

AFRICA RISK CONSULTING

South Africa Monthly Briefing December 2020

South Africa Summary 21 December 2020

Health minister Zweli Mkhize declares a second wave of coronavirus infections in South Africa as the number of cases have surged in recent weeks in several provinces, namely Western Cape, Eastern Cape, KwaZulu-Natal and Gauteng. National statistics service Statistics SA announces that South Africa's gross domestic product rebounded by 66.1% in Q3 2020, as the country exits its longest recession since 1992. Sources close to the matter say the South African government is looking to raise \$400m from the sale of a stake in its bankrupt carrier, South African Airways. State utility Eskom and the state's Special Investigating Unit (SIU) announce that Eskom will recover R1.56 billion (\$105m) in overpayments made to Switzerland-based automation company ABB in 2015. State-owned freight rail and ports company Transnet, Africa's largest state-owned freight rail company, records losses of R3 billion (\$203m) for the six months ending September 2020 as a consequence of the Covid-19 economic crunch.

South Africa ushers in second wave of COVID-19

Health minister **Zweli Mkhize** on 9 December declared a second wave of **coronavirus** infections in **South Africa** as the number of cases have surged in recent weeks in several provinces, namely **Western Cape, Eastern Cape, KwaZulu-Natal** and **Gauteng**.¹ South Africa, with its population of roughly 59 million, has the most recorded coronavirus cases in **Africa**, but the government is yet to provide clarity on how it plans to order **Covid-19** vaccines, even as the global race to secure inoculations accelerates.

The latest official national figures show Covid-19 has claimed almost 22,000 lives.² The number of daily confirmed cases dropped to 725 on 21 September from a peak of 13,944 on 24 July, but rose to 4,932 on 4 December. Consequently, President **Cyril Ramaphosa** (2018-present) on 3 December extended the State of Disaster to 15 January.

However, as daily cases increase, light has emerged at the end of the tunnel in recent weeks with news about a useable vaccine. South Africa will host three Covid-19 vaccine trials. These include a partnership between **United Kingdom (UK)**-based pharmaceutical company **AstraZeneca** and the **University of Oxford (UK)**, and a trial for **United States (US)**-based multinational corporation **Johnson & Johnson**.³ The government is yet to announce a decisive strategy to immunise its population amid a resurgence of the pandemic during the holiday and festive season.

Recent developments in December suggest that South Africa will sign up to **COVAX**, a global initiative that aims to ensure that the least developed countries have access to Covid-19 vaccines. The **National Treasury** has allocated R500m (\$33m) towards COVAX and will need to procure a further R4.5 billion (\$304m) in order to secure first preference when the COVAX vaccines become readily available. Finance minister **Tito Mboweni** has said that payment for COVAX is yet to be made; however, department of health deputy director general **Anban Pillay** assures that delayed payment does not mean South Africa will miss out on the first shipment of available vaccines.

¹ Bloomberg, 10 Dec 2020

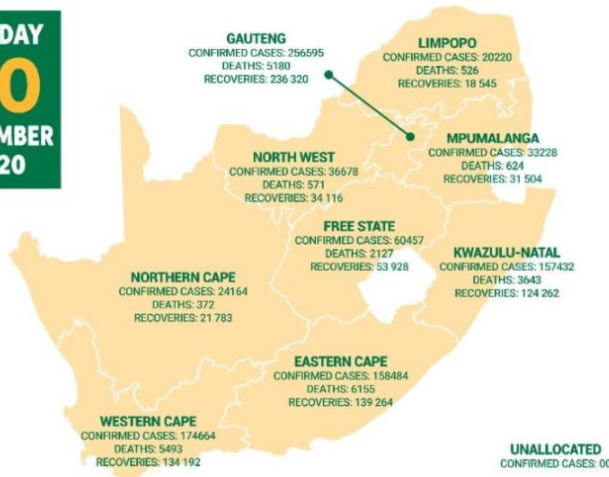
² Bloomberg, 10 Dec 2020

³ Bloomberg, 10 Dec 2020

COVID-19 STATISTICS IN SA

| | | | | |
|---|---|---|---|---|
|  |  |  |  |  |
| 6 140 839 | 921 922 | 793 914 | 24 691 | 9 445 |
| TESTS CONDUCTED | POSITIVE CASES IDENTIFIED | TOTAL RECOVERIES | TOTAL DEATHS | NEW CASES |

**SUNDAY
20
DECEMBER
2020**



South Africa is required to make a down payment of R320m (\$22m). It is reported that this will be provided as a donation by the **Solidarity Fund**, a charitable institution set up to help combat the pandemic. According to Solidarity Fund representative **Stavros Nicolauou**, the donation will be transacted once the department has agreed to certain conditions.⁴

According to Professor **Deenan Pillay**, the COVAX vaccine will initially provide doses for just 3% of the country's 59 million residents.⁵ However, Pillay notes that the vaccine will cover at least 10% over the longer term. The South African government has said that front-line health-care workers and the elderly will be given preference. This means that advance-purchase agreements with

pharmaceutical companies will be needed to protect the wider community.

The need for a vaccine was amplified this month with the confirmation of a new Covid-19 variant, **501.v2**, in the UK, which has been identified in the Eastern Cape, KwaZulu-Natal and along the Western Cape's **Garden Route**, and appears to spread faster than other variants of the virus.⁶ Several countries have already imposed travel bans on South Africa, including **Israel, Turkey, Germany, Saudi Arabia** and **Switzerland**, with more likely to follow suit.

In terms of securing manufacturing deals, Africa's largest drug-maker, **Aspen Pharmacare Holdings**, agreed in November to manufacture one third of the one billion doses that Johnson & Johnson will produce in a South African factory in 2021. Half of the total production will be procured specifically for emerging markets under the COVAX programme.

President Ramaphosa on 14 December announced new restrictions to combat the sharp increase in coronavirus cases during the Christmas holidays, which will have a major impact on businesses in the worst-affected areas. The new restrictions put tighter limits on public gatherings and earlier curfews.

Economy putting up a fight

National statistics service **Statistics SA** on 8 December announced that South Africa's gross domestic product (GDP) rebounded by 66.1% in Q3 2020, reflecting the economy's recovery from the height of the Covid-19 lockdown as it exits its longest recession since 1992.⁷ This comes against the backdrop of a revised 51.7% decline in the three months through June and is the strongest growth since 1990. The rebound is attributed to a relaxation of the strict lockdown measures imposed during Q2.

Growth in Q3 has translated into renewed South African business confidence. Such confidence continued its slow recovery in November, rising to its highest level since April last year, driven by low

⁴ Solidarity Fund, 2020

⁵ Reuters, 9 Dec 2020

⁶ Business Insider, 21 Dec 2020

⁷ Business Day, 8 Dec 2020

inflation and the resumption of trade after the coronavirus lockdown. According to the **South African Chamber of Commerce and Industry's (SACCI) monthly Business Confidence Index (BCI)**, business confidence rose to 93.4 in November, from 92.0 in October:

*"The present short-term month-on-month recovery of 1.4 index points in the BCI is primarily the result of the low base of activity from where the recovery is gradually gaining traction... Low inflation, the recovery in certain trade categories, and the reset of international trade and commodity prices, are the major developments that contributed to an improved business climate at present."*⁸

Nevertheless, poor economic performance and high unemployment persist amid the government's rapidly rising debt levels. According to SACCI, substantially higher economic performance emanating from reforms directed towards growth and employment are needed for business confidence to continue to improve.

Government seeks \$400m for stake in SAA

Sources close to the matter say the South African government is looking to raise \$400m from the sale of a stake in its bankrupt carrier, **South African Airways (SAA)**.⁹ SAA's search for an equity buyer comes amid a global aviation crisis resulting from travel restrictions imposed to contain the Covid-19 virus. SAA has been unprofitable for 10 years and kept afloat by government debt guarantees and state bailouts. Additionally, the airline has been commercially grounded since March due to travel bans to contain the coronavirus.¹⁰

Finance minister Tito Mboweni in October signed an agreement to fund a R10.5 billion (\$101m) revival plan for SAA, which includes severance packages for 80% of SAA's total workforce.¹¹ According to administrators, while R1.5 billion (\$10m) of the R10.5 billion (\$101m) has already been transferred, it cannot be used. Administrators say the conditions imposed breach labour and companies' regulation. Independent aviation analyst **Joachim Vermooten** has criticised the government's revival plan:

*"You won't get a meeting of minds, as no other airline will want to subsidise SAA. The current plans very clearly demonstrate that it's not a viable proposition."*¹²

Vermooten's analysis underscores the grim outlook for SAA's future. The protests that took place outside SAA headquarters for unpaid salaries for six months after the rescue proposal was published points to the dire financial situation. South Africa's largest banks are nearing an agreement to provide half of the initial amount needed. Additionally, unconfirmed reports suggest that UK-based bank **Barclays** may inject a portion of the balance, but representatives from South Africa's largest banks and Barclays declined to comment on the matter.¹³

SIU recovers R1.56 billion in overpayments made by Eskom

State utility **Eskom** and the state's **Special Investigating Unit (SIU)** announced on 11 December that Eskom will recover R1.56 billion (\$105m) in overpayments made to **Switzerland**-based automation company **ABB** in 2015.¹⁴ Eskom has been investigating suspicious contracts during the past few years, with the aim of recovering losses it suffered as a result of criminal activities by its own employees who may have illegally colluded with some of the contractors. The recovered money will be used to reduce Eskom's debts and debt service costs.¹⁵

⁸ Bloomberg, 11 Dec 2020

⁹ Bloomberg, 3 Dec 2020

¹⁰ ENCA, 7 Dec 2020

¹¹ ENCA, 7 Dec 2020

¹² Bloomberg, 8 Dec 2020

¹³ Bloomberg, 8 Dec 2020

¹⁴ EWN, 11 Dec 2020

¹⁵ ENCA, 10 Dec 2020

SIU head of investigations **Andy Mothibi** says the investigating unit cooperated with the **Hawks** and **Federal Bureau of Investigations (FBI)** for the investigations, which began in 2018. The investigation team found that Eskom awarded ABB South Africa a corrupt contract to perform work at **Khusile** power station in 2015. After investigations determined that the contract was awarded through corrupt means, the SIU and Eskom agreed on review to set it aside. Mothibi said:

"We are delighted at this settlement, which is an important vindication of the tireless efforts of the SIU investigators working in close cooperation with the Eskom and ABB teams."¹⁶

Eskom has already recovered R1.1 billion (\$74m) from US-based consultancy **McKinsey & Company** and R171m (\$12m) from UK-based **Deloitte Consulting**. Eskom has also instituted a claim for R3.8 billion (\$257m) against members of the **Gupta** family, Gupta associates, former Eskom executives and a former government minister, as well as a R95m (\$6m) claim against UK-based professional services company **PricewaterhouseCoopers**.

Rail and port volumes decline

State-owned freight rail and ports company **Transnet**, Africa's largest state-owned freight rail company, recorded losses of R3 billion (\$203m) for the six months ending September 2020, compared to a R2.9 billion (\$196m) profit for its 2019 interim period, as a consequence of the Covid-19 economic crunch.¹⁷ The rail division accounts for 60% of the group's overall revenue.

The pandemic is having an unprecedented negative impact on revenue. Freight rail is experiencing a 16.4% decline in volumes, while port container volumes are 20.7% down. Ports (including **Transnet Port Terminals** and **Transnet National Port Authority**) are Transnet's second largest revenue contributor, making up 37% of its revenue. Transnet, which also operates fuel pipelines that largely run from **Durban** (KwaZulu Natal) to the economic heartland of Gauteng, saw pipeline volumes plummet 38%.¹⁸ However, this is a comparatively small part of its business.

The decline in Transnet's volumes is primarily a result of the decline in key sectors of the economy, including mining, which experienced a 16.4% decline in rail volumes and a 20.7% drop in port volumes. Transnet's bulk terminals did not operate at full capacity during the initial hard lockdown, which affected exports of iron ore, manganese and chrome. Container terminals were similarly impacted during the same period.¹⁹

Port volumes were also impacted by the limited availability of operational employees due to coronavirus cases. Pipeline volumes were significantly reduced by the total shutdown of airports and minimal automobile movement with lockdown imposed travel restrictions, and the negative impact of fuel theft incidents. During this period Transnet supported the economy by focussing operations on moving essential cargo, operationalising container terminals and ports as well as essential rail corridors.

¹⁶ EWN, 11 Dec 2020

¹⁷ Reuters, 9 Dec 2020

¹⁸ Reuters, 9 Dec 2020

¹⁹ Reuters, 9 Dec 2020

Planner

Jan 2021 **(South Africa) African National Congress (ANC) National General Council (NGC);**
 19-21 Jan 2021 **Pretoria (South Africa) South African Reserve Bank (central bank) MPC meeting;**
 2-3 Feb 2021 **(South Africa) Virtual Mining Indaba;**
 23-25 Mar 2021 **Pretoria (South Africa) South African Reserve Bank (central bank) MPC meeting;**
 30-31 Mar 2021 **(South Africa) Virtual Investment Programme;**
 May 2021 **(South Africa) Municipal elections;**
 18-20 May 2021 **Pretoria (South Africa) South African Reserve Bank (central bank) MPC meeting;**
 20-22 Jul 2021 **Pretoria (South Africa) South African Reserve Bank (central bank) MPC meeting;**
 21-23 Sep 2021 **Pretoria (South Africa) South African Reserve Bank (central bank) MPC meeting;**
 16-18 Nov 2021 **Pretoria (South Africa) South African Reserve Bank (central bank) MPC meeting;**
 2021 **(South Africa) Municipal elections;**
 7-10 Feb 2022 **Cape Town (South Africa) Investing in African Mining Indaba**
 2024 **(South Africa) General election.**

Chronology

21 Dec 2020 **Johannesburg (South Africa) Business Tech.** Private and public hospitals warn of capacity strain amid a second wave of **COVID-19** in South Africa;

20 Dec 2020 **Johannesburg (South Africa) Bloomberg.** Anti-immigration groups stage demonstrations in Johannesburg, demanding mass deportation of foreigners as unemployment increases to a 17-year high;

19 Dec 2020 **Johannesburg (South Africa) Business Tech.** A new variant of the **COVID-19** virus has been identified in the **Western Cape** and **Gauteng**, as South Africa experiences a sharp increase in positive cases;

18 Dec 2020 **Bloemfontein (South Africa) Daily Maverick.** The ruling **African National Congress (ANC)** states that the party will celebrate the party's anniversary within the **Covid-19** lockdown restrictions;

18 Dec 2020 **Johannesburg (South Africa) Reuters.** South Africa's total reported **coronavirus** cases surpassed 900,000, just a fortnight after it reported crossing 800,000, signaling a rapid rise in infections in the country;

18 Dec 2020 **Cape Town (South Africa) Business Tech.** Cooperative governance and traditional affairs minister **Nkosazana Dlamini-Zuma** grants permission for registered wineries and wine farms to operate over the weekends, despite lockdown regulations;

18 Dec 2020 **Johannesburg (South Africa) Bloomberg.** South Africa's main stock index falls, retreating from the highest close since January 2018;

18 Dec 2020 **Cape Town (South Africa) Business Tech.** The opposition **Democratic Alliance**

will file a complaint against finance minister **Tito Mboweni** for allegedly misleading the legislature about the country's payment to sign up to the global **COVAX** programme;

15 Dec 2020 **Johannesburg (South Africa)** *Daily Maverick*. The **African National Congress (ANC) Integrity Commission** has found that secretary-general **Ace Magashule** must step aside after being charged with counts of corruption;

14 Dec 2020 **Port Elizabeth (South Africa)** *Daily Maverick*. Beaches on the **Garden Route (Western Cape)** and in the **Eastern Cape** will be closed from 16 December, after President **Cyril Ramaphosa** announces tighter restrictions for the country;

11 Dec 2020 **Johannesburg (South Africa)** *Reuters*. **Switzerland**-based automation company **ABB** agrees to pay R1.5 billion (\$104m) to South Africa's state-owned power utility **Eskom** to settle an investigation into overpayments;

10 Dec 2020 **Johannesburg (South Africa)** *Reuters*. **Standard Bank** announces stricter criteria for financing thermal coal mining projects, but refrains from limiting funding, despite pressure from climate activists in the country;

7 Dec 2020 **Johannesburg (South Africa)** *Bloomberg*. **Department of Public Enterprises** offers staff members of state-owned **South African Airlines** three months' pay as opposed to the eight months' pay they are entitled to in terms of **section 189A** of the **Labour Relations Act**;

4 Dec 2020 **Durban (South Africa)** *Reuters*. South Africa's second-largest crude oil refinery, the **Engen** plant, has been shut down to give investigators the opportunity to ascertain the cause of a fire;

1 Dec 2020 **Johannesburg (South Africa)** *Reuters*. South Africa's currency leads gains across emerging markets in **Europe**, the **Middle East** and **Africa**;

29 Nov 2020 **Johannesburg (South Africa)** *Bloomberg*. Local retailers including **The Foschini Group** and **Woolworths** increase investment in local clothing manufacturers to reduce dependency on **Chinese** imports and secure a supply chain thrown into disarray by **Covid-19** restrictions.

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