

## AFRICA RISK CONSULTING

### South Africa Monthly Briefing February 2023

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#### South Africa Summary 23 February 2023

*President Cyril Ramaphosa (2018-present) delivers his fifth State of the Nation Address (SONA) before Parliament on 9 February. It is a more grounded speech seeking to speak directly to South Africa's major socioeconomic challenges. The SONA primarily focuses on issues of load shedding, unemployment (particularly youth unemployment), poverty and the rising cost of living, and crime and corruption. Finance minister Enoch Godongwana delivers his annual budget speech on 22 February which is praised for competency in the face of significant headwinds. Godongwana also focuses on the electricity supply crisis revealing major interventions such as the government's decision to assume much of the state-owned power utility, Eskom's, debt. This is needed but will worsen the government's debt burden which is currently over 70% of GDP. Instability continues to plague the city councils of Johannesburg, Ekurhuleni, and Tshwane portending a worrying scenario ahead of the 2024 election.*

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#### President delivers State of the Nation Address

President **Cyril Ramaphosa** (2018-present) delivered the annual **State of the Nation Address (SONA)** before a joint sitting of Parliament on 9 February.<sup>1</sup> The 2023 SONA took place under an environment of heightened scrutiny and widespread public frustration - **South Africa** continues to experience a perpetual electricity supply crisis which has resulted in load shedding needing to be implemented every day of the year thus far, inflation remains above the central bank's target zone of between 3% and 6% placing increased financial pressure on citizens, and violent crime rates continue to rise at worrying levels.

In a remarkably self-aware speech, Ramaphosa overtly stated that the 2023 SONA would not present new plans nor outline the full programme of the government. Instead, he focused on four key areas: load shedding, unemployment, poverty and the rising cost of living, and crime and corruption.<sup>2</sup>

#### Load shedding

Ramaphosa dedicated most of his address to the ongoing electricity crisis. Ramaphosa reiterated his commitment to the energy plan unveiled in July 2022 in the wake of renewed Stage 6 load shedding, which remains the government's primary strategy for addressing the crisis and consists of five parts:

- Fix and upgrade state-owned Eskom's current fleet of power stations;
- Enable and accelerate private capital investment in the sector;
- Procure additional capacity including from renewables, gas, and battery storage;
- Increase the ability for businesses and households to invest in rooftop solar;
- Fundamentally transform the electricity sector to achieve long-term energy security.<sup>3</sup>

Ramaphosa said significant steps have been taken – or are about to be taken – to achieve these goals. He indicated that the **National Treasury** would provide further assistance to Eskom in paying off its debt, freeing the utility to be able to spend more on operations. Ramaphosa claimed that progress had been made in rebuilding lost skills and experience at the utility and that the **Engineering Council of South Africa** is helping to achieve this. The state will help Eskom purchase additional diesel supplies so that the utility's emergency diesel generators can continue to operate. Ramaphosa also revealed

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<sup>1</sup> News24, 9 Feb 2023

<sup>2</sup> News24, 9 Feb 2023

<sup>3</sup> Presidency, 9 Feb 2023

that 300 megawatts (MW) of electricity has been procured from neighbouring countries, most likely **Botswana** and **Mozambique**.

The **South African Police Service (SAPS)** has formed a dedicated task force aimed at combatting corruption, theft, and organised crime within Eskom, as such criminal threats have played a major role in the utility's decline and operational challenges. The scale of this problem was underscored in reports from 21 February that revealed at least 48 people have been arrested since December when the **South African National Defence Force (SANDF)** was deployed to Eskom power stations to provide additional guarding services.<sup>4</sup>

Going forward, Ramaphosa painted an optimistic picture. He promised to finally table the **Electricity Regulation Amendment Bill** this parliamentary year which will transform the energy sector and establish a competitive electricity market. This is arguably the single most important reform the state can make as it will incentivise private investment in the sector by allowing independent power producers (IPPs) to sell directly to municipalities and corporations, using Eskom's transmission grid.<sup>5</sup> This fundamental restructuring of the electricity sector has been advocated for by industry experts since 1998.

Further alleviating pressure on Eskom, Ramaphosa confirmed the government's plans to increase the ease with which households and businesses can install rooftop solar panels, including through tax rebates and a 'bounce-back loan scheme'. Ramaphosa left the details of this plan to finance minister **Enoch Godongwana** to outline in his annual budget speech (see below).

Ramaphosa further noted that there is over 9,000MW worth of power projects currently in development and stated that within six months Eskom would procure sufficient emergency power to "*close the immediate gap*".<sup>6</sup> It is unclear if this vague term meant this emergency power would end load shedding or merely reduce its intensity.

Ramaphosa revealed that to enable the government to respond to the energy crisis more effectively, declared a **State of Disaster** government over the matter, which had been gazetted earlier that day by cooperative governance and traditional affairs minister **Nkosazana Dlamini-Zuma**. This has been a controversial move as it is legally debatable whether persistent load shedding meets the requirements to enact a state of disaster. This is important as oversight and accountability procedures are suspended under the legislation, which resulted in rampant corruption in the state of disaster during the **Covid-19** pandemic. Ramaphosa sought to ease these concerns by stating that the Auditor-General would be brought in to monitor all expenditures during this period.

Another major announcement related to the electricity crisis was that Ramaphosa would create an electricity minister in the presidency, who will be appointed when Ramaphosa announces his long-awaited cabinet reshuffle in the coming weeks. This new minister will "*assume full responsibility for overseeing all aspects of the electricity crisis response, including the work of the **National Energy Crisis Committee***".<sup>7</sup>

It is unclear how effective this new minister will be as Eskom will still fall under the purview of the **Department of Public Enterprises** and new energy procurement and authorisation remains the responsibility of the **Department of Mineral Resources and Energy**. The fact that Eskom was required to report to two separate ministers, who engaged in a tug-of-war of the utility, was a major contributor to inertia and inaction at the utility. The introduction of a third minister will complicate this matter further and deepen the interpersonal rivalries in the cabinet.

## Unemployment

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<sup>4</sup> EWN, 21 Feb 2023

<sup>5</sup> Presidency, 9 Feb 2023

<sup>6</sup> Presidency, 9 Feb 2023

<sup>7</sup> Presidency, 9 Feb 2023

After the electricity crisis, Ramaphosa sought to address the country's persistent unemployment crisis. The latest Quarterly Labour Force Survey (QLFS), published in November, shows that the country's official unemployment rate is 32.9%, while youth unemployment is 59.6% for 15-24 year-olds and 40.5% for 25-34 year-olds.<sup>8</sup> Unsurprisingly, after load shedding, the youth unemployment crisis is viewed as the country's most serious economic threat.

The government had little in the way of new programmes to address this challenge but rather is seeking to double down on its existing programmes. The **Employment Tax Incentive** has been expanded to encourage businesses to hire more young people and the **National Skills Fund** will provide R800m (\$43.69m) to develop skills in the digital and technology sector. The government is also hoping to combat unemployment by developing small, micro, and medium enterprises (SMMEs). In pursuit of this goal, Ramaphosa announced that the state would commit a further R1.4 billion (\$76.4m) to the **Small Enterprise Finance Agency (SEFA)** to help finance more than 90,000 entrepreneurs. One of the few new initiatives proposed is an R10 billion (\$546m) fund to support SMME growth of which the government will provide R2.5 billion (\$136.5m) and wants the private sector to fund the remainder.

Although not explicitly stated, the government's planned increase in infrastructure investment and renewal will also act as a significant employment stimulus. There is currently R232 billion (\$12.66 billion) worth of projects under construction.

### **Poverty and the rising cost of living.**

The state's main poverty intervention continues to be the grant system with Ramaphosa announcing that the R350 (\$19) Social Relief of Distress (SRD) Grant would be extended again. This grant was first introduced as part of the government's response to the Covid-19 pandemic and currently supports around 7.8 million people. The SRD grant is essentially a basic income grant and will likely need to be formalised by legislation as removing it is politically and socially untenable.

### **Crime and corruption**

The rising threat of crime and ongoing public-sector corruption remain major public concerns and a deep source of resentment within South Africa. The extent to which the situation is deteriorating was made evident in the week following SONA when police minister **Bheki Cele** presented the latest quarterly crime statistics for 1 October - 31 December 2022 to parliament.<sup>9</sup> These statistics show a worrying increase in most crimes including murder and sexual assault.

To address this worsening situation, Ramaphosa announced that SAPS would recruit 10,000 new officers in 2023, in addition to the 10,000 which were recruited in 2022. Ramaphosa also confirmed that the promised **Multi-Disciplinary Economic Infrastructure Task Teams** are now operational in 20 crime hotspots in the country. These task teams are mandated to tackle economically harmful crimes such as infrastructure sabotage and cable theft. Ramaphosa again noted the persistent problem posed by cable theft in the country and highlighted the December 2022 ban on the export of scrap copper as one of the interventions combatting these crime syndicates.<sup>10</sup> The president further announced that the state would seek assistance from the private sector to improve the effectiveness of the country's emergency call centre, specifically the 10111 police helpline.

Ramaphosa made few concrete promises with timeframes related to the state's efforts to combat corruption but he did pledge that the government soon draft a **Public Procurement Bill** to address weaknesses identified by the **State Capture Commission** and would introduce new legislation to protect whistle-blowers. The most significant pledge made by Ramaphosa was that the **National Prosecuting Authority's (NPAs) Investigative Directorate (ID)** would be established as a permanent entity this year. The ID was formed as a temporary branch of the NPA in 2019 to focus on state-capture corruption cases and has arguably been the most effective agency in combatting this

<sup>8</sup> StatsSA, 29 Nov 2022

<sup>9</sup> EWN, 17 Feb 2023

<sup>10</sup> Presidency, 9 Feb 2023

specific type of corruption. The ID has, to date, charged 187 people in 32 cases. Permanentizing the ID will enable the agency to implement better long-term plans and hire better investigators and prosecutors as it will be able to offer secure permanent contracts.

This was Ramaphosa's fifth SONA and, while underwhelming, was his most honest yet. The address was bereft of the usual high rhetoric promising high-speed trains and smart cities and was rather grounded in the deep challenges faced by the country. This acknowledgement of the status quo is important but the absence of innovative and aggressive new policies to address these challenges is concerning. This is compounded by the perceived inertia of the current administration, emphasised by Ramaphosa's delay in announcing his cabinet reshuffle, which was initially promised in December and the fact that there has not been a permanent public service and administration minister since April 2022.

Once again, the SONA failed to provide a policy-driven path forward with clear timeframes which placed increased scrutiny on Godongwana's budget speech to gain an understanding of the government's intentions and capacity.

### Finance Minister delivers annual budget speech

Godongwana delivered the annual budget speech to Parliament on 22 February against a background of South Africa facing multiple challenges and systemic crises, all of which need to be urgently addressed, but with limited resources and a substantial debt burden of R4.73 trillion (\$258.9 billion), approximately 71% of GDP.<sup>11</sup> The interest payments on the national debt alone are now over R1 billion (\$54.7m) a day.<sup>12</sup> Godongwana was granted some minor reprieve by the fact that tax revenue collections for 2022/23 are expected to total R1.69 trillion (\$92.5 billion), exceeding initial estimates by R93.7 (\$5.1 billion), largely due to the successful revitalisation and capacitation at the **South African Revenue Service (SARS)** rather than due to any substantive positive economic development.

Godongwana was largely praised for the budget with markets initially responding favourably to his speech. The rand briefly strengthened from R18.29/\$1 to R18.13/\$1 immediately after the speech but reversed due to fears of potential grey listing by the **France-based Financial Action Task Force (FATF)**.<sup>13</sup> The 10-year government bond fell 11 basis points to 10.185% the 10.295% indicating a slight increase in confidence in the state's fiscus, a noteworthy development given that the budget did not include major tax increases other than sin taxes.<sup>14</sup>

Similar to Ramaphosa's SONA, the most significant announcements in Godongwana's budget speech pertained to Eskom and the electricity crisis. The most notable of these was that the government would take on R254 billion (\$13.9 billion) of Eskom's debt. The utility is deeply indebted – more than R400 billion (\$21.87 billion) – which undermines its ability to finance essential operations such as repairs, maintenance, and upgrades. This debt alleviation will provide Eskom with much-needed breathing room to tackle the load shedding crisis.<sup>15</sup>

The debt relief will be provided in tranches and does come with conditions. These include requiring the utility to prioritise capital expenditure and maintenance and the debt relief must be used to settle debt and interest payments only. The **National Treasury's** forthcoming recommendations must also be implemented.

This debt relief is essential for Eskom's survival and, by extension, the South African economy. In addition, the state had already guaranteed R337 billion (\$18.4 billion) of Eskom's debt and would have been responsible for it had the utility, which with the continued budget deficit, means public debt will only stabilise in the 2025/26 financial year at R5.84 trillion (\$319.5 billion), 73.6% of GDP. This is almost three years later than envisioned in the 2022 **Medium Term Budget Policy Statement**

<sup>11</sup> The Exchange, 1 Nov 2022

<sup>12</sup> M&G, 22 Feb 2023

<sup>13</sup> Daily Maverick, 22 Feb 2023

<sup>14</sup> M&G, 22 Feb 2023

<sup>15</sup> M&G, 22 Feb 2023

**(MTBPS).** This, itself, may be overly optimistic as the government is still in negotiations over public sector wage increases with the respective unions demanding wage increases between 10% and 12%. The state is unlikely to convince unions to accept a below-inflation wage increase and will be averse to risking a major public-sector strike in the year before an election.

The other major load shedding-related intervention was the announcement of tax incentives for rooftop solar power. Under this scheme, businesses will be able to claim back up to 125% in tax rebates for installing rooftop power and the state will launch a **Bounce Back Loan Guarantee Scheme** to facilitate SMMEs' ability to fund these installations. Individual households will be able to claim a 25% tax rebate on any installed solar panels, but this is capped at R15,000 (\$821).

Godongwana also indicated that the state has allocated R903 billion (\$49.4 billion) towards infrastructure spending over the medium term, substantially more than indicated in the SONA, but it is unclear how much will be spent in the coming year. The largest portion of this, around R448 billion (\$24.5 billion), will be spent by state-owned companies, public entities, and public-private partnerships. The roads agency, **SANRAL**, has also been allocated R351.1 billion (\$19.2 billion) to upgrade the national road network but the state-owned railway and ports operator **Transnet** was not mentioned in the speech, nor were the plans to improve railways and ports. These were included in the actual budget itself, but it is evident that the government is not prioritising these vital infrastructures.

Godongwana further noted that the economy grew by 2.5% in 2022; a marked improvement on the 1.9% forecast in October during the MTBPS. However, he has a bearish view of medium-term prospects and expects real GDP to average 1.4% cent from 2023 to 2025.

Godongwana may have received praise for the budget given the economic and fiscal context, however, there is no escaping that this was a triage budget. Godongwana's speech made it clear that his primary task was to temper various crises while limiting the bleeding from the fiscus. This was evident in the interventions aimed at Eskom, debt servicing, and that the only real measure to address the growing cost of living crisis was to provide inflationary increases to social grants. The budget was largely devoid of major announcements and interventions which would stimulate economic growth and investment. It was evident from both the SONA and the budget speech that the government and the economy are paralysed until the electricity crisis is rectified, or at least stabilised.

### Renewed upheaval in Gauteng metro municipalities

Instability continues to reign in **Gauteng** province's three largest metro municipalities: **Johannesburg**, **Ekurhuleni**, and **Tshwane**. The **Democratic Alliance's Mpho Phalatse** was voted out as the city's mayor after she struggled to secure majority support on the city council on 26 February.<sup>16</sup> This primarily was due to the defecting of the **Patriotic Alliance (PA)** the opposing coalition. This second grouping was formed after a tentative agreement was reached between the **African National Congress (ANC)** and the **Economic Freedom Fighters (EFF)** to work together. However, neither party would agree to let the other take over the mayor's chain and as a result **Thapelo Amad** of the Islamist party, **Al Jama-ah**, was elected as the city's new mayor.<sup>17</sup> Al Jama-ah only has three seats in the council and only received 0.95% of the vote in 2021 but thanks to the nature of coalition politics, currently run the country's economic hub.

Amad's election as mayor marks the third change in mayor since the 2021 elections and makes him the city's seventh mayor since erstwhile DA member and **ActionSA** leader **Herman Mashaba** resigned in 2019. The instability within the city council has exacerbated service delivery problems in Johannesburg. Amad will now need to lead his disparate coalition to address these severe challenges including improving municipal services and an infrastructure overhaul. However, Amad is unlikely to have much success given that both the ANC and the EFF (the two largest coalition members) view

<sup>16</sup> Daily Maverick, 26 Jan 2023

<sup>17</sup> News24, 30 Jan 2023

Amad as an interim mayor until they can reach an agreement on a more preferred mutually acceptable candidate.<sup>18</sup>

This nascent alliance between the ANC and EFF is also creating instability across the N3 highway in Ekurhuleni municipality. The two parties called a motion of no confidence in Ekurhuleni Speaker **Raymond Dhlamini** on 2 February, before electing the EFF's **Nthabiseng Tshivhenga** as interim speaker.<sup>19</sup> However, the ANC and EFF failed to follow the correct procedure in ejecting Dhlamini and the DA politician was reinstated on 20 February.<sup>20</sup> However, it is clear that Dhlamini and Mayor **Tania Campbell**'s days in office are numbered and that Campbell needs the tacit support of the EFF to maintain a majority on the council. She was temporarily removed from office in November but managed to be re-elected after the talks between the ANC and EFF broke down over who would get to hold the mayoralty. This has been resolved and if Tshivhenga was tapped to be the speaker, it likely means that the ANC would get the mayorship.

This alliance between the ANC and EFF is likely temporary at best as the EFF has proven to be a somewhat unpredictable partner and will use any power, they must undermine the ANC ahead of the 2024 elections. The EFF is eager to prove it can govern to improve its reputation with voters, however, they understand they are competing with the ANC for the same pool of voters in the next elections.

The Tshwane city council governing coalition is also experiencing instability, albeit more of its own making. Mayor **Randall Williams** tendered his resignation on 13 February, ironically citing the need to maintain stability in the metro's ruling coalition.<sup>21</sup> This was then complicated by Williams' attempt to amend his resignation letter to come into effect on 1 March but a legal opinion secured by the council rejected this amendment and Williams left office as of 20 February.<sup>22</sup> Williams resigned after his relationship with his coalition partners deteriorated to a point beyond repair.

The former mayor was repeatedly accused of arrogance and not consulting with his coalition partners. This escalated into a public spat in August 2022 when he was accused of interfering in an R26 billion (\$1.4 billion) tender process for the refurbishment of power stations.<sup>23</sup> This resulted in him being publicly criticised by ActionSA – the second-largest party in the coalition. This situation deteriorated further after the Auditor-General's report into the municipality found over R10 billion (\$547m) in irregular expenditure.<sup>24</sup>

Although portrayed as his own decision, Williams was likely encouraged to step down by the DA itself as the party is deeply fearful of losing control of Tshwane as well as Johannesburg (and likely Ekurhuleni). Tshwane is the one major metro in the province where a strong workable coalition can be formed without needing either the PA or the EFF's tacit endorsement. This sentiment is shared by the other coalition partners and on 22 February it was revealed DA member of parliament (MP) **Cilliers Brink** has been selected as the coalition's candidate to replace Williams.<sup>25</sup>

The instability witnessed in Gauteng's metros provides worrying signs of what the future of provincial and national politics may look like in South Africa. There is a strong possibility that Gauteng province and potentially even the national parliament will not have a single majority party in 2024 which would necessitate the formation of coalitions. In Gauteng, a multi-party coalition will likely be required to form a government, but these coalitions have proven to be unstable as they are often still minority parties that rely on continuous support from the EFF or due to the fickle nature of parties

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<sup>18</sup> Citizen, 28 Feb 2023

<sup>19</sup> ENCA, 3 Feb 2023

<sup>20</sup> Kempton Express, 20 Feb 2023

<sup>21</sup> Moneyweb, 13 Feb 2023

<sup>22</sup> EWN, 21 Feb 2023

<sup>23</sup> News24, 18 Aug 2023

<sup>24</sup> SABC News, 26 Jan 2023

<sup>25</sup> News24, 23 Feb 2023.

like the PA. In addition, both the ANC and the DA often struggle to understand the need for consensus-building in such coalitions, evidenced by repeated complaints against Williams.

If these parties are unable to find a way to make such coalitions work, the instability witnessed in the Johannesburg council could be replicated on a national level.

### Planner

24 Feb 2023 **Paris (France)** The **Financial Action Task Force** to rule on whether to grey list South Africa;

20 March 2023 **(South Africa) Economic Freedom Fighters (EFF)** countrywide shutdown protest

2024 **(South Africa)** General election

### Chronology

21 Feb 2023 **Johannesburg (South Africa)** *M&G*. The **ANC National Executive Committee (NEC)** appoints new sub-committee heads, which are all led by close allies of President **Cyril Ramaphosa** strengthening his position in the party;

21 Feb 2023 **Bloemfontein (South Africa)** *ENCA*. **Free State** premier **Sisi Ntombela** resigns from office and is expected to be replaced by **African National Congress (ANC)** Free State provincial chairperson, **Mxolisi Dukwana**.

20 Feb 2023 **Johannesburg (South Africa)** *Daily Maverick*. **Gauteng** Premier **Panyaza Lesufi** delivers his **State of the Province Address** during which he pledges to scrap e-tolls in the province this year;

17-27 Feb 2023 **Durban (South Africa)** *Defenceweb*. South Africa hosts the controversial naval **Exercise Mosi** with **Russia** and **China** off the coast of **KwaZulu Natal**;

19 Feb 2023 **Vereeniging (South Africa)** *ENCA*. The **Vaal Dam** opens two additional sluice gates to alleviate pressure on the dam raising concerns of flooding downriver in the **Free State** and **Northern Cape** provinces;

19 Feb 2023 **Pretoria (South Africa)** *News24*. Officials confirm that the licence for **Eskom's** new transmission company has been published for public comment by the **National Energy Regulator of South Africa (Nersa)**, an essential step in the restructuring of Eskom into three separate entities;

15 Feb 2023 **Johannesburg (South Africa)** *Business Day*. **United States**-based agency **Fitch Ratings** warns that the electricity crisis could weigh on South Africa's international ratings if it is not properly addressed;

14-26 Feb **Cape Town (South Africa)** *Parliament*. **Parliament** holds its debate on the **State of the Nation Address**;

14 Feb 2023 **Johannesburg (South Africa)** *Business Day*. State-owned mobile operator **Telkom** unveils plans to slash as many as 1,770 jobs and sell its device credit book for R1 billion (\$56m) as rolling power cuts and heavy spending on the mobile network increase costs and erode its profitability;

7 Feb 2023 **Johannesburg (South Africa)** *Business Day*. **South African Revenue Service (SARS)** warns that tax collection will be lower this fiscal year as worsening power cuts combine with an increased cost of living;

6 Feb 2023 **Cape Town (South Africa)** *DA*. The **Democratic Alliance (DA)** begins accepting leadership nominations ahead of the party's upcoming **Federal Congress** on 1-2 April 2023;

6 Feb 2023 **Cape Town (South Africa)** *Daily Maverick*. Four new **African National Congress (ANC)** members of parliament are sworn in, including ANC deputy president **Paul Mashatile**, former **Johannesburg** mayor **Parks Tau**, former **KwaZulu Natal** premier **Sihle Zikalala**, and ANC second deputy secretary-general **Maropene Ramokgopa**. These four are all expected to be appointed to cabinet in President **Cyril Ramaphosa**'s next reshuffle with Mashatile to be appointed as deputy president;

5-8 Feb 2023 **Cape Town (South Africa)** *M&G*. The **Investing in Africa Mining Indaba** takes place at the **Cape Town International Convention Centre**;

2 Feb 2023 **Johannesburg (South Africa)** *Business Day*. State-owned utility **Group Chief Executive Eskom Holdings SOC Ltd André de Ruyter** says the high level of coal corruption embedded in Eskom's supply chain is causing South Africans to accelerate the move away from coal;

30 Jan 2023 **Johannesburg (South Africa)** *News24*. Former **Johannesburg** mayor **Mpho Phalatse** announces her intention to challenge **John Steenhuisen** as the **Democratic Alliance (DA)** federal leader at the party's upcoming conference;

26 Jan 2023 **Johannesburg (South Africa)** *Business Day*. **South African Reserve Bank (SARB)** (central bank) governor **Lesetja Kganyago** says the **Monetary Policy Committee** has decided to increase the repurchase rate by 25 basis points to 7.25% per year, effective 27 January, as inflation remains above the central bank's target bracket;

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