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Emerging Risk Newsletter

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Key insights in this edition:

1. A summary view of International, African and South African emerging risks
2. Where will 2025 take us?
3. Various subject specific chapters (see **contents**)

In our previous additions, we talked about “**Wicked Problems**” and the term “**Polycrisis**” where multiple crises occur simultaneously or in quick succession and have multiple interdependent causes and no clear or easy solutions. The focus of this emerging newsletter is on what to look out for as we head into 2025, from an International, African and South African perspective.

Please see the list of the chapters covered in this edition:

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1. What does 2025 hold for us?
 2. Water scarcity
 3. Food security, hygiene and fraud risk
 4. Socio-political tensions in the middle east
 5. Interim budget speech
 6. Trends and challenges in the insurance market
 7. Lithium battery fires
 8. Trump's win and South Africa

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1 What does 2025 hold for Us?

1.1 Global Risks

- **Economic Instability:** High inflation, potential recessions, and currency fluctuations remain concerns, especially with rising interest rates impacting global debt.
- **Geopolitical Tensions:** Tensions between global powers (e.g., US-China, Russia-Ukraine) continue to impact trade, energy prices, and supply chains. Overt and grey zone interstate conflicts are also expected to continue, with regions like the Middle East and North Africa being areas of focus.
- **Cybersecurity Threats and Digital Disruption:** Increasingly sophisticated cyberattacks target businesses and governments, critical infrastructure, financial systems, and individuals, exacerbated by emerging AI tools and other technologies that create more dynamic threats and digital disruption.
- **Terrorism:** The threat of terrorism remains a concern, with potential impacts on multinational organisations and their people.
- **Climate Change:** Climate related risks are expected to dominate the global risk landscape, with increasing severity and frequency of natural disasters.

These risks highlight the need for proactive measures and international cooperation to address the challenges ahead.

Do any of these risks stand out to you as particularly concerning?

1.2 African Risks

In addition to the Global risks, the following include risks that are particular to the African continent:

- **Political Instability and Conflict:** Continued political instability in various regions, impacting economic development, human displacement, and security.
- **Infrastructure Challenges:** Many countries still grapple with inadequate infrastructure, affecting everything from transportation and supply chains to digital connectivity.
- **Severe weather events and Resource Scarcity:** Africa is experiencing more severe climate events (droughts, floods), impacting agriculture and food security, especially in regions dependent on subsistence farming.
- **Social Unrest:** Economic distress and social inequalities could lead to increased social unrest and political instability.

1.3 South African Risks

And in addition to those listed above, the following are risks that South Africa could continue to face:

- **Crime and Corruption:** High levels of organised crime, cybercrime, and corruption continue to erode trust in institutions and deter foreign investment.

- **Water Scarcity:** Increasing water stress, especially in regions like Gauteng, is pushing municipalities and industries to seek sustainable solutions.
- **Greylisting by FATF:** South Africa is working to address deficiencies in its anti-money laundering and counter-terrorism financing efforts to exit the Financial Action Task Force (FATF) grey list by June 2025. Failure to do so could impact foreign investment and economic instability.
- **Economic Challenges:** High inflation rates and rising debt-service costs are squeezing out development funds, impacting economic growth. Structural reforms and investments in infrastructure, particularly the electricity grid, are crucial for sustained growth.
- **Political Instability:** The political landscape remains polarised, with potential for political fragmentation and social unrest. The municipal elections in 2026 may further impact cooperation between political parties.
- **Public Infrastructure Concerns:**
The failure of public infrastructure, including water supply, continued electrical supply and logistics continues to be a major concern. Frequent local electrical infrastructure failure and poor connectivity hamper economic activity and the strain on the roads due to poor rail usage remains a concern. Significant delays are also experienced at major ports.



1.4 Historical and Current Context

Historically, **African economies** have faced developmental challenges due to colonial legacies, post-independence conflicts, and limited industrialisation. Despite growth potential, the continent has been hindered by political and economic barriers. South Africa, as a key African economy, deals with legacy issues from apartheid, corruption, and inequality, all affecting socio-economic stability.

Currently, **International, African, and South African markets** navigate these structural challenges within a rapidly changing environment marked by digitalisation, climate change, and political shifts. Businesses, individuals, and organisations must now balance innovation with resilience to navigate these complex dynamics.

1.5 Strategies to Improve Awareness and Resilience

The following suggested strategies can be considered to improve awareness of risk environments, allow for better management thereof, and hence greater resilience.

Strategy	Details
Risk Assessment and Scenario Planning	Regularly assess risk exposure and adapt scenarios to reflect new global and regional realities, tailoring strategies to specific business environments. External changes = changes in risks and opportunities
Strengthen Cybersecurity	Enhance cybersecurity by investing in advanced security frameworks and training employees on threat detection and response.
Invest in Sustainable Practices	Focus on sustainable energy solutions and efficient water use to mitigate risks associated with South Africa's energy and water crises.
Develop Supply Chain Agility	Foster diversified and localised supply chains to reduce vulnerability to international disruptions.
Monitor Political Developments	Engage political risk analysis for markets in Africa, particularly if involved in regions prone to instability. Collaborate with local experts to remain informed and agile.
Community and Stakeholder Engagement	Improve resilience by engaging with local communities and stakeholders to enhance trust, gain insights, and align on security or sustainability initiatives.
Invest in Talent and Training (direct or co-sourcing skills share)	Upskill teams in areas like cybersecurity, ESG, and crisis management, building a knowledgeable workforce capable of responding effectively.

2 Water Scarcity

As mentioned in our previous report and sourced from the World Economic Forum 2024 Global Risk Report, South Africa was one of only 7 countries with Water Shortages as a top risk.

South Africa faces severe and worsening water scarcity due to a combination of factors:

- **Climate Change:** Reduced rainfall, higher temperatures, and increased evaporation rates are intensifying droughts.
- **Population Growth and Urbanisation:** Rapid urbanisation is straining water infrastructure, especially in Gauteng, KwaZulu-Natal, and the Western Cape.
- **Aging Infrastructure and Poor Management:** Leakages, outdated infrastructure, and mismanagement lead to significant water losses.

Francois Engelbrecht, professor of Climatology at WITS University has predicted a total water outage within five years in Gauteng because of the storage capacity of dams supplying the province, poor water infrastructure and climate change. The term "Day Zero", coined during 2015-2017 in Cape Town, is a condition that occurs when there is no supply in the system and taps will run dry.

Engelbrecht states that "even if all the dams are full in Eastern South Africa, at the current water allocation and demand for water from households, cities and businesses, the mega dams give us water security for only five years, but the reality is that the dams are not full at the time, usually only providing three years of capacity." Current developments in Lesotho are however encouraging as the successful delivery of those projects could improve water security, especially in Gauteng.

2.1 Potential Spillover Effects on Key Sectors

Sector	Spillover Effects	Description
Sanitation and Public Health	Disease Outbreaks, Poor Hygiene	Water scarcity can degrade sanitation, increasing risks of waterborne diseases (e.g., cholera, typhoid). Poor hygiene practices, limited sanitation facilities, and reliance on stagnant or untreated water exacerbate health risks.
Agriculture	Reduced Crop Yield, Food Scarcity	Water-intensive crops and livestock are vulnerable to drought, driving food prices up. This could lead to food insecurity and social unrest, especially in lower-income areas.
Industry and Commerce	Operational Delays, Higher Costs	Industries reliant on water (e.g., manufacturing, mining, food processing) face production delays and increased costs for water sourcing, impacting economic productivity and increasing consumer prices.

Sector	Spillover Effects	Description
Power Generation	Reduced Hydropower Output, Strain on Thermal Plants	Water scarcity limits cooling for thermal plants and output for hydropower, further impacting South Africa's strained electricity grid. Increased load-shedding could result from these constraints.
Ecosystems and Biodiversity	Habitat Loss, Species Decline	Reduced water availability affects biodiversity, with drought-stricken rivers and wetlands losing critical habitats. Loss of biodiversity weakens ecosystems, impacting tourism and agriculture.

2.2 Increased Risk of Fires and Limited Response Capability

Water scarcity significantly compromises fire response capabilities across residential, industrial, and agricultural areas. The implications include:

- Fire Hazard:** Dry conditions increase the likelihood of wildfires, especially in regions prone to veld and bush fires. Urban areas with dry vegetation also face higher fire risks.
- Strained Fire Services:** Firefighting requires substantial water resources, typically unavailable in drought-prone areas. Limited water access, combined with the high demand for fire services, can lead to slower and less effective fire response, putting lives, homes, and infrastructure at risk.
- Infrastructure Damage:** Damage to water infrastructure (e.g., pipes, reservoirs) during a fire could further delay water supply recovery, deepening the scarcity issue post-fire.
- Health and Safety Risks:** Smoke inhalation and displacement due to fires exacerbate public health risks, especially where communities have limited healthcare access. In extreme cases, inadequate fire control could lead to large-scale evacuations and further economic strain.

2.3 Practical Measures to Mitigate Water Scarcity and Spillover Effects

Measure	Approach
Diversify Water Sources	Invest in desalination, rainwater harvesting, and wastewater recycling to create alternative water supplies, especially in water-stressed areas.
Implement Fire-Resilient Planning	Integrate firebreaks, vegetation management, and non-water-based fire suppression where possible, such as foam systems for industrial facilities.
Strengthen Water Infrastructure	Modernise pipelines and storage, reduce leakages, and invest in smart metering to optimise usage and detect wastage.
Water Conservation Education	Encourage water-saving behaviours among citizens and businesses to reduce unnecessary consumption.
Emergency Preparedness	Train fire and emergency response teams for resource-scarce scenarios and develop community-level action plans for hygiene, sanitation, and fire response during shortages.

Water scarcity in South Africa will likely create spillover effects across sanitation, health, agriculture, industry, and fire safety. Without comprehensive and cross-sectoral responses, the strain on public resources could amplify, leading to cascading impacts on quality of life and economic stability. Implementing sustainable water management, infrastructure upgrades, and community preparedness can help mitigate some of these critical risks as South Africa moves forward.

3 Food Security and Food Hygiene in South Africa – Addressing Emerging Risks

As South Africa faces rising food security challenges, the need for robust food hygiene practices has become critical. Climate change, economic pressures, and increasing cases of food fraud are creating a high-stakes environment for producers, retailers, and consumers. The dual goals of ensuring safe, accessible food and protecting consumer trust are now under the spotlight, and this is further exacerbated by the recent spaza shop food poisoning incidents. For businesses, this means addressing both supply chain vulnerabilities and maintaining rigorous food safety standards.

3.1 Key Factors Impacting Food Security and Hygiene

Factor	Description	Implications for Businesses
Climate Change	Droughts and floods impacting agricultural yield	Reduced supply, higher costs for raw materials
Supply Chain Disruptions	Logistic delays, increased transport costs	Volatility in food availability, price increases
Food Fraud	Rising cases of adulteration and mislabelling	Threat to brand trust, regulatory penalties
Negligence in food Hygiene	Food poisoning incidents and fatalities that can range from biological (poorly prepared, stored or expired foods) to chemical (poisoning from pesticides)	Health impacts and fatalities, and closure of businesses found to be negligent.

3.2 Addressing Food Fraud

Food fraud is a critical issue in South Africa, with incidents like the mislabelling of olive oils, meats, and grain products leading to eroded consumer trust. This can occur through:

1. **Adulteration** – The addition of non-authentic ingredients to products, adding inferior substances or removing valuable ingredients, such as fillers in spices or substitute oils in high-value products.

2. **Misrepresentation** – Labelling cheaper cuts or substituted ingredients as premium, affecting both quality and value. Replication of product packaging for sale as authentic product is a concern for many manufacturers, for example, high use items such as sugar.

3.3 Strategies for Business Resilience

To combat food security and hygiene risks, businesses can adopt the following practices:

- **Invest in Traceability:** Employing digital solutions to help monitor the supply chain in real-time. This transparency reassures consumers and makes it easier to track and manage potential issues.
- **Supplier Vetting and Audits:** Regular supplier audits ensure that standards are being met, reducing the risk of food fraud. Independent inspections are also recommended to establish benchmarks for food safety protocols.
- **Emergency Stockpiling:** Building a strategic reserve of essential ingredients can safeguard against supply disruptions, allowing companies to maintain steady output during crises.
- **Cold-chain and Sanitation Management:** ensuring the cold chain is secured and redundancies are in place is critical to keeping food hygiene to a high standard, especially during power or water interruptions.

In an environment where food security is threatened, prioritising food authenticity, traceability, and rigorous hygiene protocols can help businesses protect their brands and build consumer loyalty.

4 Socio-Political Tensions in the Middle East – Implications for South African Businesses

Ongoing tensions in the Middle East are contributing to volatility in global markets, particularly around energy prices and supply chain stability. For South African businesses, this socio-political instability has significant downstream impacts, affecting operating costs, supply timelines, and overall market confidence. Navigating these challenges requires foresight and flexible adaptation.

4.1 Key Areas Impacted by Middle Eastern Tensions

Impact Area	Description	Implications for South Africa
Energy Prices	Oil prices fluctuate with regional stability	Increased operational costs, inflationary effects
Shipping Delays	Conflict impacts shipping routes like the Suez Canal	Delays in imported goods, higher transportation costs
Economic Uncertainty	Regional instability affects global markets	Increased cost of imported goods, economic volatility

4.2 Strategic Adaptations for South African Businesses

1. **Diversify Supply Chains:** Relying on a broader range of suppliers, including local options where feasible, can help reduce dependency on goods passing through volatile regions.
2. **Scenario Planning and Financial Hedging:** Integrate scenario planning into business strategy to forecast potential impacts from supply disruptions or energy price spikes. Additionally, financial hedging on commodity prices may offer some stability.
3. **Energy Efficiency Investments:** The impact of rising oil and gas prices underscores the importance of energy-efficient operations. Investing in sustainable alternatives, such as solar power or energy-efficient machinery, can reduce reliance on fluctuating energy costs.

Socio-political tensions are likely to persist, making resilience critical for businesses with global supply chains. Leveraging local suppliers and building flexible operational strategies can help mitigate these external shocks. By proactively addressing supply chain and energy vulnerabilities, South African businesses can maintain stability even in volatile global conditions, positioning themselves as resilient and adaptable market players.

5 South Africa's Interim Budget and Economic Outlook

The 2024 Medium-Term Budget Policy Statement (MTBPS) outlines South Africa's fiscal priorities for the coming years, reflecting a strategic balance between addressing economic growth and managing national debt. Key budget allocations target infrastructure upgrades, job creation, and maintaining social welfare amidst economic constraints. These priorities offer strategic opportunities for businesses to align with public initiatives and reinforce resilience in an evolving economic landscape.

5.1 Key Highlights from the 2024 MTBPS

Budget Priority	Description	Implications for Business
Infrastructure Investment	Increased funding for public infrastructure, particularly in energy, transport, and water services	Opportunities for public-private partnerships, contracts in construction and technology sectors
Social Welfare and Job Creation	Funding allocated to reduce unemployment and support social grants*. Employment is more important than a grant.	Potential for partnerships in workforce development, community projects, and training initiatives.

Debt Management and Economic Stability	Emphasis on reducing national debt through controlled spending and economic reforms	Stabilising effect on interest rates, creating a more predictable business environment
*Reduction in social grants and government expenditure is a key way to achieve debt management		

5.2 Strategic Insights for Businesses

1. Infrastructure Partnerships

With a heightened focus on infrastructure spending, businesses in sectors such as construction, utilities, and technology are well-positioned to engage in public-private partnerships (PPPs) and government contracts. These opportunities may include projects in essential services like water, electricity, and transportation, addressing both immediate and long-term infrastructure needs. Businesses can explore partnerships that provide sustainable solutions, leveraging innovation to complement government efforts in building resilience.

2. Supporting Employment Initiatives

The budget's focus on job creation provides pathways for businesses to participate in workforce development. Companies may access subsidies or grants for training programs that enhance local employment, especially in communities hardest hit by unemployment. Additionally, aligning with government-led skill development projects can benefit industries facing skill shortages, strengthening both individual businesses and South Africa's overall workforce capabilities.

3. Debt Reduction and Economic Stability

Debt management remains a priority in the MTBPS, with a focus on controlled government spending and targeted economic reforms to stabilise public finances. This fiscal discipline is aimed at reducing inflationary pressures and providing a stable platform for economic growth. For businesses, this approach can result in more predictable interest rates and a supportive environment for investment. It also reflects a government commitment to creating an economically sustainable future, reassuring investors and fostering a stable operating environment for enterprises.

5.3 Economic Outlook for 2025

While challenges persist, including inflationary pressures and the need for economic growth, the government's budget allocations signal a commitment to addressing these hurdles with strategic investments in infrastructure and social welfare. For businesses,

aligning with these priorities provides dual benefits: contributing to national development and capitalising on new opportunities in key sectors.

The 2024 MTBPS provides a roadmap for strategic growth through government and private sector collaboration. By aligning business strategies with the government's fiscal priorities, companies can support public goals, enhance resilience, and secure growth prospects in a stabilising economic environment.

6 Trends and Challenges in the South African Insurance Market

South Africa's insurance market is facing notable shifts as new risk factors—ranging from cyber threats to climate impacts—reshape the industry. Insurers are increasingly adjusting premiums and policies to reflect the evolving risk landscape. Businesses must stay informed of these changes to secure the right coverage and manage their risk exposure effectively.

6.1 Key Factors Reshaping the Insurance Market

Risk Factor	Description	Impact on Insurance
Cyber Threats	Rising incidences of cyber-attacks	Higher premiums for cyber insurance, increased scrutiny
Climate Risk	Extreme weather events (floods, droughts)	Property insurance premiums rising, stricter terms
Market Volatility	Economic instability and regulatory changes	Shifts in liability coverage, cost adjustments

6.2 Emerging Insurance Strategies for Businesses

- Cybersecurity Insurance:** With an increase in cyber-attacks, especially against SMEs, cyber insurance is becoming a necessity. Businesses are encouraged to adopt comprehensive cyber policies that cover data breaches, operational downtime, and ransomware incidents.
- Parametric Insurance for Climate Risks:** Some insurers offer parametric insurance that activates payouts based on specific weather events, such as rainfall levels or temperature thresholds. This is an emerging option for businesses vulnerable to climate impacts.
- Risk-based Pricing Models:** Insurers are moving toward pricing models that assess a company's individual risk profile, allowing businesses to manage premiums by proactively mitigating risks (e.g., fire safety or flood-proofing measures).

With these changes, businesses must regularly review their insurance portfolios to ensure alignment with emerging risks. Close collaboration with insurers and brokers can

help businesses identify gaps in coverage and explore innovative insurance products tailored to high-risk areas.

Staying informed and adapting insurance coverage to emerging risks enables businesses to better manage their costs and ensures they are adequately protected against the unique challenges of the modern risk environment.

7 Lithium Battery Fires

A simple problem in context of the South African power crisis (IE: loadshedding) is that as companies and households solve our power problems, we introduce new risks. A Photovoltaic Cell (PV) system and Lithium Batteries that produce additional considerations:

Solution	New risks	Local municipality considerations
Battery Storage for Load-Shedding	<ul style="list-style-type: none"> - Fire Risk: Lithium-ion batteries can ignite under certain conditions, especially if exposed to high temperatures, poor ventilation, or physical damage. - Toxic Fumes: In a fire, battery chemicals can release harmful fumes, posing health risks and complicating firefighting efforts. - Electrical Complexity: Inverters and high-capacity batteries increase electrical load, which, if not properly managed, can lead to electrical faults. 	<ul style="list-style-type: none"> - Firefighting Capacity: Many municipalities lack the equipment and training to handle battery fires, which burn hotter and longer than standard fires. Without specific extinguishing agents and protocols, response times, actions and equipment to respond could be inadequate. - Emergency Response: Local emergency services may need to update risk profiles and training to respond to evolving home setups that include PV and battery systems. - Inspection and Regulation: Aging municipal infrastructure often lacks modern inspection standards for homes with renewable energy and storage, potentially overlooking risks that accompany these systems.

These potential risks are easily hidden beneath the benefits that the technology provides to many, and allows the economy and other critical industries to continue, or even just a household to continue as normal as possible until power returns. The industries that may have a further reliance and have invested heavily in the technology and these alternative energy supplies include tele-communications (entire value chain from the tower to the data centre), financial services, medical, education and training, mining, cold storage, food processing, agriculture, security and surveillance and many other systems that now rely on the renewable energy source during periods of power interruptions.

Have these industries considered the implications of their solutions?

8 Trump's Win and South Africa

**The information below is based on research done through a range of articles, and these do not indicate Mondial's political positions.*

The return of Donald Trump to the presidency has several implications for South Africa:

1. **Economic Concerns:** Higher inflation rates and a weaker rand are potential economic challenges. South Africa currently enjoys a trade surplus with the US, but Trump's stance on trade and tariffs could jeopardize this balance.
2. **African Growth and Opportunity Act (AGOA):** The continuation of AGOA, which allows South African goods to enter the US market without additional tariffs, is uncertain under Trump's administration. This could impact key industries like apparel manufacturing, wine and other agricultural products, machinery and equipment and automotive.
3. **Geopolitical Shifts:** Trump's "America First" policy may deprioritise Africa, leading to reduced engagement and funding for aid programs. This could affect South Africa's economic partnerships and geopolitical standing.
4. **Trade and Investment:** South Africa will need to work harder to secure its place in US trade and economic policy discussions. The likelihood of sudden tariffs and trade restrictions grows, requiring proactive measures to maintain relevance.
5. **Climate and Energy Policies:** Trump's scepticism towards climate change and deregulation could hinder global climate initiatives critical to Africa's sustainable development. This may delay South Africa's transition to cleaner energy sources.

We trust this commentary on emerging risks provides insight into your organisation's context and potential risks that may not be on your radar. We invite you to contact us for further information and discussion.

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