisia, Morocco, Egypt, Kenya benefit most from commodity price falls
- **Tourism exposure:** Morocco and Egypt exposed, Nigeria exports tourists and will benefit most from keeping Naira in the country
- **Health systems:** SA, Algeria, Tunisia, Morocco best positioned
- **Age vulnerability:** All look good by global standards with > 2% over 70 in Uganda, Kenya, Nigeria, Tanzania, Ivory Coast, Ghana, Senegal

# Three scenarios to plan for
## *DPI Base Case is Scenario #2: A W-Shaped Recovery*

| U | W | L |
|---|---|---|
| **"Rebound"** | **"Staggered recovery"** | **"Ongoing challenges"** |
| • **Q2 (and potentially Q3) are impacted quarters, with a recovery to near Q1 levels in Q4** | • **Rebound in Q3/4 to near Q1 levels, but continued business interruption from dialing up and down of pandemic mitigations for 18+ months** | • **Worst case scenario with recurrent shutdowns leading to significant economic and social hardship.** |
| • Lockdowns progressively unwound while R0 remains below 1<br>• Mortality trends remain lower than global norms<br>• External fiscal stimulus is delivered and effective (e.g. IMF packages)<br>• Effective sovereign debt mitigation takes place<br>• Consumer and business confidence return | • R0 or % tests showing positive rise again as lockdowns relax requiring "hammer and dance" intervention<br>• Curfew and "precision lockdown" (following Vietnam) likely becomes the norm<br>• African mortality remains low by global standards, but spikes in certain cities and regions make intermittent quarantine and travel restriction necessary | • Pandemic gains traction and health systems overwhelmed necessitating Europe style prolonged lockdown resulting in significant social and economic damage<br>• The "Africa exception" in mortality does not prove true<br>• Signs of financial stress and limited liquidity<br>• Limited stimulus slows recovery<br>• Sovereign debt crises? |


- Different countries are likely to move between these scenarios and we have suggested the "signposts" that a country may be moving towards a particular scenario
- We strongly recommend stress testing 13 week and 12 month cashflow plans against ***all*** these scenarios.

# 6 Actions CEOs Must Consider

1. Provide clear leadership
2. Protect people and assets
3. Build “fortress” balance sheets and preserve cash
4. Protect supply chains and keep channels open
5. Adapt the operating model to serve customers in the new reality
6. Work with public authorities and play a role in society

# 1 Provide clear leadership

## Phase 1
## Immediate and urgent steps

- Maintain and demonstrate the values of your company
- Ensure clear leadership, and 2-way communication channels
- Engage the organization
- Lead with integrity and honesty

## Phase 2
## Week 2 onwards

- Put in place a clear action team to lead responses across the Company – over-communicate to fight fake news and rumours
- Put in place key man contingencies (assume at least one member of the ExCo will lose 2-3 weeks to ill health)
- Provide weekly updates on health guidance and business actions

## Phase 3 - Prepare for the Staggered Recovery

- Physical and mental pressures are real – find ways to connect and **engage with staff and lead with empathy**
- The pace of change is condensing multi-year trends into months (the "future is coming faster") – so don't lose the war room mentality. We are in for the long haul. Companies that both **ruthlessly keep focusing on costs** (e.g. implementing a spend control tower) and are **extremely agile in their channel and product innovations** (e.g. implementing agile / sprint approaches) will emerge with greater share
- **Lead from the front** in everything – if pay cuts comes, they need to start at the top. Consider cutting bonus accruals before cutting base.
- Companies are learning to work in more agile, cross functional ways to execute quickly – if managed properly this is a significant chance to **out-execute the competition after the crisis**
- **Use the crisis to build communications channels a few levels down** – many CEOs are holding weekly country and department Zoom calls

# 2 Protect people and assets

## Phase 1
## Immediate and urgent steps

- Rigorous sanitary precautions
- Social distancing (where possible move to no physical meetings, canteens closed, 1 person per lift, homeworking)
- Monitoring and testing as it becomes available
- Split shifts (to 'save' a shift if another must self-isolate)

## Phase 2
## Week 2 onwards

- Ensure security of people and assets – expect a rise in crime against people and property
- For some companies, contract medical staff to be on hand at key facilities
- Remember customers will remember who "stood by them" in tough times

## Phase 3
## Prepare for the Staggered Recovery

- Many staff and workers will be **scared and financially vulnerable** – reach out to them, at their level
- Misinformation is rife – **you will be a trusted source of information. Avoid panic.**
- If **furloughs or retrenchments** are necessary – be human, be commercial, be respectful, follow employment law and other shareholder agreements
- Don't stop **reminding customers that you are still here** and that doors are open

# 2 Protect people and assets ESG Guidance

## Occupational Health and Safety

- Develop an infectious disease preparedness and response plan that can help guide protective actions against COVID-19.
- Carry out a risk assessment for your business and employees, taking into consideration their means of transport to and from work.
- Develop Policies and Procedures for Prompt Identification and Isolation of Sick People
- Develop, Implement, and Communicate about Workplace Flexibilities and Protections
- Prepare to Implement Basic Infection Prevention Measures. Implement Workplace Controls. As appropriate, all employers should implement good hygiene and infection control practices and provide appropriate PPE to protect employees at work and on their travel.

- **Guidance on managing health in the workplace**
  - IFC Advice on Supporting Workers in the context of Cv-19
  - Preparing Workplaces for Covid 19 https://www.osha.gov/Publications/OSHA3990.pdf
  - EBRD Guidance on carrying out workplace risk assessment.

## Employee Engagement and Job Protection

Changing economic circumstances can often lead to reorganization and restructuring within a company. It is not uncommon for job losses to result.

- Preparing a retrenchment plan is the best way to ensure that all potential problems and issues have been considered
- A retrenchment procedure is then encapsulated in a retrenchment plan, and should be founded on consultation (particularly with workers and their representatives) and seek to ensure that the selection of workers for dismissal is based on principles that are fair and transparent and do not discriminate against particular groups (Gender, ethnicity etc).
- Companies facing concerns that they will have to reduce their workforce are required to establish a plan and retrenchment procedure as per IFC Performance Standards and guidance below.

- **Guidance on managing retrenchment and planning for job protection can be found below.**
  - IFC Good Practice Note Managing Retrenchment
  - CDC- COVID-19 Guidance for investors and financial institutions on job protection

# 3 Build "fortress" balance sheets and preserve cash

**Phase 1**
**Immediate and urgent steps**

- Assess cash availability and manage liquidity
- Assess credit lines available and secure headroom where possible
- For businesses in countries experiencing FX volatility, maximise USD coverage

**Phase 2**
**Week 2 onwards**

- Put 13-week cashflows in place fully covering Cashflow from Operations, Investing and Financing (CFFO, CFFI, CFFF)
- Work and re-work base and worst-case scenarios and stress test 13 week and 12-month plan testing for covenants, MAC clauses, other credit line restrictions
- Pull all the levers to optimize liquidity – collect receivables, defer tax payments, defer payables, reduce nonessential CAPEX, defer lease & rental payments, defer dividends, activate facilities, line by line cost analysis

**Phase 3**
**Prepare for the Staggered Recovery**

- **Carry out constant stress testing** of the 13 week and 12 month against a range of best- and worst-case scenarios and continue **challenging cashflows** – are their further opportunities in terms of receivables, payables, inventory, zero based budgeting?
- If a worst case shows a cash out, DPI may be able to **arrange liquidity lines with adequate notice**
- Look hard at raw material pricing – **significant input price decreases** across most commodities
- **Maintain flexibility** – we will face turbulent times with working capital needed for rapid growth and relapses/ demand crashes
- **Don't stop investing in the right things –** but build flexibility into investment choices. Take a sunk cost view of the value of ongoing investments.
- **Don't be afraid to talk to suppliers** – to arrange cashflows to enabled you and them to stay in market

# 4 Protect supply chains and keep channels open

## Phase 1
## Immediate and urgent steps

- Assess raw material and finished goods inventory
- Set a conscious strategy to optimize the balance between cash and inventory

## Phase 2
## Week 2 onwards

Protect Supply Chain

- Address supply chain vulnerabilities daily
- Assess force majeure provisions in key supply contracts
- Expect China disruptions in May / June

Keep Channels Open

- Throw everything at fixing digital channels
- Protect contact centers

## Phase 3
## Prepare for the Staggered Recovery

- **Make sure all critical raw material categories have a plan B** – inter regional and even in country supply chains are vulnerable in a "curfew and quarantine" world, with hybrid "offshore/nearshore/onshore" supply chains emerging. What could stop you trading tomorrow?
- **FX risk** in many markets – know the embedded USD component of the supply chain and have a plan
- Budget for **increases in transport costs** due to decrease in volumes and increased processing/ clearance times
- Cash is king – **having a stronger cash position opens opportunity for service and cost improvement in the supply chain**

# 5 Adapt the operating model to serve customers in the new reality (1/3)

| Phase 1<br>Immediate and urgent steps | Phase 2<br>Week 2 onwards |
|---|---|
| • Assess customer demand in terms of **products/ volumes and fixed vs. variable costs** for each production line to determine if partial shut-downs would be appropriate | • Assess possibility to convert **production line and warehouse/ distribution capacity for other uses** (e.g. in demand products, supplies for health authorities)<br>• Where deemed feasible after vigorous stress testing, take advantage of this time to **bring forward scheduled maintenance work and upgrades** (especially ESG ones) |

**Phase 3 – Prepare for the Staggered Recovery**

**Deep dive on following pages**

# 5 Adapt the operating model to serve customers in the new reality (2/3)

| Phase 3 – Prepare for the Staggered Recovery | |
|---|---|
| **Global lessons** | **So What for African CEOs?** |
| • The consumer is up for grabs – **consumers are unusually willing to switch brands** …. | • ***Innovate the product / service fast.*** DPI companies have developed and launched new products and services focused on affordable value and whole new product lines to respond to COVID challenges in a matter of weeks.<br>• ***Keep reminding customers that you are still here*** and that the doors are open |
| • … consumers are **shifting channels, fast** | • ***Scale "customer not present" delivery <u>and marketing</u> channels.*** One company has seen 60% YoY growth in its online channel through partnering with an online aggregator quickly. Another has grown lending origination to 30% of net disbursements by adopting Web, WhatsApp and USSD channels. We are seeing big increases in returns to digital marketing |
| • … consumers **are under financial pressure** | • ***Innovate the product to offer value and affordability.*** One company experienced highest ever social media engagement and fastest product launch on a new value focused product. ***Affordable value*** is an important tool to sustain sales – "you can't take a GP margin to the bank". |

# 5 Adapt the operating model to serve customers in the new reality (3/3)

## Phase 3 – Prepare for the Staggered Recovery

| Global lessons | So What for African CEOs? |
|---|---|
| • Those who master the rise of contactless commerce will see **huge productivity gains** after the crisis | • ***Consolidate the gains and keep going***. DPI companies have re-tooled or are in the process of re-tooling contact centres, customer processes, back office processes and working practices highly effectively. The next priority is to institutionalise and sustain these productivity gains.<br>• It is clear the winners will be those who ***are famous for making customers feel safe*** |
| • Globalisation isn't over, but **more resilient hybrid supply chains** are the future | • ***Patterns of trade will change***. Globally, supply chains will need more slack and more near shoring. We continue to advise that bottlenecks from the Q1 slowdown in China will be seen in supply chains in Q2. |
| • A robust **balance sheet** and **healthy trading** win the right to **seek bolt on opportunities** | • ***Firms with strong balance sheets that were acquisitive during the financial crisis performed better afterwards[1].*** Several DPI portfolio companies continue to pursue accretive, strategic acquisitions and we are seeing opportunity begin to emerge from corporates needing to sell high quality assets to strengthen balance sheets. |

1 – McKinsey & Co. Lessons for Private Equity from the last downturn

# 6 Work with public authorities and play a role in society

## Phase 1
## Immediate and urgent steps

- Regulators increasingly stepping in to mitigate negative economic effects for consumers
- Governments putting in place schemes to support individuals and companies

## Phase 2
## Week 2 onwards

- Likely pressure to soften collections and implement grace periods for many businesses
- A pro-active and co-operative approach could positively shape regulation to enable companies to meet government objectives
- Take advantage of all local and international support mechanisms

## Phase 3
## Prepare for the Staggered Recovery

- **Be bold in shaping the agenda of regulators** – this is the moment to solve small problems (e.g regulatory requirements for wet signatures, physical boards) and large ones (fiscal stimulus measures). Regulators are listening.
- **Officials at every level are under pressure**. It's likely more CEO time will be spent on managing officials. Consider appointing a member of the leadership team as a focal point so it doesn't swamp you.
- **Give back to communities if you can**, be bold in how you do it and don't be shy in sharing it. We have seen humbling and highly innovative levels of personal and corporate philanthropy in the portfolio and incredible social entrepreneurship.