



CITY OF TSHWANE METROPOLITAN MUNICIPALITY

MUNICIPAL CREDIT RATING

05 June 2024



RATING ACTION

Sovereign Africa Ratings (SAR) has completed its assessment of The City of Tshwane Metropolitan Municipality's (City of Tshwane, or "the city") creditworthiness and assigned the following credit ratings and outlook:

Date	Rating Category	Rating	Outlook
International Scale Ratings:			
5 June 2024	Long-term	CCC	Stable
5 June 2024	Short-term	C	Negative
National Scale Ratings:			
5 June 2024	Long-term	CCC^{+(za)}	Stable
5 June 2024	Short-term	C^(za)	Negative

CONFIDENTIAL

The City of Tshwane is assigned a long-term international scale issuer rating of CCC and national scale issuer rating of CCC^{+(za)}, and a short-term issuer rating of C both on international and national scale issuer ratings. The outlook for the long-term ratings is stable, while the outlook for the short-term ratings is negative. These ratings reflect SAR's view of the City of Tshwane's resilient economic fundamentals, characterised by a robust and diversified economy as well as a weak debt profile and weak revenue generation capacity. The stable outlook on the long-term rating indicates that SAR expects these economic strengths to remain largely unchanged in the foreseeable future while the City stabilises its financial profile. The short-term ratings are primarily driven by the city's relatively weak debt and contingent liability profile, characterised by high levels of outstanding debt and an unstable revenue base. Additionally, the unstable liquidity position further weakens the short-term outlook, raising concerns about the City's immediate ability to meet its financial obligations.

The majority of the City's income, around 68.6%, is generated from user fees for services such as electricity and water. Property taxes contribute a smaller portion, at 28.2%. The remaining 3.8% comes from various sources including fines, facility rentals, interest earned, licenses, permits, and dividends. The City has a relatively lower reliance on local taxes, especially property taxes, which are typically a significant source of income for local authorities.

The challenges causing Tshwane's unstable finances are multifaceted:

High Costs and Poor Electricity Service: Residents and businesses experience high electricity costs and unreliable service delivery, partly due to load shedding as well as outages due to infrastructure failure. This incentivises customers to find alternative solutions including going "off-grid".

Non-Payment: A growing number of residents and businesses are simply not paying their bills. This creates a cash flow shortage for the city, making it difficult to meet its financial obligations.

Collection Issues: Tshwane, like many South African municipalities, has a poor track record of collecting fees for services rendered. This creates a vicious cycle where residents are less likely to pay if they believe services will be rendered in any case. SAR has however noted the City's initiatives to cut power for customers with high arrears.

The lack of cost recovery through fees is the main challenge for the city. Low collection rates not only strain finances for operations, making private infrastructure financing unfeasible, but also limit the issuer's ability to service its debt which discourages lenders. Furthermore, the Metro's population growth rate from 2010 to 2023 has been 2.3% per annum. The growing population as well as urbanisation exert public spending pressure.

Important to note is that the sovereign credit quality also affects adversely the sub-regional ratings. Slower economic growth, load-shedding, unfavourable exchange rate movements, and lack of foreign direct investment have a bearing on the sub-regional environment.

RATING RATIONALE

A Strong and Diverse Economy

Despite a national unemployment challenge, the City of Tshwane boasts a strong and diverse economy.

Population and Government Hub: Tshwane, with a population of 3.65 million, is the administrative capital of South Africa and home to numerous embassies.

Business-Friendly Environment: The city offers affordable industrial space, a variety of established industries, office space, and educational and research facilities, making it a leader in South Africa for business development.

Economic Strength: Tshwane contributes significantly to the national economy, accounting for 28.3% of Gauteng's GDP and 9.9% of South Africa's GDP.

Workforce and Income: The city has a large labour force of 1.64 million. The per capita effective buying income is R168 124, indicating a strong consumer base.

Industrial Powerhouse: Tshwane has a well-established industrial base, including a vibrant automotive sector with a dedicated special economic zone. 53% of South Africa's transport equipment exports come from Tshwane.

Economic Focus: The city prioritises key sectors like advanced manufacturing, agri-business, tourism, and research and innovation for future growth.

Growth Potential: Tshwane is projected to experience steady economic growth at an average annual rate of 1.67% from 2021 to 2026, exceeding the national average growth rate.

In summary, Tshwane's diverse economic base, skilled workforce, and focus on innovation position it as a strong economic player in South Africa and Africa as a whole.

Adequate Budgetary Performance

The City of Tshwane's budget shows signs of stability, but there are some areas for improvement:

Overall Performance: SAR considers the city's budgetary performance adequate. Operating expenditures are projected to increase steadily from R44.5 billion in 2023/24 to R52 billion in 2025/26. There was a slight surplus of R87.5 million in 2023/24, which is expected to continue in 2024/25.

Revenue: User fees for services such as electricity and water constitute a primary source of income, accounting for a stable 68% and expected to grow further. The Medium-Term Revenue and Expenditure Framework (MTREF) aims to ensure long-term financial sustainability.

Transparency and Priorities: The city prioritises public participation in budgeting and focuses on core services and infrastructure development.

Areas of Concern: High levels of irregular expenditure R 2 976.5 million (83.2%) raise concerns about financial controls. Unauthorised expenditures R461.8 million (12.9%) and wasteful spending R137.5 million (3.8%) also need to be addressed. In aggregate, irregular expenditure, unauthorised expenditure as well as fruitless expenditure amounted to a total of R 3 575.8 million in 2023.

In summary, Tshwane's budget shows stability, but addressing irregular spending is crucial for long-term financial health.

Adequate Budgetary Flexibility

The City of Tshwane has minor savings (R87.55 million in 2023/24) which gives it a little breathing room in its budget. However, the city is growing fast, and it has significant infrastructure investment needs (roads, water systems, etc.). The limited revenue collection problem poses a challenge in covering these costs.

Liquidity: The City of Tshwane has low cash on hand (0.2% of spending), which implies weak liquidity. We expect its financial situation to improve over the next few years due to better tax collection and improved internal controls.

Debt: The City of Tshwane has a high debt burden. The City's net direct debt is almost half (49.6%) of the total revenue. See the debt profile below for a detailed analysis.

Strong Institutional Framework: The City of Tshwane does well in terms of overall structure and financial transparency. This suggests that even if they are now experiencing debt and cash flow challenges, they have a sound strategy in place for handling their finances.

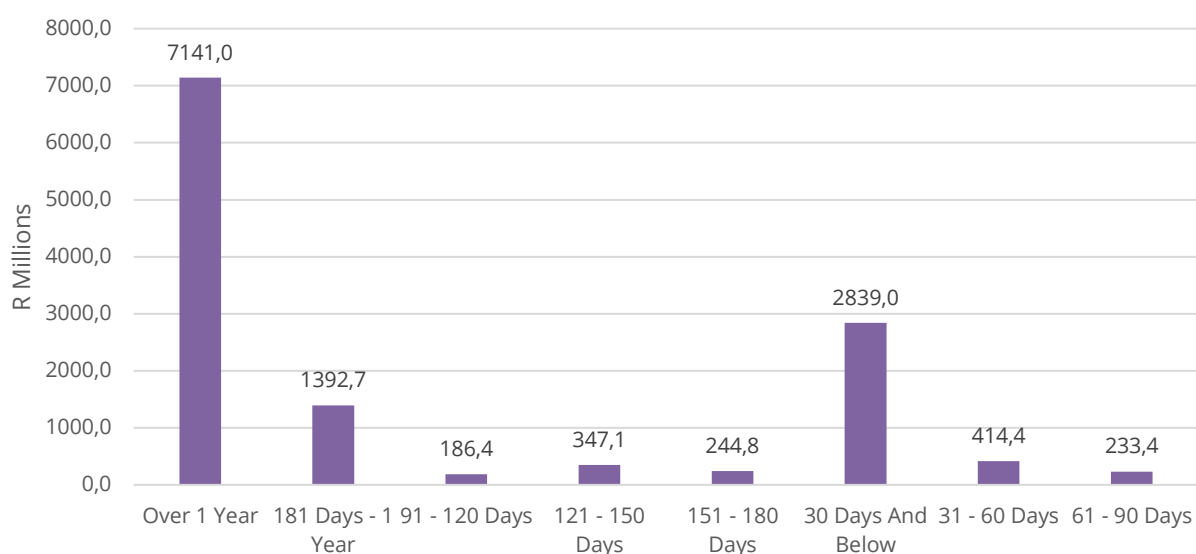
Unstable Governance and Management

We view the Metro's management and governance as relatively weak due to instability attributed to coalition governance and with continued flouting of MFMA policies and regulations. Despite a recent improvement from an adverse to a qualified audit by the Auditor General, the City of Tshwane's weak internal controls continue to be a concern. These shortcomings hinder revenue collection, which in turn negatively impacts the city's financial base and liquidity.

DEBT PROFILE

Table 1 depicts the debtor age analysis for the City of Tshwane as of June 2019. This information was sourced from the National Treasury's Municipal Finance Data. This information is only available up to 2019 with reference to the City of Tshwane. From a total debt of R12.79 billion, R7.14 billion (55.8%) is constituted by debt over a one-year period, followed by debt of 30 days and below, R 2.83 billion (22.2%), with the rest making up 18%. An amount of R2.81 billion in 2019 was Actual Bad Debts Written off.

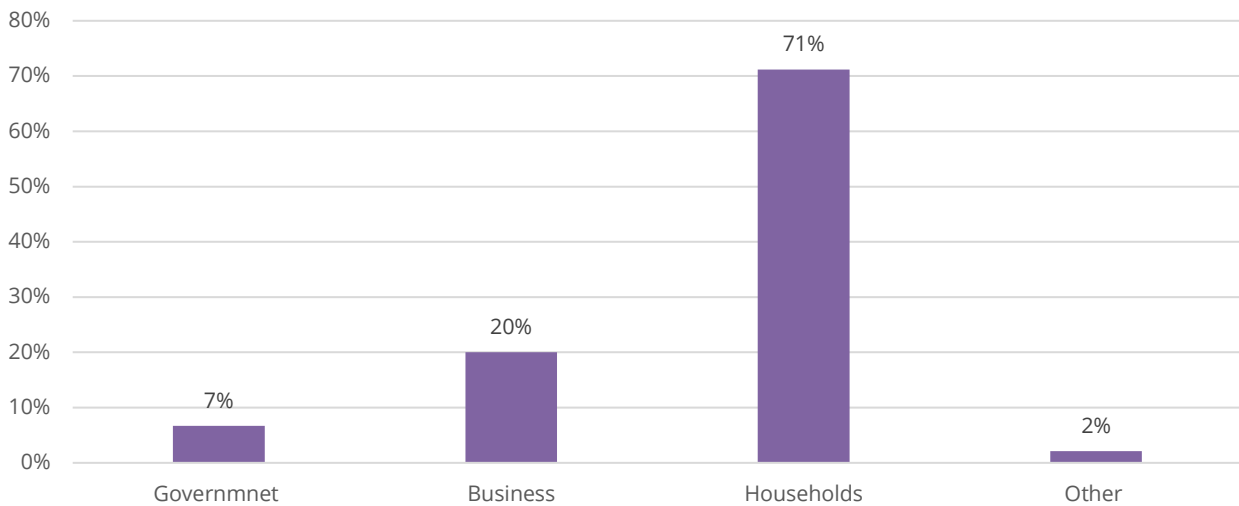
Figure 1: Composition of City of Tshwane Metro's Debtor Age Analysis, R Millions, 2019/20



Source: National Treasury, Local Government Revenue and Expenditure

In Figure 2 the municipal debtors by customer group are presented. From this figure, it is evident that a large portion (71.2%) is constituted by Households followed by Business (20%).

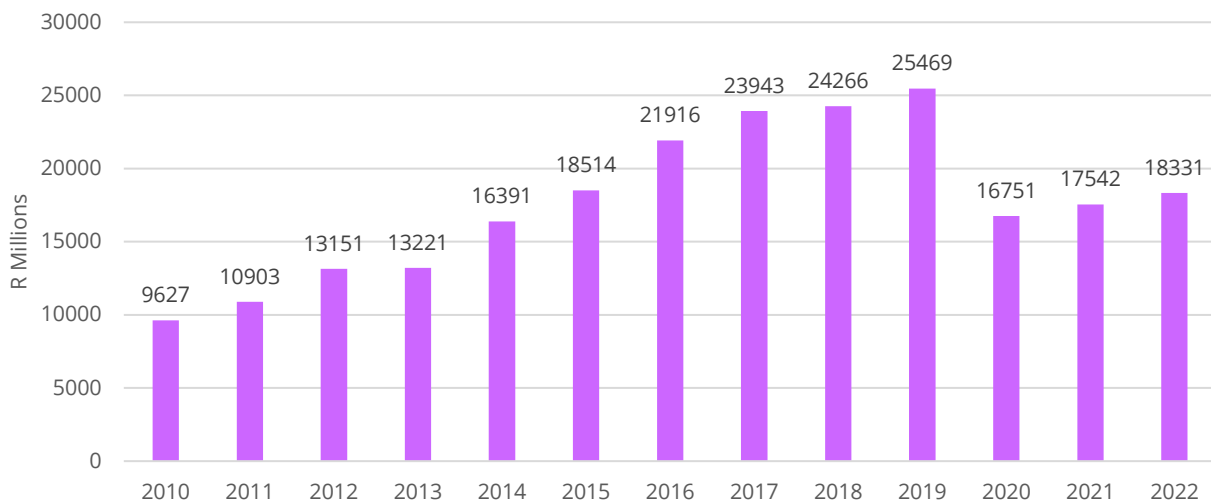
Figure 2: Municipal Debtors by Customer Group, 2019/20



Source: National Treasury, Local Government Revenue and Expenditure

In Figure 3, the Net Direct and Guaranteed Debt of the City of Tshwane is presented from 2010–2022. The Net Direct and Guaranteed Debt is the difference between the Total Non-Current and Current Liabilities of the city, loan payments and interest payments by the city. From this figure, it is evident that this amount reached its peak in 2019 (R24.56 billion) and stood at R18.33 billion in 2022.

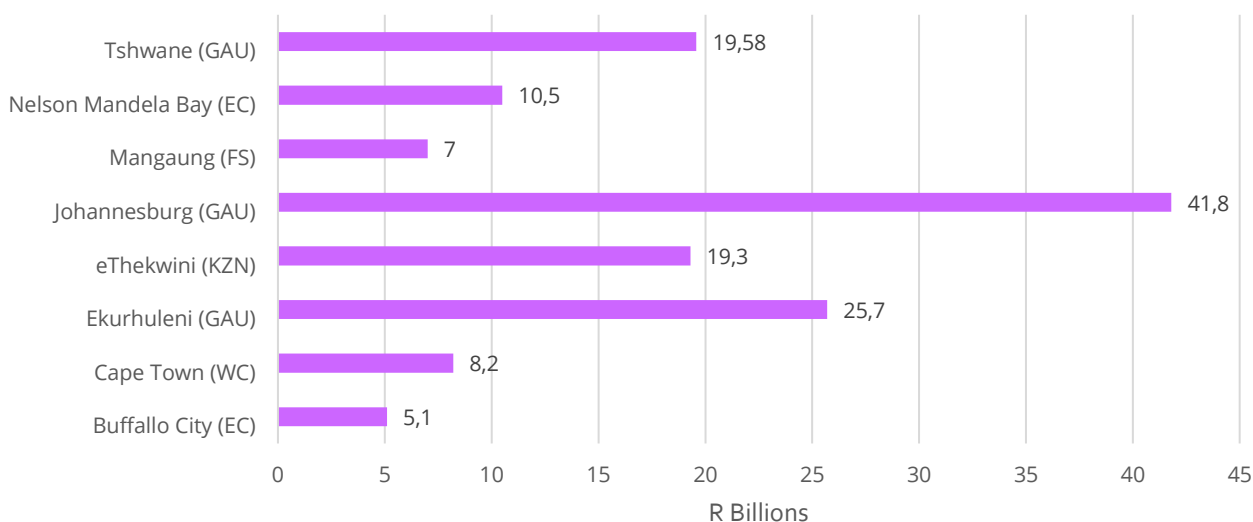
Figure 3: Net Direct and Guaranteed Debt, R Millions, 2010-2022



Source: National Treasury, Local Government Revenue and Expenditure

In Figure 4, a peer analysis comparison of metropolitan city debtors as a share of total municipal debtors is presented.

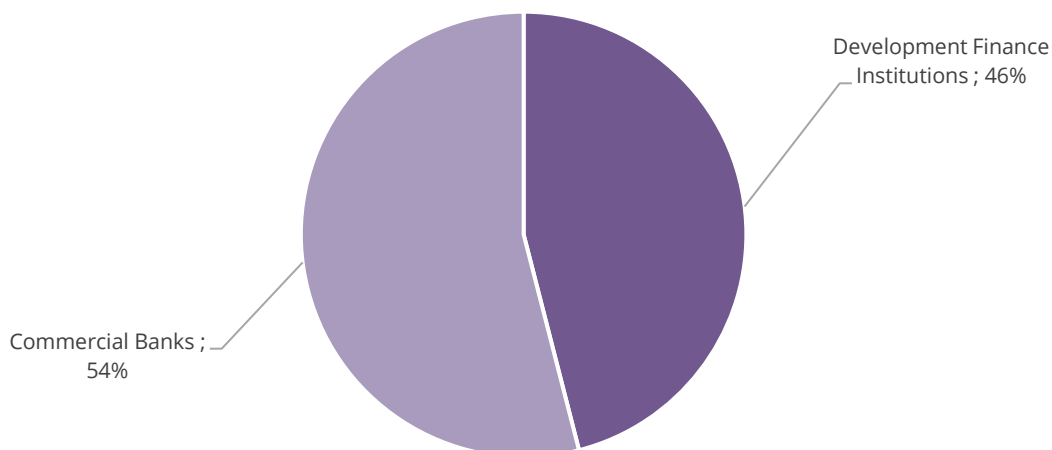
Figure 4: Metros debtors as a share of total municipal debtors, R Billions, 2022



Source: Center For Risk Analysis, 2023, Socio-Economic Survey of South Africa

In Figure 5, the composition of loans by the City of Tshwane is presented. Most of the Metro’s loans are sourced from commercial banks (54%) with the rest from development finance Institutions, such as the Development Bank of Southern Africa (DBSA). Important to note is that at this stage the Metro does not hold any dollar-denominated loans/debt.

Figure 5: Composition of City of Tshwane Loans by source, Percentages, 2022



Source: National Treasury, Local Government Revenue and Expenditure

While there was once a strong market for municipal bonds, commercial banks are currently the primary lenders to local authorities, providing both investment and cashflow support.

Table 1: City of Tshwane Metro's Debtor Age Analysis as of 2019

1	Debtors Age Analysis by Income Source	Actual Bad Debts Written Off to Debtors	Over 1 Year	181 Days - 1 Year	91 - 120 Days	121 - 150 Days	151 - 180 Days	30 Days And Below	31 - 60 Days	61 - 90 Days	Total
2	Trade and Other Receivables from Exchange Transactions - Water	896 239	1 502 771 588	329 376 542	33 984 074	70 203 971	51 516 961	704 636 156	111 588 189	48 249 468	2 852 326 949
3	Trade and Other Receivables from Exchange Transactions - Electricity	128 332	853 358 095	153 295 733	19 502 504	30 817 205	31 205 212	1 000 995 653	54 505 977	20 014 122	2 163 694 501
4	Receivables from Non-exchange Transactions - Property Rates	52 502	1 593 921 166	322 076 493	55 629 770	57 606 733	53 972 465	582 054 618	94 714 625	58 547 081	2 818 522 951
5	Receivables from Exchange Transactions - Waste Water Management	181 959	246 160 851	67 287 240	8 390 509	15 470 551	10 126 947	124 779 840	21 294 405	12 674 045	506 184 388
6	Receivables from Exchange Transactions - Waste Management	331 541	465 351 083	97 938 221	18 016 747	20 651 917	14 718 746	149 545 475	29 735 402	22 030 819	817 988 410
7	Interest on Arrear Debtor Accounts	709 828	1 621 101 372	340 245 515	40 312 876	91 710 175	58 160 821	182 732 920	78 760 465	65 024 935	2 478 049 079
8	Other	512 595	858 356 270	82 504 552	10 537 850	60 601 430	25 097 893	94 211 350	23 784 083	6 811 321	1 161 904 749
9	Total by Income Source	2 812 996	7 141 020 425	1 392 724 296	186 374 330	347 061 982	244 799 045	2 838 956 012	414 383 146	233 351 791	12 798 671 027
10	Debtors Age Analysis by Customer Group										
11	Organs of State		125 444 298	53 933 459	10 061 619	30 112 685	20 234 714	286 360 390	38 490 582	7 353 030	571 990 777
12	Commercial		1 685 208 686	380 659 581	60 338 633	88 506 068	76 790 547	1 295 699 006	130 705 248	59 226 347	3 777 134 116
13	Households		4 345 844 879	847 529 271	102 662 720	204 160 753	127 692 294	1 971 617 546	218 786 552	151 202 573	7 969 496 588
14	Other	2 812 996	984 522 562	110 601 985	13 311 358	24 282 476	20 081 490	714 720 930	26 400 764	15 569 841	480 049 546
15	Total By Customer Group	2 812 996	7 141 020 425	1 392 724 296	186 374 330	347 061 982	244 799 045	2 838 956 012	414 383 146	233 351 791	12 798 671 027

KEY RATING INDICATORS

Indicator	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Real GDP Change (% change)	4%	7%	3%	3%	3%	1%	1%	1%	1%	0%	-1%	1%	1%
Unemployment Rate (%)	23%	23%	23%	23%	23%	24%	25%	26%	26%	27%	27%	27%	27%
Current Assets/ Current Liabilities (x)	0.88	0.91	0.81	0.85	0.79	0.69	0.69	0.85	0.82	0.98	0.98	0.98	0.98
Cash Financing Surplus (Requirements)/Total Revenue (%)	3%	5%	10%	9%	3%	3%	4%	10%	8%	8%	8%	8%	8%
Net Direct and Indirect Debt/ Operating Revenue (%)	71%	72%	65%	61%	70%	72%	78%	79%	75%	72%	53%	52%	50%
Gross Operating Balance/ Operating Revenue (%)	3%	5%	10%	9%	3%	3%	4%	10%	8%	8%	8%	8%	8%
Interest Payment/Operating Revenue (%)	4%	4%	3%	3%	3%	4%	4%	4%	5%	4%	4%	4%	4%
Short-term Gross Debt/Gross Debt (%)	37%	35%	40%	37%	35%	34%	38%	39%	42%	41%	59%	59%	59%

CONFIDENTIAL

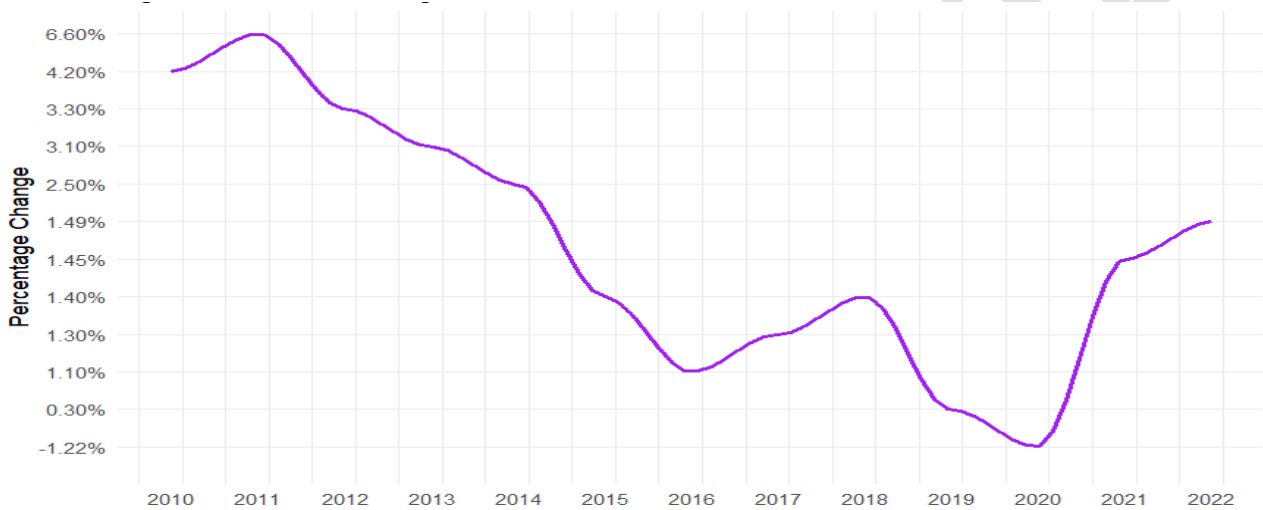
RATING DISCUSSION

Economic Strength Pillar

Economic factors are crucial for understanding Tshwane's economic outlook. To assess the city's economic health, analysts considered key metrics like Gross Value Added (a measure of economic output), GDP growth, and unemployment rate. These metrics are then compared to similar cities with the same economic structure. This comparison reveals whether Tshwane's performance is above or below average in these areas. For instance, the city's GDP has been on a downward trend until recent years.

From Figure 6 it is evident that the change in GDP growth for the city has assumed a recovery trajectory.

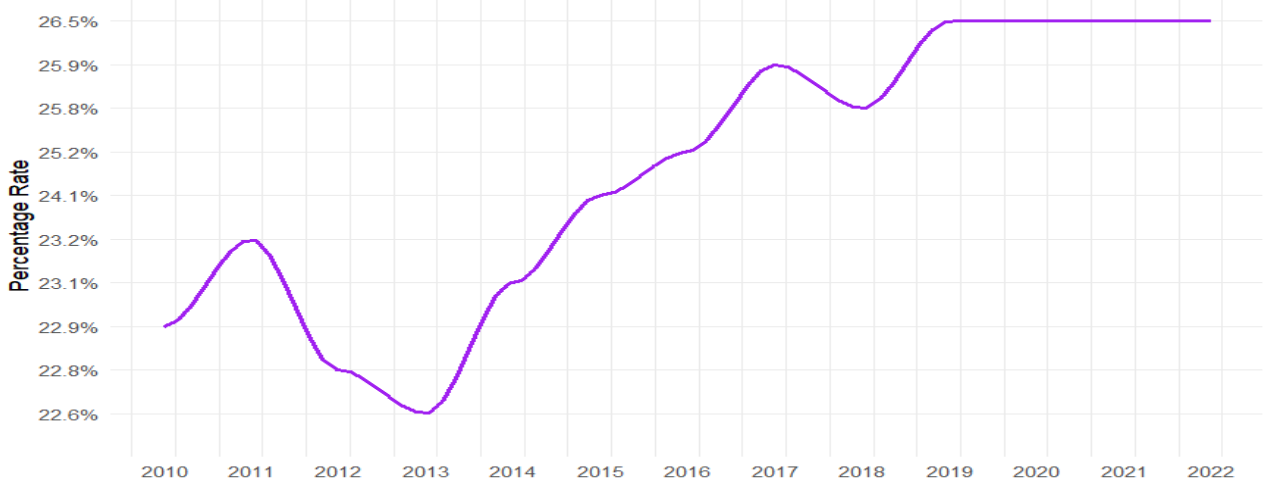
Figure 6: Real GDP Change (% Change), 2010-2022



Source: SAR's calculations based on National Treasury's Municipal Finance Data and City of Tshwane 2023 IDP

Unemployment continues to rise steadily, especially among young graduates and the youth in general, as depicted in Figure 7.

Figure 7: Unemployment Rate (%), 2010-2022



Source: SAR's calculations based on National Treasury's Municipal Finance Data and City of Tshwane 2023 IDP

Financial Strength Pillar

The Fiscal Flexibility score is encapsulated in the Financial Strength Pillar and provides an overall assessment of the debt sustainability and affordability of the City's public finances.

To assess Tshwane's ability to manage debt in the long term, the assessment goes beyond the current debt level and budget deficit. The Financial Pillar Strength considers various factors, including:

Debt Trends: This involved analysing both the accumulation of debt over time and the city's debt repayment trends (debt flows).

Financial Sustainability: This assesses whether Tshwane can afford its current debt burden while maintaining essential services.

Projections: This considers how factors like economic growth and changes in spending habits that might impact the city's ability to service its debt.

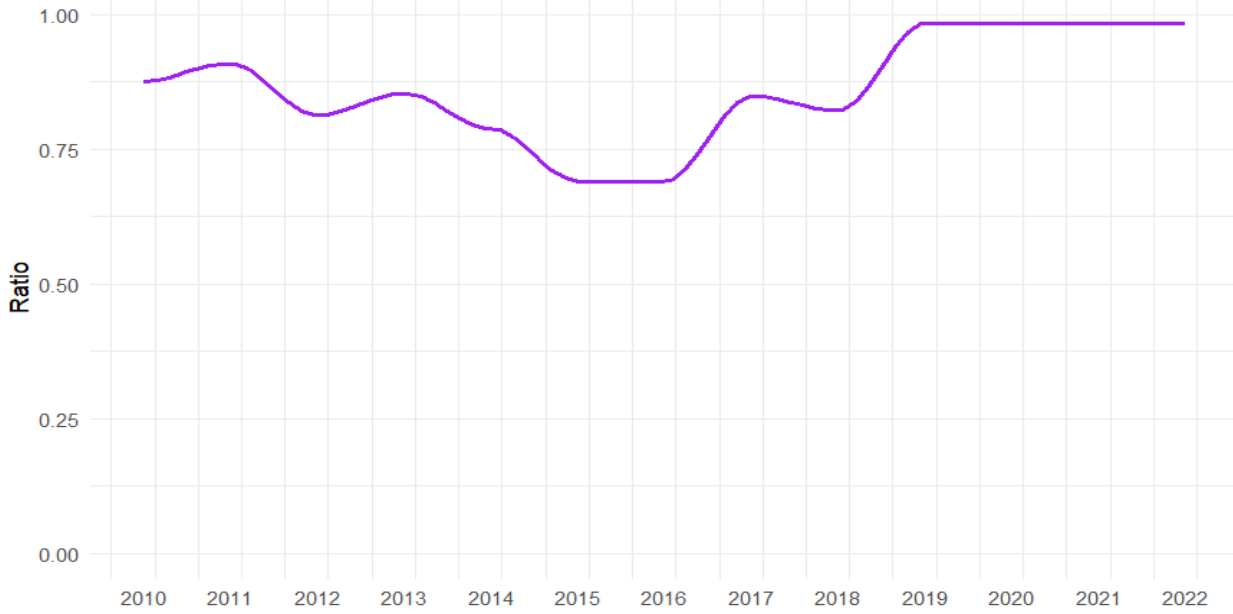
In short, the Financial Pillar Strength provides a comprehensive picture of Tshwane's financial health, going beyond simple debt figures. The basis for the Fiscal Flexibility score is the financial ratios calculated from the financial statements of the City of Tshwane as provided by the Auditor General's Report, such as:

- Current Assets/Current Liabilities
- Cash Financing Surplus (Requirements)/Total Revenue (%)
- Net Direct and Indirect Debt/Operating Revenue (%)
- Gross Operating Balance/Operating Revenue (%)
- Interest Payment/Operating Revenue (%)
- Short-term Gross Debt/Gross Debt (%)

Our analysis places strong emphasis on a sub-sovereign government's debt-servicing capacity and financing ability as reflected in its interest payments, financing, and debt position. We consider the liquidity profile to be an important determinant of timely debt service payments, particularly during periods of interrupted access to capital markets. The combination of risk-taking policy strategies and high recourse to debt financing for investments is one of the key triggers of financial distress and – as a result of eroded liquidity profiles and the circumvention of tight budgets or policy limitations on direct debt – can even lead to sub-sovereign default.

The City of Tshwane's Current Assets/Current Liability Ratios are depicted in Figure 8. A good current ratio is between 1.2 and 2. Over the years this ratio has been closer to 1, which implies that the city does not hold sufficient liquid assets to cover its short-term liabilities.

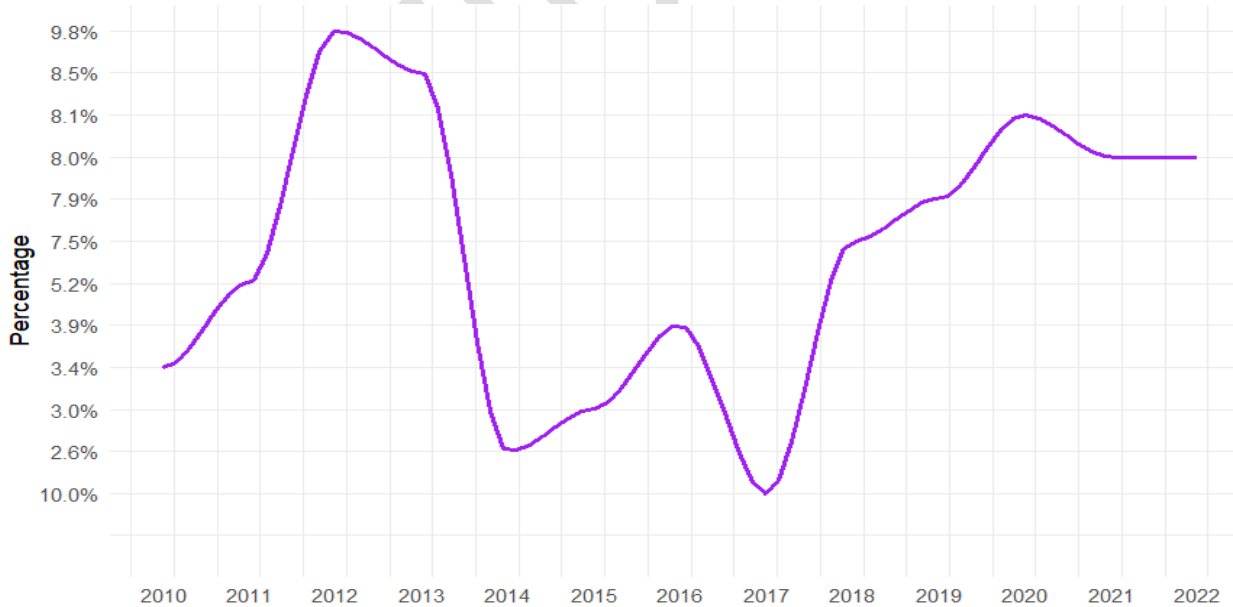
Figure 8: Current Assets/Current Liabilities (%), 2010-2022



Source: SAR's calculations based on National Treasury's Municipal Finance Data and City of Tshwane 2023 IDP

Figure 9 depicts the cash financing surplus requirements' relative total revenue for the city.

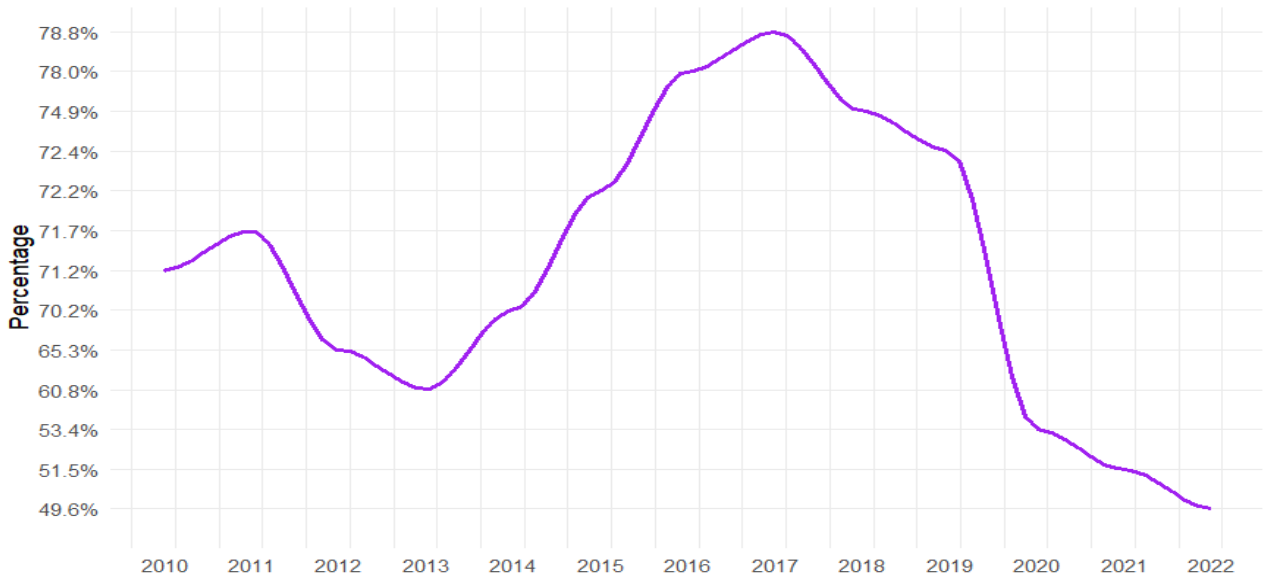
Figure 9: Cash Financing Surplus (Requirements)/Total Revenue (%) 2010-2022



Source: SAR's calculations based on National Treasury's Municipal Finance Data and City of Tshwane 2023 IDP

The net direct and indirect debt relative to operating revenue for the city is very high, averaging 66% over the years as per Figure 10 below.

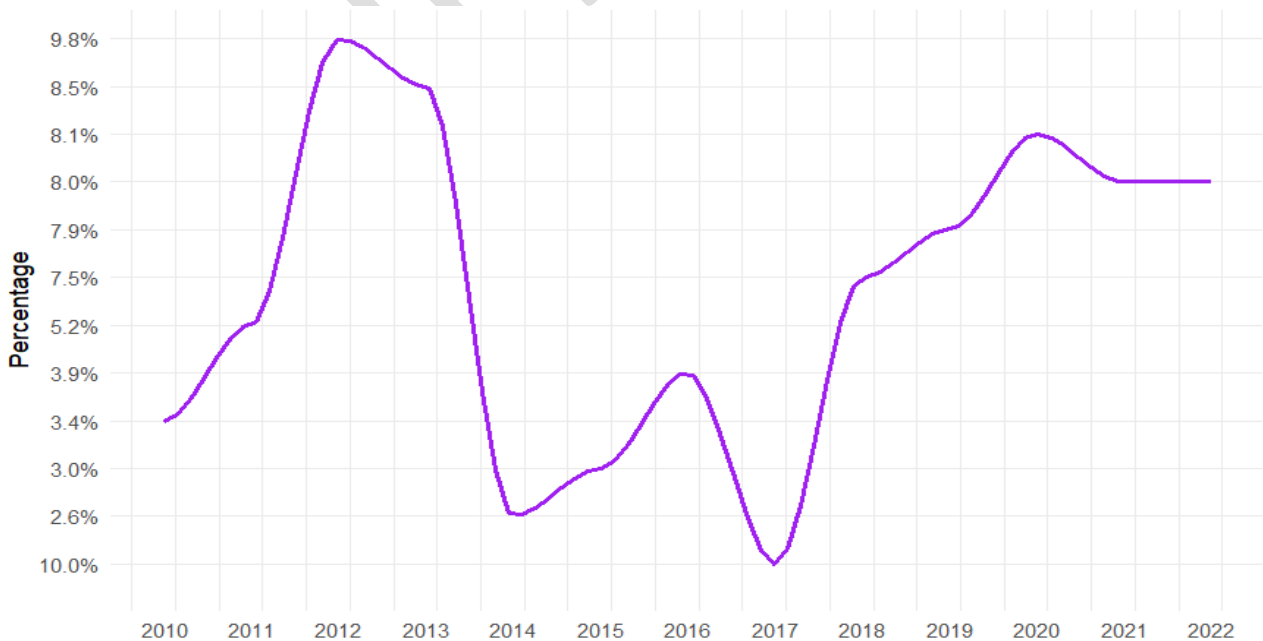
Figure 10: Net Direct and Indirect Debt/Operating Revenue (%)2010-2022



Source: SAR's calculations based on National Treasury's Municipal Finance Data and City of Tshwane 2023 IDP

The Gross Operating Balance relative to operating revenue for the city has been averaging 6% over the years, as per Figure 11 below.

Figure 11: Gross Operating Balance/Operating Revenue (%) 2010-2022



Source: SAR's calculations based on National Treasury's Municipal Finance Data and City of Tshwane 2023 IDP

When evaluating a sub-sovereign’s budget performance and flexibility, we assess a city’s ability to:

Maintain Balanced Budgets: This assesses whether the city maintains financial stability even in challenging economic times.

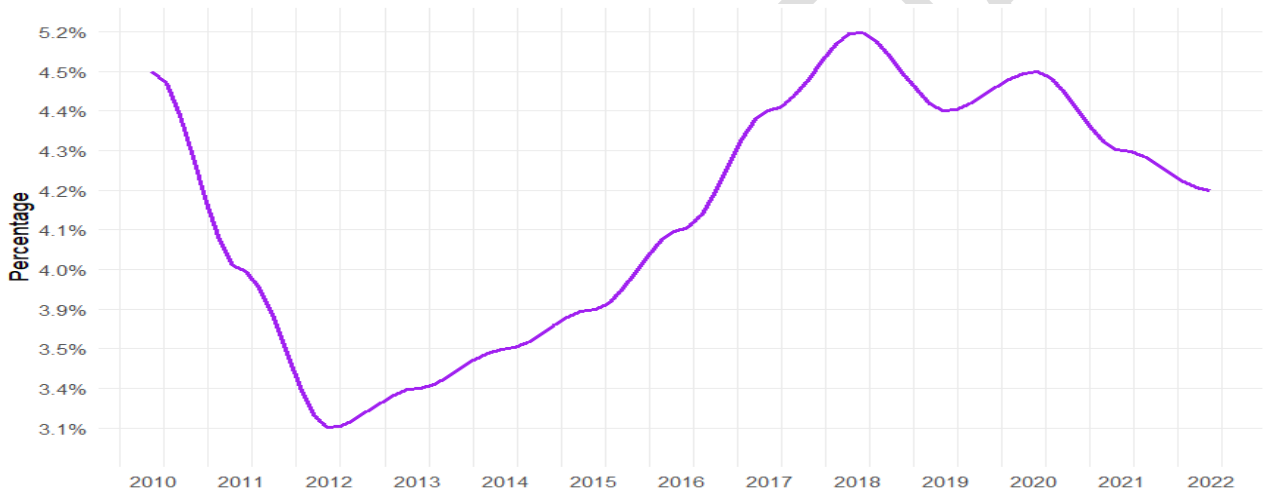
Cover Essential Costs: This assesses whether the city generates sufficient revenue to cover all its expenses, including daily operations, investments, interest payments, and debt repayments.

Predict Future Finances: This assesses whether the city accurately forecasts its income and spending patterns, allowing for responsible debt management.

In short, we focus on a city’s ability to manage its finances sustainably, ensuring it can meet its obligations both in the short and long term.

The interest payments relative to operating revenue for the city have been averaging 4.11% over the years, as per Figure 12 below.

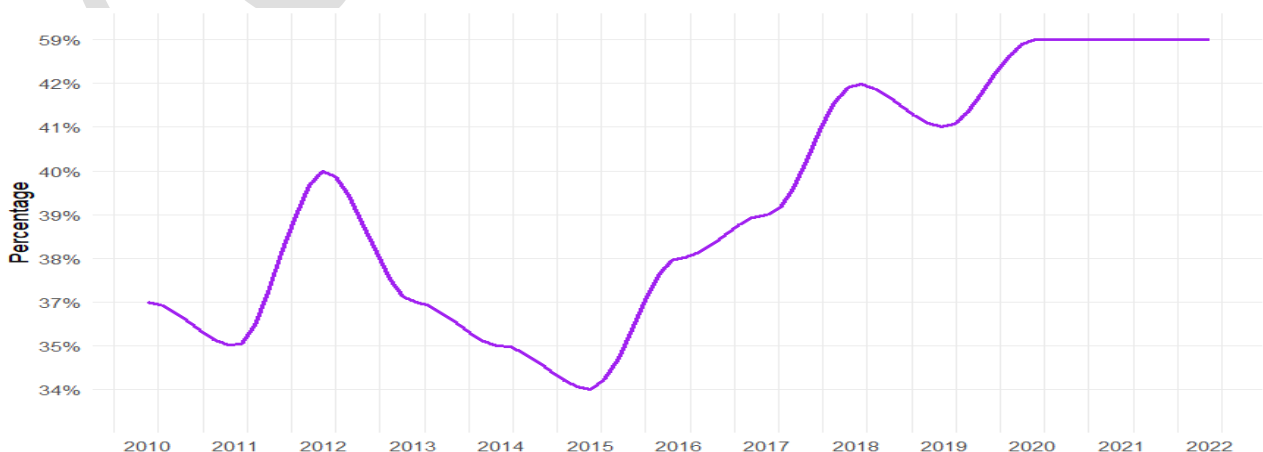
Figure 12: Interest Payment/Operating Revenue (%) 2010-2022



Source: SAR’s calculations based on National Treasury’s Municipal Finance Data and City of Tshwane 2023 IDP

The Short-term Gross Debt/Gross Debt for the city has been averaging 43% over the years, as per Figure 13 below.

Figure 13: Short-term Gross Debt/Gross Debt (%) 2010-2022



Source: SAR’s calculations based on National Treasury’s Municipal Finance Data and City of Tshwane 2023 IDP

Institutional Strength Pillar

In our view, the ability and willingness of the sovereign or higher-level government to provide support in the case of need is a key determinant of a sub-sovereign's creditworthiness. The ability to provide support is assessed by the sovereign's, or the higher-level government's issuer rating, while the willingness to provide support depends on the degree of intergovernmental integration between the government tiers, as defined by coherent legal frameworks and de facto applied rules. As such, our framework assessment is centred on the comparison of different jurisdictions.

Typically, the framework assessment is identical across sub-sovereigns of the same government layer except for the rare cases of sub-sovereigns that operate under distinct legal frameworks and whose characteristics cannot be captured by their credit profile. In these cases, our framework assessment may differ across sub-sovereigns of the same government tier within a country based on their legal status.

Environmental, Social, and Governance Pillar (ESG)

Environmental

ESG factors are incorporated into the credit analysis in the same manner as all other credit-relevant factors. For South Africa, climate change entails risk from the economic and social costs of both climate events and transition initiatives, including programmes for reducing emissions (e.g., transitioning from a carbon-based industry) and investing in adaptation measures to address potential vulnerabilities.

Environmental considerations are material to the City of Tshwane's credit profile. Similar to the rest of South Africa, its main exposures relate to water shortages.

Social

Social considerations are material to the city's credit profile. Although the economy is large and relatively richer, the city faces growing demography-related spending pressures. Demographic pressures are likely to continue to grow as a result of high levels of dysfunctional urbanisation and population growth, and it will become increasingly difficult for the city to meet the required capital infrastructure spending. The city also has a high unemployment rate, income inequality, as well as high costs of living, which directly affect the ability of its residents to pay for services and increase and foster social coherence between the various income groups.

Governance

SAR continues to monitor key governance risk factors for the Metro's economy towards and post-2024 national elections, with specific reference to risks associated with the rule of law, political stability, succession, coalition governments, and control of corruption.

Important to note is that the Metro's political stability, accountability to the rule of law, and regulatory quality enhance its credit strength. However, control of corruption in both the private and public sectors remains a challenge. Of great concern is the prevalence of energy and construction mafias – which has deterred essential investment and capital formation – as well as syndicated sabotaging of key infrastructure in South Africa such as cable theft.

Sub-regionals such as Tshwane Metro's creditworthiness also depend vitally on corruption being tackled decisively. Criminal prosecution and enforcement of sanctions against corruption offenses need to be strengthened and credible and effective deterrence mechanisms established. Anti-corruption agencies need to be equipped with sufficient legal power, capacity, and operational autonomy to prevent political

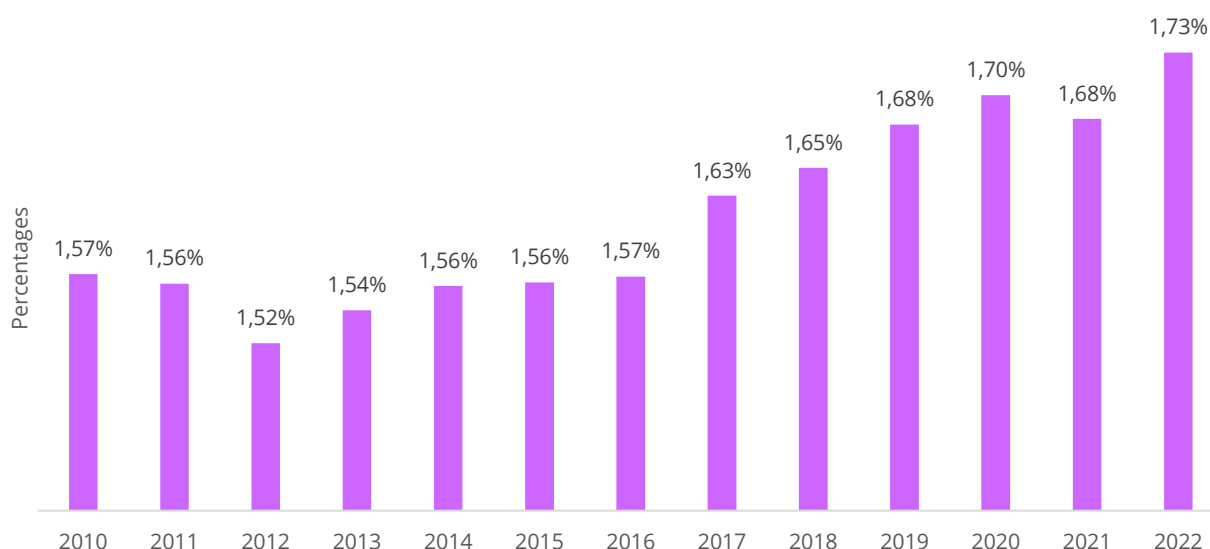
interference. The new procurement legislation and regulations under preparation present an important opportunity to address some of the deficiencies in the public procurement process. These risks are viewed as credit challenges for the city.

Natural Resource Pillar

The Natural Resource pillar and factors impacting the economic outlook score capture the mineral wealth and economic prospects of a country, which are reflective of the financial resources upon which sovereigns can draw to repay financial obligations. Wealthy, diversified, and flexible economies typically provide a sovereign with a greater potential tax base and therefore a more stable and predictable source of income. While such economies may be likely to experience business cycles and shocks, the impact on their sovereign is less likely to result in payment difficulties or defaults on financial obligations.

Figure 14 provides levels of mining GDP relative to total GDP in the City of Tshwane.

Figure 14: Mining Sector as Percentage of GDP (%), 2010-2022



Source: SAR's calculations based on SARB data.

The level of mineral beneficiation in the Metro is very low, as expected, due to low levels of mining activity in the city. However, with the envisaged assembly of electric cars in the Rosslyn and Waltloo Automotive parks, it is expected that more beneficiation of minerals concomitant to lithium batteries will develop going forward, taking economies of scale of the already existing industrial base and industrial parks in the city as well as taking advantage of the existence of numerous research councils and technology and innovation-based institutions.

DATA

Much attention has been paid to the identification of reliable data sources. South Africa's provincial and local governments' financial records and record keeping are regulated by the National Treasury of South Africa, therefore most of the datasets used are the Municipal Finance Data.

DATA SOURCES

The reports used are compiled by four different institutions: the provincial departments, the National Treasury, Statistics South Africa (StatsSA), and the Auditor-General of South Africa (Auditor-General).

Annual Reports of Provincial Departments

These include reports published by the Department of Co-operative Governance and Traditional Affairs under the project District Models. The reports provide information for local municipalities as well as metros pertaining to economic as well as socio-economic indicators such as population, employment, GDP growth, GDP per capita, etc.

National Treasury Reports

The following reports are published regularly by the National Treasury, and were also used:

- Fourth Quarter Year-to-Date Provincial Budgets and Expenditure report (preliminary outcome)
- Provincial Statements of Receipts and Payments for the Fourth Quarter
- National Treasury, Local Government Revenue and Expenditure
- Municipal Financial Data

Stats SA

Economic conditions data in the local governments and province, as well as population information per province per local municipality, were sourced from Stats SA. The data sourced from this institution were:

- Gross Domestic Product. Report P0441
- The interactive data set containing the mid-year population estimates by province and municipality, gender, age group, and year in Microsoft Excel (Stats SA, 2012).
- Quarterly Labour Force Surveys that provide data also per municipality and metros.

Auditor-General's Consolidated General Reports on the National, Provincial, Local Government Audit Outcomes

The reports used are the consolidated general reports on the national, provincial, and local government audit outcomes (Auditor-General, 2023).

Centre for Risk Analysis Survey

The Centre for Risk Analysis (CRA) has published a Socio-Economic Survey of South Africa for various years. For this report, the 2023 version was used. It provides data on municipal debt, demographic and economic indicators, local indicators, economic profiles, employment, and infrastructure of municipalities, metros, and provinces.

City of Tshwane 2023–2024 Review of the 2022-2026 Integrated Development Plan May 2023

The IDP provides information about the City of Tshwane, budgets, deficits and debts, economic structure, municipal finance (sources of revenue, income and expenditure, municipal debtors), structure of employment, business environment, infrastructure, assets, and institutional and governance framework as well as political environment.

RATING METHODOLOGY

The principal methodology used in this rating is available at:

[Rating Methodology for Regional and Municipal Governments](#)

CREDIT RATING UPDATE

Unsolicited credit rating review.

SAR confirms that the credit rating has been disclosed to the rated entity.

RATING DEFINITIONS

[SAR Rating Definitions](#)

RATING HISTORY

Initial Rating Date	5 June 2024	Current Rating Date	5 June 2024
----------------------------	--------------------	----------------------------	--------------------

INFORMATION AND DATA

SAR confirms that data and information adequacy were sufficient to conduct this credit rating. Data and information from reputable sources were used during the credit rating process. The quality of the data and information has been validated via cross-referencing against various data sources for consistency.

Glossary of Terms

Term	Definition
The African Continental Free Trade Area (AfCFTA)	The African Continental Free Trade Area (AfCFTA) is a landmark trade agreement among African countries aimed at promoting intra-Africa trade and economic integration. It was established with the goal of creating a single market for goods and services on the continent, removing trade barriers, and fostering economic cooperation among African nations.
Credit Rating Action	Any of the following is a credit rating action: <ol style="list-style-type: none"> 1. The process through which a credit rating is given to a rated entity or obligation, including credit ratings given during a subsequent rating process. 2. When relevant conditions are thought to have been satisfied in the anticipated rating process, a provisional note is removed from a credit rating. 3. A change to a credit rating (i.e., upgrade or downgrade). 4. Placing a credit rating under review, reconfiguring an active review, or removing a credit rating from review (i.e., Credit Rating Confirmation), the assignment of, or modification of, an Outlook linked to a Rated Entity or several Credit Ratings. 5. A Credit Rating Affirmation. 6. A Credit Rating Withdrawal.
Current Account Balance	Exports of goods and services minus imports of the same plus net factor income plus official and private net transfers.
Employee(s)	An employee is any full-time or part-time employee of SAR or any of its subsidiaries and associated companies.
Foreign Direct Investment (FDI)	Direct investment conducted by non-residents.
Gross Domestic Product (GDP)	Total market value of goods and services produced by resident factors of production.
GDP per capita	GDP divided by population.
Issuer	An issuer is any entity that issues debt, a credit commitment, debt-like obligations, or securities. Examples of such entities include special-purpose vehicles, companies, governments, and local governments.
Lead Rating Analyst (Lead Analyst)	Lead rating analyst is a term used to describe an analyst who is primarily responsible for providing details about a credit rating and/or for communicating with the issuer(s) regarding a specific credit rating or regarding the credit rating of a financial instrument issued by that issuer, as well as, when appropriate, for creating recommendations for the rating committee in relation to that credit rating.
Manager(s)	Managers are employees who oversee managing personnel.
Net General Government Debt	General government debt minus general government liquid financial assets.
Net External Liabilities	Total public- and private-sector liabilities to non-residents minus total external assets.
Outlook	An outlook is an opinion regarding the likely path an issuer's rating could take over the medium term.
Prohibited Recommendation	Any proposals or recommendations made either formally or informally, regarding the design of financial instruments on which a CRA is envisioned to issue a credit rating, may be made by an employee to a rated entity or its agent to improve the rated entity's rating. This includes suggestions about the rated entity's corporate or legal structure, assets, liabilities, or activities.
Rated Entity(ies)	A rated entity is any entity rated by a credit rating agency (CRA).
Review	A review is an indication that a rating may be changing in the not-too-distant future.

SAR	Sovereign Africa Rating (Pty) Ltd is authorised to conduct business as a credit rating agency as per the Credit Ratings Services Act of 2012 of the Republic of South Africa.
Special Drawing Rights (SDR)	The SDR is an international reserve asset, created by the International Monetary Fund in 1969 to supplement its member countries' official reserves.
Security	Security refers to any type of financial instrument, including stocks, bonds, debentures, notes, options, equity securities, convertible securities, warrants, derivative securities (derivative), and warrants.
Subsequent Ratings Process	Ratings after that Process are the process of determining the credit ratings to be assigned (together with the related outlook or review status, if applicable) solely based on the credit ratings of a programme, series category/class of debt, or principal-rated entity that already exists.
Total Debt Service (TDS)	Total Debt Service (TDS, current US\$) refers to the total amount of money paid by a country to cover the principal and interest payments on its external debt. External debt includes loans and financial obligations owed to foreign creditors, such as other governments, international organizations, or private entities, by the country in question.

CONFIDENTIAL



Chairperson: Bekithemba Ndimande
Lead Analyst: David Mosaka | Chief Rating Analyst
Support Analyst: Lomanja Malaba | Rating Analyst
Contact: info@saratings.com
+27 10 203 9921
Thornhill Office Park, Block 13, Ground Floor, 94 Bekker Road,
Midrand, Johannesburg, South Africa
www.saratings.com

No part of this credit rating was influenced by any other Sovereign Africa Ratings business activities. The rating committee determined this credit rating based solely on its independent assessment of the credit risks and merits of the issuer or issue being rated in accordance with Sovereign Africa Ratings published methodologies. This credit rating is unsolicited. The entity that was rated did take not part in the credit rating process. Sovereign Africa Ratings did not have access to the rated entity's or a connected third party's non-public information. Sovereign Africa Ratings has used data from sources it considers to be dependable, but it cannot guarantee the correctness or sufficiency of any data used. SAR had access to publicly available national accounts and macroeconomic datasets. The rated entity or connected third parties were informed of this credit rating before it was issued. SAR's rating framework is based on a transparent methodology for measuring credit risk. SAR's assessment of creditworthiness is derived from quantitative and qualitative approaches. The rating process for unsolicited credit ratings is to a large extent based on analytical models and uses publicly available data and issuer-provided information where available. Reg No. 2019/155710/07. Sovereign Africa Ratings is a licensed credit rating agency, FSCA License No. FSCA-CRA006.