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Foreword

This Economic Survey was prepared by Lilas Demmou and Nikki Kergozou under the supervision of Pierre Beynet. Research assistance was provided by Béatrice Guérard, editorial assistance by Elodie Lormel and communication assistance by François Iglesias.

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Information about this and previous Surveys and more information about how Surveys are prepared is available at https://www.oecd.org/en/topics/economic-surveys.html.

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BASIC STATISTICS OF SOUTH AFRICA, 2024

(Numbers in parentheses refer to the OECD average)¹

LAND, PEOPLE AND ELECTORAL CYCLE							
Population (million, 2023)	63.2		Population density per km ² (2023)	52.1	(39.2)		
Under 15 (%, 2023)	26.1	(16.9)	Life expectancy at birth (years, 2022)	61.5	(80.6)		
Over 65 (%, 2023)	6.5	(18.2)	Men (2022)	58.6	(78.0)		
International migrant stock (% of population)	4.1	(15.7)	Women (2022)	64.2	(83.2)		
Latest 5-year average growth (%)	1.5	(0.4)	Latest general election	May-2	024		
ECONOMY							
Gross domestic product (GDP)			Value added shares (%, 2023)				
In current prices (billion USD)	400.3		Agriculture, forestry and fishing	2.9	(2.7)		
In current prices (billion ZAR)	7		Industry including construction	27.4	(27.1)		
	336.2						
Latest 5-year average real growth (%)	0.3	(1.7)	Services	69.7	(70.2)		
Per capita (thousand USD PPP, 2023) ²	15.2	(59.0)					
	GENER	AL GOVE	RNMENT				
	Bitmap	Per cent	of GDP				
Expenditure (OECD: 2023)	36.0	(42.4)	Gross financial debt (OECD: 2023)	76.4	(110.6)		
Revenue (OECD: 2023)	30.5	(37.9)	Net financial debt (OECD: 2023)	73.4	(67.2)		
	EXTER	NAL ACC	COUNTS				
Exchange rate (ZAR per USD)	18.33		Main exports (% of total merchandise exports)				
PPP exchange rate (USA = 1)	7.41		Stone and Glass	18.8			
In per cent of GDP			Minerals	16.4			
Exports of goods and services	31.8	(30.5)	Transportation	12.2			
Imports of goods and services	29.9	(30.1)	Main imports (% of total merchandise imports)				
Current account balance	-0.6	(-0.3)	Machinery and electronics	22.5			
Net international investment position	28.2		Fuels	19.4			
			Miscellaneous	12.0			
LABOUR MARKET, SKILLS AND INNOVATION							
Employment rate (aged 15 and over, %, 2023, OECD: 2024)	37.4	(58.0)	Unemployment rate, Labour Force Survey (aged 15 and over, %)	32.6	(4.9)		
Men (2023, OECD: 2024)	43.0	(65.4)	Youth (aged 15-24, %)	60.1	(11.1)		
Women (2023, OECD: 2024)	32.1	(51.0)	Long-term unemployed (1 year and over, %, OECD: 2023)	24.6	(1.0)		
Participation rate (aged 15 and over, %, 2023, OECD: 2024)	55.0	(61.0)	Tertiary educational attainment (aged 25-64, %, 2022, OECD: 2023)	13.9	(41.0)		
			Gross domestic expenditure on R&D (% of GDP, 2022)	0.6	(3.0)		
	EN	VIRONM	ENT				
Total primary energy supply per capita (toe, 2022, OECD: 2023)	2.0	(3.7)	Water abstractions per capita (1 000 m ³ , 2021)	0.3			
Renewables (%, 2022, OECD: 2023)	4.7	(12.5)					
Exposure to air pollution (more than 10 g/m ³ of PM 2.5, % of	99.5	(56.5)					
population, 2020)		. ,					
SOCIETY							
Income inequality (Gini coefficient, 2017, OECD: latest available)	0.618	(0.316)	Share of women in parliament (%)	44.7	(33.3)		
Relative poverty rate (%, 2017, OECD: 2022)	27.7	(11.7)					
Median disposable household income (thousand USD PPP, 2017, OECD: 2021)	5.4	(30.0)					
Public and private spending (% of GDP)							
Health care (2021, OECD: 2023)	8.3	(9.2)					
Education (public spending, % of GNI, 2021)	6.5	(4.4)					

¹ The year is indicated in parenthesis if it deviates from the year in the main title of this table. Where the OECD aggregate is not provided in the source database, a simple OECD average of latest available data is calculated where data exist for at least 80% of member countries. ² OECD aggregate refers to weighted average.

Source: Calculations based on data extracted from databases of the following organisations: OECD, International Energy Agency, International Labour Organisation, International Monetary Fund, United Nations, World Bank.

Key Messages

- Ensuring a growth-friendly policy environment is a prerequisite to improve living standards. This includes prudent macro-policy, notably on the fiscal side to reduce the debt ratio, and pursuing the fight against corruption.
- Unlocking South Africa's growth potential in an inclusive way necessitates product market reforms in several areas, such as creating a business-friendly regulatory environment and easing bottlenecks in rail transport and ports. The electricity sector is a priority to ensure a reliable energy supply to firms and citizens.
- Promoting job-friendly growth requires enhancing urban planning to better connect workers with job opportunities and reducing overly restrictive regulatory barriers that hinder business dynamism.
- Stronger growth needs to be environmentally sustainable. Efficiently reducing emissions would require moving away from coal use, but also giving stronger incentives to reduce the use of carbon-intensive goods or services through higher carbon prices and more quality public transport options.

Sustaining higher growth hinges on undertaking structural reforms

Over the past decade real GDP growth has been subdued. Ongoing reforms should boost potential growth, but further reforms are needed to advance the country towards meeting its goals of durably reducing poverty, inequality and unemployment.

Economic growth has averaged only 0.7% per year over the past decade, below that of the population, resulting in declining GDP per capita (Figure 1). The unemployment rate has increased in the past decade, averaging 32.5 % in 2023/24 compared to around 25% from 2010-15. South Africa has one of the highest measured levels of wealth and income inequality in the world. There is a sizeable share of the population who live below the poverty line, struggle to access labour market opportunities and are supported by social grants. The economy was significantly impacted by the pandemic, which further pushed up inequality and government debt. While real GDP overtook its prepandemic level in early 2023, the unemployment rate has not.

Persistent primary deficits and sluggish growth have increased debt, putting fiscal sustainability at risk. Public debt has risen from 31.5% of GDP in 2010 to a projected 77% of GDP in 2025. Mounting debt and higher interest rates have led to growing debt-servicing costs, expected to reach 5.2% of GDP in 2025, up from less than 3% of GDP a

decade ago. Elevated debt-servicing costs are limiting the government's ability to fund much-needed social spending and public investment. Recent primary surpluses have limited increases in debt.

Persistent insufficient access to electricity, and rail and port bottlenecks have weighed on activity, investment, exports and living standards over recent years. Limited public and private investment, the high cost of doing business and corruption have also reduced growth over the past decade. Low levels of competition and shortages of skilled workers in some sectors have limited potential growth. Activity increased at 0.7% in 2023 and 0.6% in 2024, as power outages peaked in 2023, and national elections generated uncertainty.

South Africa has started to undergo significant reform effort and address many of these structural constraints (see the following sections). Continuing this progress will help rebuild potential growth as supply constraints ease, business and investor confidence increase and job creation accelerates.

Figure 1. GDP per capita has stagnated at low levels over the past decade



Real GDP per capita (thousand USD 2020 prices and PPPs)

Reforms are needed to ensure higher potential growth and debt sustainability

As structural constraints ease, economic growth is projected to accelerate. A prudent fiscal policy is essential to prevent an unsustainable increase in debt that could hinder medium-term economic progress.

Activity is projected to increase to 1.3% in 2025 and 1.4% in 2026, limited by uncertainty (Table 1). Contractionary fiscal policy is limiting government spending, but monetary policy easing since late 2024 is supporting activity. Exports will only gradually increase, impacted by trade tensions. The pension reform, which eases access to retirement funds, will support consumption. Investment will benefit from lower interest rates. The increase in activity will help slightly lower the unemployment rate to around 32% in 2026.

Reforms will continue to ease bottlenecks in rail transport and ports, supporting exports. An acceleration in reform progress would further strengthen the recovery in jobs and investment, boost potential growth and lower unemployment. **Conditional on consumer price inflation, the policy interest rate is projected to further ease over 2025.** Inflation is projected to increase towards the midpoint of the inflation target, from 3.2% in 2025 to 4.2% in 2026. South Africa's 3-6% inflation target is above those of other major trading partners, which can put pressure on the country's competitiveness.

Targeting the midpoint of the band and, in a second step, reducing the inflation target band could more closely align inflation with that of trading partners. Making the band narrower could better anchor inflation expectations and prevent any target drift in the future. Ensuring that any change in the inflation target is carefully timed, coordinated across government and clearly communicated will help minimise output losses and keep expectations anchored.

Table 1. Macroeconomic projections

Annual growth rates, unless specified

	2023	2024	2025	2026
Gross domestic product	0.7	0.6	1.3	1.4
Consumer price index	5.9	4.4	3.2	4.2
Core consumer price index	5.1	4.2	3.3	4.3
Unemployment rate, %	32.4	32.6	32.5	32.1
Fiscal balance, % of GDP	-6.6	-5.4	-6.6	-5.1

Source: OECD Economic Outlook 117 database.

On the fiscal side, high public spending pressures call for a continued consolidation strategy. This strategy should include stricter spending controls, reinforced spending rules and improved governance and administrative efficiency and reforming SOEs to reduce fiscal transfers – all while protecting social and investment spending.

Supporting government revenues will play a key role in reducing debt. To finance these measures, broadening the

narrow tax base remains essential. Key steps include reducing personal income tax expenditures, enhancing corporate income tax compliance, strengthening municipal property tax collections, raising the net effective carbon tax, and raising the VAT rate while reducing the number of zero-rated VAT items with targeted support for the vulnerable.



Figure 2. Debt-service costs have increased

Note: Periods shown refer to fiscal years from April of the previous years to end March of the current year. Primary balance data refer to the consolidated government budget.

Source: National Treasury, May 2025 Budget.

StatLink and https://stat.link/f1xgre

Boosting job creation and improving access to employment opportunities

Many South Africans struggle to find work, with the country having the lowest employment rate and the highest unemployment rate among G20 economies. Many people excluded from formal jobs remain unemployed rather than working informally, with the share of informal workers significantly lower than in peer countries. While the labour market participation rate of men and women are relatively similar, women earn significantly less than men. To unlock job creation in the short term, it is key to prioritise reforms easing barriers to business dynamism and improving workers' abilities to reach employment opportunities.

Addressing poor labour market performance requires a multipronged approach. As recommended in the previous Economic Survey, South Africa should support upskilling by aligning VET systems with labour market needs, expand public employment services, enforce minimum wage compliance and strengthen active labour market policies, like career guidance, training, and mobility support. The transition from the coal sector is exacerbating labour market challenges in some regions, requiring enhanced labour market support.

Expanding economic opportunities, including informal trade, should be balanced with incentives for formalisation. Easing zoning restrictions and reducing tax and registration burdens can create opportunities while supporting future workforce integration.

Restrictive regulations hinder business dynamism and job creation, by stifling firms' market entry and expansion. The burdensome licensing and permit regime and complex public procurement policies are priority areas for reform. While steps have been taken to reduce red tape and streamline procurement, efforts must intensify to foster employment opportunities.

Promoting densification and reducing transport times and costs is vital to connect South Africans with jobs. Urban sprawl, a legacy of apartheid, isolates many from employment opportunities. Long and costly commutes burden workers, with low earners spending about 40% of their income on transport. Aligning transport policies, urban planning and housing policies is essential. This includes prioritising housing near public transport and development corridors, promoting rental housing near city centres and reforming restrictive building regulations.

Figure 3. South Africans struggle to find labour market opportunities

Employment rate, % of population aged 15-64, 2024 or latest



Note: G20EME is the unweighted average of Argentina, Brazil, China, India, Indonesia, Mexico, Russia, Saudia Arabia, South Africa and Türkiye. Source: OECD Labour force Statistics database; and World Bank, World Development Indicators database.

StatLink 📷 🗖 https://stat.link/nda47j

Reducing emissions and boosting resilience requires efficient climate policies

South Africa needs to accelerate efforts to reduce greenhouse gas emissions by 11.7% from 2022 to meet the midpoint of the 2030 target range (Figure 4) and adapt to climate risks. Financing for the transition is limited and competes with other pressing issues, such as reducing poverty and unemployment. Gradually increasing the net effective carbon price, improving public transport and ensuring municipalities have the capacity to implement adaptation policies will be key.

Net effective carbon prices are low, limiting their ability to cost-effectively reduce emissions and increase revenues. Progressively reducing tax-free allowances that can lower firms' carbon tax liability for up to 85-95% of their emissions, gradually increasing carbon tax rates and making a strong and clear commitment that carbon tax rates will continue to increase will help reduce emissions. Revenues may be allocated to green investments, social policies or fiscal consolidation efforts, thereby helping offset regressive elements and promote public acceptance.

Achieving climate targets requires an enhanced policy framework and governance. The implementation of some key climate policies, such as the Climate Change Act and carbon taxes, have taken several years. This increases policy uncertainty and deters investment. Poor clarity on government roles and responsibilities results in contrasting policies and contradictory government positions. Ensuring timely and well-defined policies will be key to accelerate emission reductions. Sector-specific climate policies will also be required to address mitigation challenges. Improving the availability of safe and quality public transport options and reviving the rail sector for both passenger and freight transport are needed to encourage users to shift away from road transport. Greater use of climate-smart agricultural practices and technologies, increases in energy efficiency in industrial processes and advancing programmes reducing deforestation will further support emission-reduction goals.

Municipalities play a key role in implementing adaptation policies, yet they often lack financial resources. South Africa is highly vulnerable to rising temperatures, more variable rainfall and threats to water supply. Municipal water supply systems function poorly and will come further under strain with climate change. Reforming the municipal funding model would help ensure sufficient financial and human resources for municipalities to effectively operate.

Figure 4. Reaching net zero by 2050 requires a steep fall in emissions from the 2030 target



GHG emissions including land use, land-use change and forestry (LULUCF)

Transforming the electricity sector is vital for future growth

South Africa's electricity sector has faced a 15-year-long crisis, marked by persistent failures to meet demand and frequent planned power outages since 2019, which have hurt the economy. While 2024 has seen notable improvements, reforms must accelerate to decisively resolve the electricity crisis. Priority should be given to establishing the wholesale electricity market, an environment enabling more private investment in the transmission network and reforming the distribution segment.

Electricity supply capacity in South Africa has significantly deteriorated over the last five years, with worsening shortages undermining business operations and quality of life. Power cuts reduced economic growth by 1.5% percentage points in 2023, resulting in sluggish growth of just 0.7%. The power crisis is closely linked to Eskom's financial issues, a lack of competition, inadequate investment in the grid, corruption, mismanagement and inefficiencies in electricity distribution.

Electricity supply improved in 2024, but significant challenges remain. In 2024, South Africa experienced only 69 days of load shedding, a significant decrease from the 289 days in 2023. The expansion of independent power producers and self-generation have increased renewable energy supply, while the unbundling of Eskom and the

creation of an independent transmission company are positive steps.

It is vital to maintain the momentum of ongoing reforms to unlock South Africa's economic potential and promote inclusive growth. Key priorities include establishing a competitive wholesale electricity market, accelerating renewable electricity generation, expanding the transmission grid, and redefining the role of municipalities and Eskom in electricity distribution to better serve end users. This requires revising management and funding models of municipalities, including by earmarking electricity revenues for grid investment, better regulating cross-subsidisation, enhancing property tax collection and exploring distribution concessions.

Figure 5. Insufficient investment has led to electricity shortages and sluggish growth



Eskom's capital expenditure and electricity generated (volume)

Note: Data refers to fiscal years, i.e. the 2013 financial year refers to the year ending March 2013. Total capital expenditure of the Eskom group excludes capitalised borrowing costs.

Source: Eskom.

StatLink ms https://stat.link/9yavhe

MAIN FINDINGS KEY RECOMMENDATIONS				
Delivering low and stable inflation				
The 3-6% inflation target is higher than in trading partners, which can put pressure on the country's competitiveness. A narrower band could better anchor inflation expectations.	Reduce the inflation target and consider reducing the band around it. Adjust the monetary policy stance to keep inflation expectations anchored to the midpoint of the inflation target.			
Enhancing fiscal sustainability	/ while promoting inclusive growth			
The expenditure ceiling has guided the trajectory of nominal spending but has not been effective at keeping expenditure below revenue growth; the debt ratio is growing and comparatively large for an emerging economy.	Establish a fiscal rule linking expenditure growth to inflation only until the medium-term debt ratio target is reached and stabilised.			
Public investment as a share of GDP has dropped by 26% since 2016, negatively impacting growth, and revenues.	Boost public investment, especially in core infrastructure such as electricity, water and rail.			
The tax base is limited by numerous tax expenditures, including tax deduction and allowances, hindering the ability to depend on tax revenue for consolidation efforts.	Enhance the efficiency of the tax administration. Widen the base of all direct taxes by reducing tax expenditures and increasing recurrent property tax collection.			
Inefficiencies in SOEs require large fiscal transfers and undermine total productivity growth.	Restructure SOEs to ensure their financial sustainability, including by fostering a pro-competitive environment enabling greater private participation. Enhance SOE management and establish a holding company with international governance standards.			
The work of the State Capture Commission revealed widespread corruption in public entities, but prosecution is slow.	Strengthen the prosecution process and better enforce sanctions for corruption offences.			
Enhancing job creation and workfo	orce integration in a changing economy			
Complex registration and expensive licensing limit people from becoming self-employed.	Simplify the registration process for informal entrepreneurs and reduce the financial cost of applications.			
South Africa's licensing and permit regime is ranked highly restrictive, placing unnecessary burdens on firms and increasing compliance costs.	Make product-market regulation less of an obstacle to job creation, create an inventory of all permits and licences businesses need, and introduce a "silence is consent" rule where appropriate.			
Low-density urban spaces pose significant barriers to labour market inclusion and business growth, particularly for SMEs. Long commutes and costs are a significant barrier for many South Africans to get to work. Restrictive local building regulations limit urban densification.	Prioritise housing near public transport and development corridors, and incentivise pro-densification policies.			
Supporting climate chan	ge mitigation and adaptation			
Key climate policies and legislation often take several years to be implemented, increasing uncertainty and deterring investment.	Ensure the timely implementation of climate change legislation and policies, and the effective coordination of policies across ministries and levels of government.			
The effective carbon price is increasing but will remain insufficient to meet the 2030 emission target due to low carbon tax rates and tax-free allowances that lower firms' carbon tax liability for up to 85-95% of their emissions, while climate finance needs are high.	Reduce the tax-free allowances on significant shares of firms' emissions progressively and gradually increase the level of the carbon tax.			
People and businesses make extensive use of road transport while the formal public transport offer has deteriorated in recent years. Minibus taxis provide flexible transport, yet the sector is partially informal and fragmented and insufficiently complies with regulations and road traffic laws. Vehicles are poorly maintained and unsafe.	Increase the availability of safe and quality public transport to encourage substitution away from private passenger vehicles. Continue efforts to integrate the minibus sector into the formal transport system.			
Local municipalities are often severely under resourced. They struggle to implement climate policies, provide water services and maintain water infrastructure. Climate change will further strain the water supply.	Ensure that municipalities have sufficient financial resources and skilled staff to implement climate policies and provide quality water services.			
Reforming the	e electricity sector			
There is insufficient competition in generation. Barriers to entry are high for renewables generators, with entry of utility-scale generators actors limited to the independent producers auction programme and only a few bilateral agreements between independent producers and municipalities.	Conclude the reform of trading rules (market code, vesting contracts, tariffs regulation) to ensure market integrity and a level playing field of the upcoming wholesale market.			
Budgetary constraints have led many municipalities to use electricity revenues to fund other services, bringing underinvestment in the distribution grid and low service delivery. The growth of distributed generation reduces electricity-based revenues and squeezes municipal profit margins on electricity sales.	Earmark electricity revenues to investment in the distribution network and better regulate cross-subsidisation of other services. Revise the municipal funding model and explore alternative revenue sources to reduce reliance on electricity revenues, such as enhancing recurrent property tax collection (through improved administrative capacity and regular valuation updates). Consider establishing concessions for distribution and the necessary legal framework to support this transition.			

MAIN FINDINGS	KEY RECOMMENDATIONS
The installation of new transmission lines must accelerate to ensure electricity security and facilitate decarbonisation, despite Eskom's and the government's limited financing capacity.	Focus the majority of public investment in the sector on expanding the transmission grid and leverage private finance through Independent Power Transmission projects.
Eskom benefits from large subsidies, including large fiscal transfers and an exemption from the carbon tax up to 2026, hindering incentives to transition away from coal-based electricity generation and weighing on government debt.	Reduce net subsidies to Eskom, including by reducing direct transfers and ramping up the net effective carbon tax starting in 2026. Reallocate funding to support renewables, grid expansion and mitigate the effects on the most vulnerable households and SMEs through targeted subsidies.



1 Boosting growth and staying on the course of fiscal reform

Lilas Demmou and Nikki Kergozou

South Africa's infrastructure challenges have limited growth over the past decade, increasing unemployment and deepening inequality. Persistent electricity outages since 2019 and weak transport systems have severely constrained supply chains. Following reforms, electricity supply has improved, and economic growth is projected to increase in 2025-26 as bottlenecks are further addressed. As inflation eased, policy interest rates are approaching their neutral level. However, rising government debt – now 77% of GDP – is raising debt-servicing costs and limiting fiscal space, potentially crowding out investment. To ensure debt sustainability and investment in essential infrastructure, ambitious fiscal and structural reforms are needed. The financial system's high exposure to government debt poses a risk, although the sector appears resilient. Strengthening competition, reducing corruption and boosting private-sector investment are key to enhancing economic dynamism, reducing unemployment and alleviating poverty. Fiscal priorities include tighter spending controls, a stronger fiscal framework, well-functioning state-owned enterprises and a broader tax base.

1.1. Sustaining higher growth hinges on undertaking structural reforms

Over the past decade increases in real GDP have been subdued and below that of the population (Figure 1.1). Growth in GDP per capita has been negative or close to zero every year between 2014 and 2024, excluding in 2021 and 2022 due to the rebound following the onset of the COVID-19 pandemic and a commodity price boom. In 2024, GDP per capita is slightly below its 2007 level (Panel B). GDP growth has been subdued, on the back of persistent insufficient access to electricity, the deterioration in the rail network and port operations, subdued investment, the high cost of doing business, a weak fiscal position and corruption. Real GDP returned to its pre-pandemic level in early 2023.





Note: In Panel A, real GDP is in national currency at 2015 constant prices. Source: OECD Economic Outlook 117 database; and OECD National Accounts database.

Since 2007, electricity shortages have reduced labour efficiency and alongside limited investment have significantly limited actual and potential growth (Figure 1.2). Shortages have increased in recent years, peaking at 289 days in 2023 before easing significantly from March 2024 (see Chapter 4). Shortages were estimated to reduce GDP growth by 1.5 percentage points in 2023, 0.5 percentage points in 2024 and 0.2 percentage points for 2025 (SARB, 2024_[1]). The increase in electricity availability is a key factor supporting an increase in potential growth and activity. Nevertheless, electricity generation is still at historic lows. It will take some time for business confidence, investment and workers' skills to bounce back and increase potential growth towards its pre-shortages rate.

Many South Africans struggle to find work, with the employment rate at 40%, well below the 60% average in emerging G20 economies. The unemployment rate had remained around 25% over the first half of the previous decade, before gradually increasing then accelerating to 35% during the pandemic (Figure 1.3, Panel A). Although it has since declined, it remains well above its pre-pandemic level. The unemployment rates for young people, at 60%, and for women, at 34%, are notably higher than for the total population. While there remains room to improve labour market policies, boosting economic growth will be key to reduce unemployment, inequality and poverty. This requires ensuring fundamental inputs such as electricity (see Chapter 4) and creating a business-friendly regulatory environment that encourages business dynamism and job creation (see Chapter 2).

Over 2023 and 2024, activity grew below historical rates as the country endured frequent power outages, uncertainty around national elections in 2024, and rail and port bottlenecks. Investment has been a significant drag on activity, also limiting potential growth. Easing power outages from March 2024 and an increase in policy

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certainty, pushed up confidence. Inflation declined over 2024, allowing the central bank to ease monetary policy to keep inflation in line with its 4.5% target midpoint. Increasing nominal wage growth and disinflation supported household incomes (Figure 1.3, Panel B).

Figure 1.2. Potential growth has been declining over the past two decades



Contributions to potential GDP growth

Figure 1.3. The unemployment rate remains elevated, particularly for young people and women



Note: In Panel A, young people refer to 15–24-year-olds, women and the total population refer to 15–64-year-olds. Source: OECD Infra-annual labour statistics database; Statistics South Africa, Quarterly Employment Statistics (QES), December 2024; and OECD Analytical database.

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Growth in exports supported the post-pandemic recovery. Commodities form a large part of exports, including metals (e.g. iron and steel) and minerals (e.g. iron ore) (Figure 1.4, Panel B). Yet, exports by type are well diversified and the country is a key exporter of transport, travel and tourism services (Panel D). South Africa's largest export destinations are well diversified across Africa, Asia, Europe and North America (Panels A and C).



Figure 1.4. Export markets and products are well diversified

Note: Panels A and B: data are on the basis of the Harmonised System 2017. Panels C and D: data are according to the Balance of Payments methodology.

Source: United Nations Comtrade database; and OECD-WTO Balanced Trade in Services (BaTIS) database.

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Activity is projected to grow moderately over 2025 and 2026, limited by uncertainty (Table 1.1). Progress in electricity availability and continuing reforms in the electricity sector suggest that access to electricity should continue improving, boosting supply (see Chapter 4). Reforms to state-owned logistics enterprise Transnet as well as measures to increase competition and create the conditions to crowd in private sector investment will continue to ease bottlenecks in rail transport and ports (Chapter 3). However, trade tensions are heightening uncertainty. Exports will only gradually increase, weighed on by the planned increase in tariffs on United States' imports. Inflation will ease in the second quarter of 2025, following the decline in global oil prices, but will strengthen during the second half of 2025 and in 2026, as activity strengthens. Rising uncertainty will weigh on consumption. However, this will be partly mitigated by the 2024 pension reform, which alters access to retirement funds without resigning. Estimates suggest that moderate withdrawals could boost consumption growth by 0.7 percentage points in 2025, adding 0.3 percentage points to GDP growth (SARB, 2024_[2]). The impact in 2026 is estimated to be limited. Investment will increase as the government, state-owned entities and businesses address significant investment needs. Growth in government spending is expected to increase in 2025 before easing in 2026, alongside contractionary fiscal policy.

	2021	2022	2023	2024	2025	2026
	Current prices (ZAR billion)	Percentage change, volume (2015 prices)				
Gross domestic product (GDP)	6 220	1.9	0.7	0.6	1.3	1.4
Private consumption	3 847	2.5	0.7	1.0	1.4	1.3
Government consumption	1 193	0.6	1.9	0.4	2.7	1.3
Gross fixed capital formation	812	4.8	3.9	-3.7	1.2	4.0
Housing	121	3.6	-7.1	-7.9	1.3	4.8
Final domestic demand	5 852	2.4	1.4	0.2	1.6	1.7
Stockbuilding ¹	- 16	1.5	-0.6	-1.0	0.0	0.0
Total domestic demand	5 836	4.0	0.8	-0.7	1.6	1.7
Exports of goods and services	1 935	6.8	3.7	-2.0	0.3	1.5
Imports of goods and services	1 551	15.0	3.9	-6.3	1.5	2.3
Net exports ¹	384	-1.6	0.0	1.4	-0.3	-0.2
Other indicators (growth rates, unless specified)						
Potential GDP		0.8	1.1	1.2	1.2	1.2
Output gap ²		-0.2	-0.6	-1.1	-1.0	-0.8
Employment		5.8	6.2	2.1	0.5	1.9
Unemployment rate		33.5	32.4	32.6	32.5	32.1
GDP deflator		5.0	4.8	3.8	3.9	4.5
Consumer price index		6.9	5.9	4.4	3.2	4.2
Core consumer price index		4.6	5.1	4.2	3.3	4.3
Current account balance ³		-0.5	-1.6	-0.6	-1.3	-1.8
General government fiscal balance ³		-5.0	-6.6	-5.4	-6.6	-5.1
Three-month money market rate, average		5.1	7.9	8.3	7.4	7.3
Ten-year government bond yield, average		10.7	11.6	11.2	10.4	10.1

Table 1.1. Macroeconomic indicators and projections

Note: 1. Contribution to real GDP growth.

2. Percentage of potential GDP.

3. Percentage of GDP.

Source: OECD Economic Outlook 117 database.

Fiscal consolidation will limit government spending. The fiscal policy stance, which is restrictive, appears appropriate given the negative impact that higher perceived risk around the sovereign outlook could have on the economy. To maximise limited fiscal space, South Africa must prioritise investment and social spending while continuing to expand its fiscal capacity to address significant social and economic needs (see below). The government is undertaking measures to alleviate the impact on activity, including by prioritising reforms that remove key barriers to near-term growth and creating the conditions for leveraging private investment to address infrastructure needs. In the short term, stronger fiscal discipline, backed by a reinforced spending rule would help quickly stabilise the debt-to-GDP ratio. Infrastructure investment needs should be met by leveraging private investment through progressing in setting the institutional framework, enabling stronger participation in electricity, water and transport infrastructure. Once, debt is stabilised, the resulting fiscal space will enable higher public expenditure, further supporting growth-enhancing and inclusive policies such as investments in education, healthcare and employment opportunities.

Operation Vulindlela, an initiative by the Presidency and National Treasury, is playing a key role in reform progress (Box 1.1). In its first phase, the government has identified priority reforms in poor-performing network industries, including electricity, water, transport and digital communications, and in the visa regime to help address skills shortages. While these reforms are starting to reduce constraints to growth, significant regulatory barriers continue to limit activity (see Chapter 2). Addressing these barriers will continue to require substantial reform efforts over

the coming years. The next phase of Operation Vulindlela reforms will support higher medium-term growth. Ensuring a swift implementation of these reforms will help maximise their returns. Following these targeted reforms, addressing multidimensional challenges, such as crime, will also support activity. Crime places elevated costs on the economy. Costs for households and businesses to protect themselves against crime can represent over 4% of GDP (World Bank, 2023_[3]). Opportunity costs are also significant. Combined, these costs reduce potential growth. An integrated approach is needed, including reducing inequality and reversing the decline in the quality of police services.

Box 1.1. The government has implemented several key reforms under Operation Vulindlela

The Presidency and the National Treasury established Operation Vulindlela in October 2020 to accelerate the implementation of a few high-impact reforms to drive economic growth and job creation. The first phase has focused on making progress across five main objectives by supporting:

- Electricity supply (see Chapter 4).
- A competitive and efficient freight logistics system (see Chapter 3).
- A stable, quality supply of water (see Chapter 3).
- A lower-cost and higher-quality of digital communication by completing the spectrum auction and completing the migration from analogue to digital signal.
- A visa regime that facilitates skilled immigration and tourism, by publishing a revised Critical Skills list, implementing the e-visa system, expanding visa waivers and reviewing the policy and process for work visas.

As of May 2024, 74% of reforms for the first phase were completed or on track and for 20%, work is underway (The Presidency & National Treasury, 2024_[4]). While this represents progress, this Survey highlights additional important reform areas to further boost economic growth and employment. The next phase of Operation Vulindlela is focusing on local government reform, spatial inequality and digital transformation.

Risks to activity appear to the downside. Globally, geopolitical tensions could lower global growth and trade and increase financial market risk aversion. The United States (US) has increased tariffs to 10% for South African imports, excluding items that are exempt from the reciprocal tariffs, such as certain critical minerals and bullion. South Africa sends around 7.6% of its exports to the US, of which 60% are mining products, 30% are manufactured goods, notably motor vehicles, and 5% are agricultural goods. This tariff and the risk of further changes could result in lower exports, a depreciation in the exchange rate and higher inflation. Domestically, further reform progress on electricity availability and logistics bottlenecks would strengthen the recovery in investment, boosting potential growth. However, a return to significant power cuts or logistics bottlenecks would weigh on activity. Additional transfers to state-owned enterprises would further weaken the fiscal position. These risks could elevate financial market risk perceptions, increasing debt-servicing costs. Households could withdraw more from their pension than projected following the September 2024 pension reform, which alters access to retirement funds, further boosting growth. Low-probability events, such as significant water shortages, flooding or geopolitical tensions that are significantly greater than expected could lead to major changes in the outlook (Table 1.2).

Shock	Potential impact
Reforms do not address water supply shortages, which deteriorate further.	Shortages limit economic activity and reduce investment, weighing on potential growth.
Natural disaster arising from extreme weather, such as flooding or intense drought.	The government must provide disaster relief to communities, increasing expenditures and limiting debt reduction. GDP growth is reduced. Infrastructure is destroyed, requiring additional investment, which would support activity in the medium term.
Geopolitical tensions could intensify by more than projected, further shocking global growth and trade.	Export volumes and GDP growth slow and sovereign bond spreads increase.

Table 1.2. Events that could lead to major changes in the outlook

1.2. Delivering low and stable inflation and well-anchored inflation expectations

Headline and core inflation eased over 2024 although headline inflation started to increase in early 2025 (Figure 1.5, Panel A). Over 2024, year-on-year inflation decreased until October, alongside the appreciation in the exchange rate and declines in international oil and food prices (Panels B and C). Since October 2024, the depreciation in the exchange rate has supported an increase in inflation although inflation expectations have continued to ease. Average monthly nominal non-agricultural earnings accelerated over 2024, reaching 5.3% year-on-year in December 2024 (Figure 1.3, Panel B). Inflation will fall in the second quarter of 2025, following the decline in global oil prices, but will strengthen during the second half of 2025 and in 2026, as activity strengthens and the output gap narrows.



Figure 1.5. Policy interest rates have declined as inflation approached the target midpoint

Note: In panel A, core inflation refers to the consumer price index excluding food and non-alcoholic beverages, fuel and energy; the shaded area indicates the projection period. In Panel D, the South African Reserve Bank's policy rate is the repurchase rate.

Source: OECD Economic Outlook 117 database; OECD Consumer price indices database; and South African Reserve Bank.

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The South African Reserve Bank (SARB) lowered the repurchase rate from 8.25% to 7.5% between September 2024 and January 2025, aiming to keep inflation around the midpoint of the 3-6% inflation target (Panel D). The easing in monetary policy appears appropriate given the declines in inflation. The repurchase rate is assumed to decrease by a further 50 basis points over 2025. However, further volatility in the exchange rate is creating significant uncertainty around the outlooks for inflation and monetary policy. Continuing to closely monitor how the transmission of monetary policy, government reforms and other external shocks impact inflation will help determine the monetary policy stance required to keep inflation at the target midpoint.

1.2.1. Reviewing the inflation target to better support economic growth

Domestic economic conditions and international competitiveness could be further enhanced by lowering South Africa's inflation rate. South Africa's inflation target band is relatively high and wide (Table 1.3). South Africa adopted an initial inflation target of 3-6% in 2000 and plans to lower the target to 3-5% by 2004, then 2-4%, never eventuated. The central bank has emphasised the target midpoint as its objective since 2017, following a drift towards a perceived target closer to the 6% upper limit (Kganyago, 2019_[5]). Yet, the country experienced higher inflation between 2007 to 2022 relative to other large emerging-market economies and major trading partners, which could be one factor in the deterioration in its international competitiveness (National Treasury, 2024_[6]; Rapapali and Steenkamp, 2019_[7]). Formalising the focus on keeping inflation near a 3% midpoint could better support economic growth while a narrower inflation target band could be considered to better anchor inflation and analysing the most appropriate target band.

Table 1.3. Major trading partners and large emerging market economies have lower inflation targets

Brazil	3%, +/- 1.5%	Euro area	2%
China	3%	Japan	2%
India	4%, +/- 2%	United States	2%
Indonesia	3%, +/-1%	United Kingdom	2%
Mexico	3%, +/-1%		

Inflation targets in major trading partners and other large emerging-market economies

Adjusting the inflation target may entail transitional costs, which could be substantial if achieving a lower target requires significant interest rates hikes and reducing economic growth. To minimise these costs, it will be important to keep inflation expectations well anchored and to carefully select the timing of such change. The SARB's credibility will likely help keep inflation expectations well anchored, as demonstrated in 2017 when South Africa switched to emphasising the target midpoint and consequently achieved lower inflation. While this was helped by positive supply shocks over 2017, the SARB's commitment to maintain this lower level of inflation also likely played a role in price and wage setting (Kganyago, 2019_[5]). The SARB and the government could also minimise output losses through carefully timing the change with the economic cycle, for example at a point where future inflation is projected to be in the lower half of the current 3-6% target range for some quarters. Given the low current and projected inflation over coming quarters, it seems an appropriate time to undertake the change.

One key concern relates to administered prices, as stronger and unexpected increases of those prices will make it more difficult to achieve the inflation target. Administered prices, such as electricity and water tariffs and school fees, have risen faster than other prices in recent years. These prices, comprising 11.5% of the CPI basket (excluding fuel), have resulted in greater pressure on headline inflation (SARB, 2023_[9]). Addressing the structural challenges resulting in elevated inflation for certain administered prices, particularly in the electricity sector and relating to the poor performance of municipalities (see Chapters 3 and 4), could help support the implementation of monetary policy, as regularly outlined by the Monetary Policy Committee. In addition, strong coordination across government, including the swift inclusion of the new inflation target in government budgets, and clear and transparent communication will help minimise output losses and keep inflation expectations well anchored (IMF, 2024_[10]; National Treasury, 2024_[6]). Such communication could include informed discussions with the public and social partners. In particular, ensuring that public-sector wage increases are kept in line with inflation will also help contain price pressures (see below).

1.3. The financial system is resilient but increasingly exposed to sovereign risks

1.3.1. The financial system appears resilient

South Africa's financial system appears resilient (SARB, $2024_{[11]}$; IMF, $2024_{[10]}$). Banks' capital as a share of riskweighted assets remains above minimum requirements and around rates in many OECD and G20 economies (Figure 1.6, Panel A). Corporate debt has been broadly stable and, at 31%, is low compared to the average across OECD and G20 emerging economies (Panel B). Household credit growth has remained relatively constant as a share of GDP, at 34% in the second quarter of 2024 (Panel C).



Figure 1.6. South Africa's financial system appears resilient

Note: In panel A, panel B and panel D, OECD, EU and G20EME are unweighted averages. G20EME covers Argentina, Brazil, China, India, Indonesia, Mexico, Saudi Arabia, Türkiye and South Africa; OECD excludes New Zealand.

Source: IMF Financial Soundness Indicators database; IMF Global Debt database; and South African Reserve Bank.

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The share of non-performing loans (NPLs) to total gross loans is high compared to the average OECD and emerging G20 economy (Figure 1.6, Panel D), which can increase the risk of credit losses. While South Africa's share of NPLs to total gross loans was already relatively high in 2019, this difference has since become even larger. At the onset of the pandemic, NPLs rose sharply in South Africa and have averaged 4.9% over 2020 to 2024, well above their 3.3% average between 2014 and 2019. This is the opposite to in the average OECD and G20 emerging economy, where NPLs are now below their early 2019 levels (Panel D). Since 2019, the share of NPLs in the banking sector has

been rising for consumer and corporate loans and has been particularly pronounced for retail and micro, small and medium-sized enterprises (SMEs) (SARB, 2024_[11]). To mitigate the increase in NPLs, banks have been increasing their provisions for potential credit losses, suggesting that they should be able to absorb a further increase in defaults. In addition, the decline in interest rates should help ease financial conditions and lower the cost of credit for consumers and firms. The pension reform implemented in September 2024, which changed access criteria, will likely result in households using some of these funds to reduce their debt.

1.3.2. Staying resilient to the effects of high public debt, low growth and climate change

A key risk to financial stability is the financial system's high exposure to government debt combined with the government's elevated debt and debt-servicing costs that are projected to remain above 20% of revenues in coming years (see below) (SARB, 2024_[12]; IMF, 2023_[13]). The domestic financial sector has held an increasing proportion of government bonds over recent years (Figure 1.7, Panel A) (SARB, 2024_[12]; National Treasury, 2024_[6]). The share of government bonds in banks' total assets reached 17% in March 2025 up from around 8% in 2013 (Panel B). This exposes the domestic financial sector to a common risk of a sharp repricing of government debt. Recent assessments by the SARB decided that while no formal policy intervention was required, the Prudential Authority would develop ways to monitor and close valuation gaps in banks' holdings of government bonds (SARB, 2023_[14]). Phasing in various prudential measures over time could also help reduce risks (IMF, 2023_[13]). Continuing fiscal consolidation will help reduce the financial sector's exposure in the long term. Non-residents have started to increase their net holdings of government bonds since May 2024 as investor sentiment towards South Africa improved. While the non-resident share of government debt has not yet increased due to high levels of debt issuance, a continuation of this trend may reduce the exposure of the domestic financial system to government debt (SARB, 2024_[11]).



Figure 1.7. The South African financial system is highly exposed to government debt

Note: Panel A: 'Monetary institutions' correspond to South African registered banks, mutual banks and South African branches of foreign banks; 'Other financial institutions' correspond to unit trusts, financial companies and holding companies; and 'Other' to the public sector, private nonfinancial corporates, households and nominee companies. Panel B: 'Banks' refers to South African registered banks, mutual banks and branches of foreign banks.

Source: National Treasury of South Africa; and South African Reserve Bank.

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The structure of South Africa's capital markets is becoming shallower and less liquid, reducing the ability of borrowers and investors to diversify (SARB, 2024_[11]; 2024_[12]; 2023_[14]). Government bonds made up 81% of total outstanding bonds in February 2024, up from 60% in 2008. The number of companies listed on the Johannesburg Stock Exchange has declined every year between 2016 and 2023. Turnover in bond and equity markets has also been declining (SARB, 2024_[12]). Some factors driving the changing structure include low growth, the potential crowding out of private debt by rising government borrowing (particularly as domestic banks absorb an increasing share), reduced foreign portfolio investment and domestic investors increasingly diversifying into global markets

(SARB, 2024_[12]). The increase in the prudential limit for institutional investors to invest abroad from 40 to 45% in 2022 also contributed.

Some factors help to mitigate the financial risks associated with the financial sector becoming shallower and more exposed to government debt, including a flexible exchange rate, levels of foreign exchange reserves that meet most international benchmarks and low foreign exchange mismatches on bank and sovereign balance sheets (SARB, 2023_[14]). In addition, the risk of a sharp change in capital flows may have declined following the formation of the coalition government and recent reform efforts. Nevertheless, continuing to pursue reforms that increase the relative attractiveness of South African assets will help diversify the financial system.

South Africa's low economic growth and high inequality is an unfavourable operating environment for the financial sector and poses a risk to financial stability (SARB, 2024_[12]). Low and inequitable economic growth can reduce social cohesion and increase the probability of social unrest. This can be a highly concentrated shock to the system and result in an increase insurance claims, as occurred following a period of social unrest in 2021. Continuing to implement structural reforms to boost growth, lower unemployment and reduce inequality will help boost the resilience of the financial system.

Climate change is increasing financial stability risks, particularly for the insurance industry (see Chapter 3). Domestic insurance claims due to extreme weather events dominated claims in 2022/23 (SARB, 2024_[12]). The SARB undertook its first comprehensive stress test of South Africa's major insurance companies in 2023/24, incorporating a climate-change component (SARB, 2024_[12]). Going forward, the SARB will include more climate-related scenarios in its stress tests. In May 2024, the Prudential Authority issued guidance on climate-related disclosures, governance and risk practices for banks and insurers.

Remaining on the Financial Action Task Force's (FATF) greylist past October 2025 may pose a risk to financial stability. In February 2023, the FATF added South Africa to its greylist due to weak measures to combat money laundering and terrorist financing (AML/CFT). Greylisting increases scrutiny from foreign counterparts, raising processing, monitoring and reporting costs, though the impact on financial markets seems to have been limited so far (Kganyago, 2024_[15]; IMF, 2023_[13]). South Africa must address strategic deficiencies in its AML/CFT regime by June 2025 for possible removal from the greylist in October 2025. By February 2025, only two out of 22 action items remained unaddressed, although these goals are demanding (National Treasury, 2025_[16]). A swift implementation of these action items will help maintain the attractiveness of investing in South African assets.

1.3.3. Continuing to closely monitor and adapt prudential regulation

The SARB continues to closely monitor financial stability risks and evolve its prudential regulation. South Africa continues to progress towards compliance with Basel III standards. The Basel Committee on Banking Supervision (BCBS) assessed South Africa as largely compliant with its Net Stable Funding Ratio (NSFR) standard and compliant with its large exposure framework in April 2023. The remaining Basel III post-crisis reforms are planned to be incorporated into South Africa's regulatory framework with effect from 1 July 2025. The results of the 2023/24 stress tests suggest that prudentially regulated domestic financial institutions in aggregate remained resilient (SARB, 2024_[12]). To more effectively deal with failing institutions, the SARB is developing and implementing the strengthened resolution framework (SARB, 2024_[12]). This includes developing resolution plans for designated institutions and requirements to improve their resolvability. To achieve this, the SARB are developing several Prudential Standards, including requirements on stays and resolution moratoriums, the transfer of assets and liabilities in resolution and ensuring that systemically important financial institutions have adequate loss-absorbing capacity requirements.

To increase trust and confidence in banks, the country's first deposit insurance scheme has been in place since April 2024, with its full implementation ongoing (SARB, 2024_[12]). The scheme covers qualifying depositors for up to ZAR 100 000 if their bank fails, is liquidated, or placed into resolution. Ensuring a swift full implementation of the scheme will enhance its effectiveness.

To increase financial sector resilience, the SARB structurally increased the countercyclical capital buffer (CCyB) to 1% on 1 January 2025. It had been at zero since it was introduced in 2016, limiting its countercyclical use. This change will allow the SARB to move the CCyB between 0-2.5% to adapt to the state of the banking sector. To reduce potential adverse effects on lending, the SARB will phase in the increase over one year and include an analysis on its economic impact in its impact assessment.

1.4. Enhancing fiscal sustainability while supporting growth and inclusion

1.4.1. Debt sustainability is at risk

High bond yields and low growth make debt-servicing costs increasingly unsustainable

South Africa's public finances have been characterised by persistent primary deficits and an increasing sovereign debt-to-GDP ratio, which has risen from 31.5% of GDP in the 2009/10 fiscal year to an estimated 77% of GDP in the 2024/25 fiscal year, which is substantially higher than the average G20 emerging-market economy (Figure 1.8, Panels A, B and C). Since 2016/17, the interest rate on government debt has consistently exceeded the long-term economic growth rate, posing a risk to debt sustainability (Panel D).

A. Gross government debt in South Africa % of GDP 90 80 70 60 50 40 30 20 10 11/10 JUNIO 0 1921122 2021122 1701017 1 2024/25 2024/25 2025/20 1220121 1022123 2023124 2021/28 2013/14 18-18-18-18-19-20 2018-2019-20

Figure 1.8. The fiscal position has deteriorated





Note: Panel B: G20EME is computed as an unweighted average and covers Argentina, Brazil, China, India, Indonesia, Mexico, Russia, Saudi Arabia, Türkiye and South Africa. Panel C: Periods shown refer to fiscal years from April of the previous year to end March of the current year. Source: National Treasury of South Africa; IMF, World Economic Outlook; and OECD Economic Outlook database.

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The mounting debt burden has led to escalating debt-servicing costs (Panel C). The share of debt-servicing costs to revenue increased markedly from 14.3% in 2018/19 to 20.7% in 2023/24 (SARB, 2023_[14]). These costs stand at 5.2% of GDP in the 2024/25 fiscal year, up from 3% a decade ago and are higher than the average costs in emerging countries of 3.1% of GDP. They are expected to average 5.4% of GDP in the 2025/26 and following two fiscal years (National Treasury, 2025_[17]). This growing fiscal pressure limits the government's ability to fund essential services, meet social needs and invest in economic growth. Over the next medium term expenditure fiscal period (2025/26-2027/28), the government will spend more on debt-service costs than on health, basic education or social development (National Treasury, 2025_[18]). Debt-service costs are forecasted to grow on average by 7.4% annually, compared to 5.4% for consolidated expenditures (National Treasury, 2025_[17]).

Furthermore, since 2018, non-resident investors have reduced their holdings of South African government bonds, with their share dropping from 40% in 2017 to 25% in 2024 (Figure 1.7, Panel A). Sovereign bonds are now increasingly held by domestic banks, pension funds and insurers. While this shift reduces financial risks from global shocks, it increases the reliance on the domestic financial sector to absorb the growing supply of government bonds. This dependency heightens risks within the sovereign-financial sector nexus, particularly the potential impact of significant bond repricing on bank balance sheets and the risk of crowding out private investment, as discussed above (SARB, 2023_[14]).

Ambitious reforms are needed to put the debt-to-GDP ratio on a downward path

To reduce fiscal risks and place public debt on a downward trajectory, an ambitious programme of fiscal and structural reforms that achieves higher primary surpluses and GDP growth is necessary. Structural barriers to growth, which result in low fiscal spending multipliers, the potential crowding-out of private investment combined with an already high debt-to-GDP ratio, limit the possibility of relying on debt-financed fiscal stimulus (National Treasury, 2024_[6]; Janse van Rensburg, de Jager and Makrelov, 2021_[19]). Likewise, the narrow tax base combined with sluggish growth implies that an approach relying on simple tax rate increases is likely to be ineffective at increasing tax revenues and generating primary surpluses (Havemann and Hollander, 2022_[20]; National Treasury, 2024_[6]).

Figure 1.9 and Table 1.4 illustrate the fiscal impact of the fiscal recommendations detailed in the sections below. The potential growth and balanced primary budget scenario assumes that the economy operates at a potential growth rate of 1.7% as electricity shortages are resolved, allowing growth to gradually reach its steady state of 2.5%. The government is also expected to follow through with planned fiscal consolidation, resulting in a modest primary balance surplus of 0.1% of GDP. This scenario assumes recent reforms will materialise, hence growth and the deficit would deviate significantly from the past decade's average economic growth of 0.9% and primary balance deficit of 1.3% of GDP. Yet, this scenario would likely be insufficient to stabilise the debt-to-GDP ratio, which could reach almost 110% by 2050.

In an alternative tax reform and spending controls scenario – involving stronger fiscal reforms, including a substantial reduction in transfers to state-owned enterprises (SOEs), an expanded tax base implying also an increase in environmental taxation, as well as stricter spending controls – the primary surplus could increase to 1% of GDP over the long term. This would stabilise debt at its current high level.

A meaningful and sustained reduction in the debt-to-GDP ratio would require a more comprehensive scenario of structural and tax reforms. This would entail a concerted fiscal effort to boost government revenues, primarily through spending controls and measures focusing on increasing the tax base rather than overall tax rates (see below), similar to the scenario above. This approach also requires an ambitious structural reform programme aimed at enhancing business dynamism and job creation by easing product market regulation and better supporting workers to upskill. Limiting transfers to failing state-owned enterprises (SOEs) where private actors can be attracted (e.g., in the electricity and transport sectors), improving spending efficiencies while increasing infrastructure investment will also be important, as discussed in this chapter and the remainder of the Survey (see Table 1.4 and Chapters 2, 3 and 4). Furthermore, greater economic dynamism combined with consolidation efforts would help generate higher revenues, leading to larger primary surpluses than in the previous scenario.



Figure 1.9. Reforms and fiscal consolidation are both necessary to stabilise the debt-to-GDP ratio

Gross debt in % of GDP

Note: The 'potential growth and balanced primary budget' scenario extends the short-run economic outlook, assuming an increasing growth rate from potential (1.7%) and converging towards the steady state (2.5%) from 2036 and a primary balance of 0.1% of GDP. The 'tax reforms and spending control strategy' scenario combines a primary surplus of 1% of GDP from 2026 with the baseline scenario. The 'structural and tax reforms' scenario takes into account the effects of implementing structural reforms that would increase potential growth and tax reforms that would increase the primary surplus.

Source: OECD calculations based on data from National Treasury and the South African Reserve Bank.

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Table 1.4. Illustrative fiscal impact of OECD recommended reforms

Estimated change in the fiscal balance in the medium to long term

Total tax measures	% of GDP
Broaden the tax base of the corporate income tax	0.5%
Broaden the tax base of the personal income tax	0.5%
Broaden the tax base and increase the value added tax rate to 17%	0.8%
Increase the effective carbon tax rate	2.3-4.5%
Total spending measures	
Increase public investment in infrastructure and maintenance, including in green investments	2-3%
Increase in social spending to offset the potential regressive impact of carbon taxes and VAT	0.5-1.5%
Increase spending in education	1-1.2%
Contain public sector wage growth	-1.5%
Phase out fiscal support to fossil fuels	-1.0%
Effect on the fiscal balance	1%

Note: Revenues from the carbon tax may vary significantly depending on the design of reforms, including on tax allowances. These revenues will provide differing amounts of fiscal space for public expenditures. As such, the range of spending depends on the range of revenues collected through the carbon tax, assuming revenues will primarily be used to meet these needs.

Source: OECD calculations.

The long maturity of debt increases fiscal costs but lowers financial risks

The average maturity of debt increased to over ten years in recent years and is significantly longer than peers (Figure 1.10, Panel A) (SARB, 2023_[14]). This extended maturity lowers financial risks by reducing the country's vulnerability to short-term fluctuations in interest rates. However, long-term bonds are associated with higher borrowing costs (Panels B and C), as investors seek greater returns for the extended holding period (Mamburu, 2024_[21]).

A significant portion of long-term bonds is set to mature over the next eight years, totaling ZAR 249 billion (3.6% of GDP) per year from 2024 to 2032—more than four times the level that matured each year in the previous decade. To manage this, the National Treasury extends maturities through a switch auction programme, replacing bonds maturing in one to two years with longer-term bonds. This strategy effectively reduces financial risks, concentrating lending at the "ultra-long end" of the yield curve. However, the macroeconomic outlook is improving and the short-term roll-over risk is decreasing. Therefore, the strategy of increasing the maturity of newly issued debt could be reconsidered to benefit from lower rates.



Figure 1.10. A relatively long debt maturity contributes to increase the cost of debt

Source: BIS, Debt Securities Statistics dashboard; South Africa Reserve Bank; and OECD Main Economic Indicators database.
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Transfers from the central bank will lower the need for debt to increase in the short term

The government has decided to mitigate the fiscal risks of reducing borrowing over the medium term using a portion of the valuation gains from the Gold and Foreign Exchange Contingency Reserve Account (GFECRA). Following the implementation of the new framework announced in February 2024, the South African Reserve Bank (SARB) is transfering funds from this account, which tracks the profits and losses from changes in the value of gold and foreign currency reserves (National Treasury, 2024_[22]). Over the past two decades, the balance of the GFECRA has significantly increased.

Under the new framework, the government can access these funds to decrease debt issuance while simultaneously strengthening the SARB's capital position (Kganyago, $2024_{[15]}$). This sum is expected to represent 1.4% of GDP in the 2024/25 fiscal year and 0.3% of GDP in the following fiscal year. Ensuring that these distributions are directed towards reducing government debt – currently at elevated levels, which heighten the country's risk premia and threaten financial stability – and not used to finance new deficits, will maximise the benefits of the new framework.

While using these funds provides a short-term solution, preventing an unsustainable accumulation of debt in the medium to long term requires fiscal and structural reforms. The government has demonstrated a strong commitment to improve its fiscal performance over the past three years, with the aim to stabilise debt by 2026. After a decade of primary deficits, the government achieved a near-zero primary balance in the 2022/23 fiscal year, followed by slight surpluses of 0.7% of GDP in 2023/24 and 0.5% of GDP in 2024/25, with 0.7% of GDP estimated for 2025/26 (Figure 1.8, Panel C) (National Treasury, 2025_[17]). These surpluses are expected to restore investor confidence, reduce risk premia and lower interest rates, ensuring more sustainable public finances. Achieving this will require a mix of tax and spending measures while protecting essential social and growth-oriented policies.

1.4.2. Maintaining social and growth-friendly policies is key for credible fiscal consolidation

A credible fiscal consolidation strategy must safeguard growth prospects and social cohesion. These dimensions are key considerations for rating agencies when assessing country risks, and thereby impacting the risk premium and interest rates. For example, in January 2024, Fitch reaffirmed South Africa's credit rating at BB- with a stable outlook, citing sluggish GDP growth, high inequality, rising debt levels and a modest fiscal consolidation strategy as reasons (National Treasury, 2024_[23]). Excessive cuts to growth-friendly expenditure risk stifling the economy and undermining fiscal consolidation. This occurred in the euro area from 2010 to 2015, where aggressive deficit reductions led to lower growth without significantly decreasing debt-to-GDP ratios. The heightened risk of social instability also increases the country risk premium for both firms and the sovereign in capital markets (IMF, 2023_[13]).

Public investment as a share of GDP has steadily declined to significantly below the OECD average, which has formed a significant part of debt consolidation efforts to date (Figure 1.11). Gross public capital spending in 2022 had declined by 26% in real terms from its 2016 peak. This reduction has negatively affected actual and potential growth and limit the ability to boost fiscal revenues and improve the primary balance. Moving forward, a critical challenge for policymakers will be to maintain adequate levels of public investment while pursuing fiscal consolidation. The 2025 May Budget Overview marks a shift in this trend, with payments for capital assets projected to be one of the fastest-growing components of non-interest public expenditures over the next Medium-Term Expenditure Framework (2025/26–2027/28), increasing by 7.5% annually (against an annual average of 5.4% for consolidated expenditures). This growth is primarily driven by infrastructure investments in transport and water projects. Encouraging greater private sector participation in infrastructure projects could further ease the pressure on public finances (see below, Chapters 3 and 4).



Figure 1.11. Public investment has declined over time

Note: In panel B, OECD is an unweighted average excluding Chile and Türkiye. Source: OECD Economic Outlook database.

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High unemployment, poverty and inequality put increasing pressure on social spending, which was relatively preserved over the last decade. Excluding debt-servicing costs, the largest components of the ZAR 2.6 trillion (32.8% of GDP) budget for 2025/26 are education, social protection and health. Average annual growth in spending on social protection (9.2% per year) and education and health (8.9% per year) has been faster than aggregate spending (8.5% per year) over 2009-2022 (National Treasury, 2024_[23]). Government spending is expected to remain highly redistributive, with spending on health, education, social protection, community development and employment programmes projected to account for 61% of total consolidated non-interest spending over the next three years (National Treasury, 2025_[17]).

South Africa's means-tested cash-transfer system provides crucial income support, especially to the elderly and households with children (OECD, 2022_[24]). Approximately 54% of the population relied on some form of social transfer from the government in March 2023. These tax-funded, non-contributory social grants supply as much as 71% of the income for households in the bottom 20% of the income distribution. Despite fiscal consolidation efforts, the government should continue preserving social assistance spending given its critical role in reducing poverty, inequality and protecting vulnerable households from economic shocks.

The Social Distress Relief (SDR) grant, introduced during the pandemic, addressed a gap in the social protection system by covering unemployed working-age individuals, including informal workers, who could not benefit from government income support. It covers 8.5 million South Africans (13.3% of the population), with two-thirds of applicants aged 20-34. Though modest, the grant is highly redistributive and still plays an important role in reducing poverty. Following an extension of the programme last year, the government is evaluating the possibility to permanently fund it in the context of a broader social security reform, which would protect against future expenditure cuts.

Needs in education, healthcare and worker support are significant and largely unmet. South Africa exhibits some of the highest levels of inequality globally, along with high poverty and unemployment rates. Strengthening these policies would enhance worker productivity, promote broader inclusion in the labour market and more generally support growth, alongside product market reforms aimed at boosting job creation (Chapter 2) (OECD, 2022_[24]; 2020_[25]; Onaran and Oyvat, 2024_[26]). This requires creating fiscal space through growth-promoting policies and improved efficiency in public spending (see section below).
1.4.3. Managing public spending and limiting inefficiencies

Maintaining the public wage bill under control

Meeting critical social and economic needs, as discussed above, requires substantial spending, leaving limited flexibility for a reprioritisation strategy. However, the public sector wage bill stands out as a key area for potential adjustment. In 2022, the public sector wage bill stood at 3.5 percentage points of GDP above the OECD average, while the share of public employment in total employment was only 1.2 percentage points above the OECD. For comparison, Denmark has a wage bill similar to that of South Africa (as a share of GDP) but a 50% larger share of public employment than the OECD average. These figures indicate that the relatively high wage bill in South Africa is primarily driven by elevated compensation levels rather than the size of the workforce (National Treasury, 2023_[27]). Additional evidence suggests a significant wage premium for working in the public sector compared to in the private sector (Kerr and Wittenberg, 2017_[28]; Bhorat et al., 2015_[29]).

Recent measures since the pandemic have reduced the wage bill from 34% of consolidated spending in 2020/21 to an estimated 32% in 2024/25 (National Treasury, 2023_[27]; National Treasury, 2025_[18]). Average wages in the public sector grew by more than inflation and those in the private sector between 2015 and 2021. However, the trend has reversed since the pandemic, with real public wages declining following an agreement for wage freezes.

The government aims to continue this downward trend in public sector wages over the medium term. Since October 2023, the government has implemented controls on payroll systems, aiming to assist different public entities in managing fiscal sustainability when creating and filling vacant posts in national and provincial departments. However, resistance from public sector unions means reductions will likely rely on headcount adjustments. The authorities have committed to avoid wage and headcount adjustments in priority sectors such as health, education and police. Yet highly paid civil servants, who have particularly benefited from inflation overshooting and the high initial level of wages, remain well positioned. The share of public servants earning over ZAR 600 000 annually (EUR 31 000) has increased from 4.4% to 19% in a decade, and the share earning over ZAR 1 million (EUR 51 700) has increased from 0.8% to 4.5% (National Treasury, 2023_[27]). In the medium term, efforts to contain public sector wage growth should focus on keeping wage increases in line with inflation. In the short term, to correct for past overshooting, wage growth can be contained below inflation, but across the board wage agreements should be avoided to ensure highly paid civil servants shoulder most of the weight of the consolidation.

Improving the efficiency of SOEs and reducing fiscal transfers

Restructuring SOEs holds significant potential for substantial savings. South Africa has a higher level of public ownership than most OECD and emerging economies, with over 40 full or partial SOEs (Figure 1.12). Many of these firms play a key role in the economy, particularly in network industries, such as electricity, rail transport, water and telecommunications, which are essential for delivering basic services and driving productivity growth.



Figure 1.12. The scope of SOEs is relatively large

Scope of public ownership

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Note: Indicator value increase in the stringency of the regulatory environment. G20EME is the unweighted average of Brazil, China, Indonesia, Mexico, South Africa and Türkiye. The indicator for South Africa reflects the laws and regulations in force on 1 January 2023. For some countries, the indicator reflects those in force on 1 January 2024.

Source: OECD Product market regulation database 2023/2024.

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Inefficiencies in SOEs place a significant burden on public finances in two main ways:

- Weak governance of SOEs has required frequent fiscal transfers to sustain operations, yet these funds have been insufficient for proper infrastructure maintenance and upgrades. This diversion of public resources has limited investment in critical areas like education, health and broader public infrastructure. Nearly ZAR 310 billion has been deployed to recapitalise SOEs since 2008/09, equivalent to 27% of GDP (National Treasury, 2024_[6]). Around 70% of this went to Eskom, with most of the remainder allocated to South African Airlines. The medium-term increase in gross loan debt is also partly driven by financing the Eskom debtrelief arrangement (see Chapter 4).
- Significant inefficiencies in SOEs undermine their ability to deliver essential services, such as freight and energy, disrupting business activity and productivity, which trickle down into lower revenues from corporate income tax. Over one-third of the decline in South Africa's growth after 2010 can be explained by the direct effects of reduced productivity from public utilities (National Treasury, 2024_[6]).

Government guarantees to SOEs constitute an additional fiscal risk which has increased over time as SOEs otherwise struggle to access capital markets (SARB, 2024_[12]) (see Chapter 4). The government has been working to reduce its exposure to this risk and between March 2022 and March 2023, loan guarantees declined from ZAR 559.9 billion (8% of GDP) to ZAR 478.5 billion (6.8% of GDP). Reforms have also been implemented to mitigate fiscal exposure by ensuring better monitoring and accountability of guarantees and using guarantee conditions to raise operational efficiency (National Treasury, 2024_[23]).

Broad reforms are underway to restructure SOEs in the energy, freight, water and telecommunications sectors (see Chapters 3 and 4). These include moving towards a more competitive-friendly environment, leveraging private investment and improving governance. The government is also advancing the National State Enterprise Bill, introduced in Parliament in January 2024. This Bill aims to create the State Asset Management SOC Ltd, which will establish a centralised SOE model. This would align South Africa's governance of SOEs with international best practices through a distinct legal framework for SOEs. This new holding company, governed by a CEO and Board of Directors, will manage at least 13 SOEs. The bill mandates the government to develop a national strategy aimed at enhancing the financial and operational sustainability of these enterprises. This strategy would include performance targets, developmental objectives, financial recovery plans and opportunities for private investment.

Alongside the reform to SOE governance, the recent reforms to public-private partnerships (PPP) and the new public procurement bill, signed into law in July 2024, will also help increase the efficiency of public operations. The public procurement bill strengthens the role of accountants of procurement institutions to safeguard against corruption while the reforms to PPPs will facilitate the use of private financing to reduce the investment gap of SOEs. The establishment of an infrastructure finance and implementation support agency in 2025 will coordinate the planning and preparation of large projects in direct collaboration with private financial institutions. These are important steps to improve the governance of the public sector's economic activity that need to be implemented swiftly as they have the potential to support growth and fiscal sustainability.

1.4.4. Strengthening the fiscal framework

South Africa's fiscal framework lacks a formal fiscal rule, but since 2012 has relied on a nominal expenditure ceiling to manage public finances. It is set based on transfers to line departments and provincial governments and is adjusted annually for inflation to maintain a constant real target for non-interest expenditure. The National Treasury issues technical guidelines on the projected ceiling for line departments, which they use for budgeting. The final level of the ceiling is then set in a discretionary way: the National Treasury may adjust the expenditure ceiling to reflect the fiscal stance or in response to shocks, such as the pandemic or higher-than-expected revenues (Soobyah, Mamburu and Viegi, 2023_[30]).

An expenditure ceiling can help direct the trajectory of nominal spending. However, in South Africa it has failed to curb debt accumulation because it does not link the trajectory of medium-term expenditure to that of revenue and it does not have a fiscal balance (or debt) objective to serve as an anchor. As a result, if revenue falls short of expectations because growth turns out lower than projected, the debt ratio will rise. For instance, since 2016/17, fiscal revenues largely surprised on the downside due to weak growth and over-optimistic projections, while expenditures were more closely aligned with forecasts (National Treasury, 2024_[6]). This has resulted in persistent primary deficits, despite the expenditure ceiling.

South Africa needs a strengthened fiscal framework, and it is welcome that the government is considering introducing a binding anchor to the existing nominal primary expenditure ceiling to ensure fiscal consolidation. This strategy aligns with broader international practices, where fiscal anchors – such as debt ceilings or deficit limits – are used to manage debt accumulation (Wyplosz, $2012_{[31]}$). Defining a prudent debt ratio target would provide a clear path for a progressive consolidation over, for example, the next ten years and would be an anchor for the fiscal rule.

Spending rules have been found to be more effective than a spending ceiling in reducing debt and fulfilling the objectives of fiscal frameworks (Fall and Fournier, $2015_{[32]}$). A typical spending rule is to set spending growth structurally below revenue growth (adjusted for the economic cycle), with corrective measures if not respected. One way to ensure this could be to link expenditure growth only to inflation projections. In doing so, expenditure would grow at a lower speed than revenues, which in the medium term increases proportionally to prices but also growth. Consequently, the fiscal balance would progressively improve, allowing the debt ratio to eventually decline.

A phased approach to implementing the fiscal rule may be necessary to ensure both effectiveness and public acceptability. Such sequencing will also help striking a balance between fiscal discipline to restore debt sustainability and the need to increase key public spending that supports growth and inclusiveness in the medium to long term. As a first step, establishing a rule that indexes public expenditure growth to inflation only would help gradually slow debt accumulation. Assuming no other policy changes and under certain macroeconomic assumptions – including real economic growth at its potential rate, inflation at its midpoint target, long-term interest rates 100 basis points below the current level and a unitary tax-to-GDP elasticity – back-of-the envelope calculations suggest it would take around five years to stabilise debt levels. Once the debt ratio is stabilised in a sustainable manner, there would be fiscal space for expenditure growth to rise at a faster pace than inflation.

For the fiscal rule to be effective in the short term, budget planning would need to be based on cautious inflation projections – potentially lower than consensus forecasts. Furthermore, in emerging economies like South Africa, a

cap on current expenditures can help avoid fiscal rules that inadvertently stifle public investment (Eyraud et al., 2018[33]). This would help balance the need for fiscal discipline with the need to support long-term growth through public investment.

The South African government has already taken steps to enhance fiscal discipline. In the 2025 Budget, the government outlined its approach, namely anchoring fiscal policy to a debt-stabilising primary surplus. Under this strategy, the budget primary surplus is set to reach between 0.7 and 1.6% of GDP over the next two years and continue rising throughout the decade to accelerate debt stabilisation. This commitment is a positive step, and if successfully implemented, the strategy could lead to a fast stabilisation of the debt-to-GDP ratio. However, it carries risks, particularly if revenue projections—especially those tied to policy changes—fall short of expectations, as has occurred in the past.

As part of its broader efforts to enhance public finance management and strengthen its fiscal framework, South Africa has conducted regular Spending Reviews since the mid-2010s, reinforcing accountability and transparency. However, the overall impact has been moderate, with persistent challenges such as unplanned transfers to state-owned enterprises (SOEs), pressures from the public wage bill (both discussed above), and resistance or capacity constraints within departments to conduct in-depth spending reviews and effectively prioritise expenditures. Continuing spending reviews and strengthening the implementation of their recommendations will contribute to enhance fiscal consolidation. Ensuring that spending reviews meet key criteria could boost their effectiveness, including involvement from the National Treasury and government departments at all stages, and notably during the implementation of conclusions, systematic integration into the budget process, political leadership and support on adopting recommendations, and clear and publicly available recommendations (OECD, 2022_[34]).

1.4.5. Broadening the tax base to achieve primary surpluses with minimal growth impact

Over the past decade, revenues were generally lower than projected in the budget, excluding in 2022 and 2023 due to favourable commodity prices. In 2023/24, revenue collection weakened significantly, largely due to sluggish growth (National Treasury, 2024_[23]). Increases in tax rates, including personal income tax (PIT) and value-added-tax (VAT) rates between 2016 and 2020, have had a limited effect on the tax-to-GDP ratio. Key reasons are slow economic growth combined with weakening administrative efficiency at the South African Revenue Service (SARS) during the period of state capture (National Treasury, 2024_[6]).

South Africa's tax-to-GDP ratio stands at 24.5% in 2023/24 fiscal year, higher than in most emerging economies but below the OECD average. Various tax provisions and exemptions lower effective tax rates well below statutory levels, suggesting potential revenue gains through policy streamlining, particularly in primary revenue sources: personal income tax, value-added tax and corporate income tax (OECD, 2022_[24]). Tax expenditures remained relatively constant as a share of nominal GDP over the last five years, amounting to 4.2% of GDP in the fiscal year 2022/23, with PIT accounting for nearly half and VAT for 32%.

The PIT is the largest revenue source, at 37.3% of total tax revenues in 2023/24. It is heavily reliant on the top 20% of taxpayers, who contribute who account for approximately three-quarters of total collections (76% of PIT in 2023), while top personal income tax rates remain significantly higher than those in peer countries (National Treasury, 2025_[18]). However, progressivity is undermined by generous deductions and allowances, which disproportionately benefit high-income earners (Figure 1.13, Panel A). In 2025, like in 2024, the government chose not to adjust personal income tax brackets for inflation, boosting revenue collection but failing to enhance progressivity. Despite already highly skewed collection at the top of the income distribution, recent analysis suggests room for slightly increasing progressivity and deepening PIT revenue collection. This could be achieved by lowering the threshold at which the highest tax rate applies and by increasing the tax rates of four of the higher tax bands (Wright et al., 2023_[35]). However, some evidence suggests that raising the top marginal tax rate would have a limited impact due to Laffer curve effects (Axelson et al., 2024_[36]). Alternative potential reforms to broaden the tax base already highlighted in the previous Economic Survey of South Africa (OECD, 2022_[24]) include reducing tax expenditures by

better valuing fringe benefits within the PIT base, phasing out the additional tax relief benefiting pensioners aged over 65 and 75 years and replacing medical tax credits with the national health insurance system.



Figure 1.13. There is room to increase the tax base







Note: In panel C, fiscal periods refer to the year to March in the year shown. Growth is calculated using nominal corporate income tax values. Source: SARS; OECD Consumption Tax Trends 2024; South African National Treasury; and OECD Revenue Statistics database.

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The value-added tax, the second-largest revenue source, contributed 35.4% of total tax revenues in 2023/24 but is below the OECD average (Figure 1.13, Panel B), suggesting room to increase both the tax rate and its base while alleviating the impact on the most vulnerable, as already recommended in the last Survey (OECD, 2022_[24]). To maximise the impact of any increase in the VAT rate, it is key to adopt complementary reforms to enhance collection; otherwise, there would be risk that revenue gains may fall short of expectations. Potential measures include enhanced registration, mandatory e-filing, the introduction of electronic invoicing, which have proven to be very effective in OECD countries, as well as strengthening tax administration capacities (see below). Furthermore, a list of zero-rated VAT items has also been defined in order to offset the impact on the most vulnerable. However, means-tested household support could achieve similar objectives with lower revenue costs. To improve VAT collection, the 2025 Budget bill shortens the submission period for VAT claims and introduces changes to the electronic services regime to address low compliance among domestic and foreign providers. The Bill also addresses VAT challenges in the digital economy by introducing a simplified VAT registration system for offshore companies transacting with South African firms, aligning with OECD recommendations (OECD/WBG/ATAF, 2023_[37]).

The corporate income tax (CIT), the third-largest revenue source at 18% of total tax revenues in 2023/24, has declined since the 2008 financial crisis, excluding the commodity boom in 2021-2022. The decline as a share of GDP amounted to almost 3 percentage points over the period (Figure 1.13, Panel C). Although the CIT rate was reduced from 28% to 27% in 2022, it remains higher than the OECD average of 23%. Aligning the CIT rate with the OECD average could boost South Africa's tax competitiveness and support business growth. However, limited fiscal space makes broadening the tax base essential for sustaining and enabling future rate reductions. In 2024, only 549 large companies accounted for 66.5% of CIT revenues (SARS, 2024_[38]). A key challenge lies in improving tax collection and closing the 12% compliance gap (OECD, 2022_[24]). Limiting the carry-forward of assessed losses and revising deductions for interest and capital expenditures, as recommended in the last Economic Survey, could help reduce the gap. The government is reviewing corporate tax incentives to broaden the CIT base, simplify the system and promote fairness by avoiding sector-specific advantages. South Africa has also enacted the Global Minimum Tax Act, requiring large multinational enterprises to comply with a 15% minimum corporate tax rate. This is expected to support fiscal revenues by curbing tax losses to offshore havens while protecting South African businesses from multinational tax competition.

Property tax revenues, at 1.3% of GDP in 2023, is lower than the OECD average (Figure 1.13, Panel D). Municipalities collect 82%, making it their third-largest revenue source after central transfers and electricity revenues. Shifting taxation further towards property taxes is desirable, as they are broader, less damaging to employment and potentially more equitable. This would also reduce municipalities over reliance on electricity revenues to finance their activities (Chapter 4). Greater reliance on property taxes is currently limited by uneven local government capacity, particularly in rural areas. Supporting municipalities' administrative capacity building and collaboration between municipalities would help raise collection. Regularly updating valuation rolls remains a challenge for many South African municipalities. Revisiting the "market value" approach to property taxation, which applies tax rates to property market values, may be necessary as smaller municipalities often struggle with general and supplementary valuations (Franzsen, 2022_[39]). Technological advances can also help municipalities achieve timely and accurate assessments. There is room for broadening the tax base and increasing taxes on donations and estates (OECD, 2022_[24]). Since 2023, individuals with assets over ZAR 50 million must declare their wealth—a valuable step towards understanding national wealth, including residential wealth.

Revenues from environmental taxation are low compared to other countries and could also provide greater incentives to reduce emissions (see Chapter 3). Carbon tax revenues are low due to a low tax rate and allowances that can exempt firms' carbon tax liability on up to 85-95% of their emissions. There are plans to increase carbon tax rates every year to reach ZAR 462 (around EUR 16.7) per tonne of CO₂ equivalent by 2030. However, the government plans to maintain the basic tax-free allowance of 60% of emissions until at least 2030, and there are no plans to reduce the total size of other allowances. Increasing the net effective carbon price to EUR 30 on all fuels that currently face a price below this level could increase tax revenues by around 3.2% of GDP (D'Arcangelo et al., 2022_[40]) (Table 1.4). The government has some measures to offset the regressive elements of the carbon tax (see Chapter 3).

Improving the efficiency of the tax administration and reducing tax evasion is key for better tax collection. The SARS, weakened by state capture in recent years, struggles to recruit skilled specialists and upgrade technology. Ongoing reforms aim to improve compliance through digital access, especially through greater use of sophisticated data and Artificial Intelligence tools, simplified tax processes and aligning governance with international standards.

1.5. Continuing the fight against corruption

South Africa is still struggling to reduce corruption in the public sector (Figure 1.14, Panel A), which deepens inequalities, wastes public resources and weakens economic growth (OECD, 2024_[41]). South Africa has struggled with corruption since its transition to democracy, intensifying over the Zuma presidency, which made "state capture" a household term. State capture is a type of systemic political corruption where formal procedures (such as laws and social norms) and government bureaucracy are manipulated by government officials, state-backed

companies, private companies, or private individuals to influence state policies and laws in their favour (OECD, 2022_[24]; 2020_[25]; IMF, 2023_[13]). The State Capture Commission, also known as the Zondo Commission, highlighted serious governance failures and the undermining of legislated procedural checks and balances across ministries, legal enforcement institutions and SOEs, particularly Eskom (electricity, see Chapter 4) and Transnet (freight railways and ports, see Chapter 3). In response to the Commission's findings, Parliament adopted an implementation plan in November 2022, which is an across-government effort and includes many legislative and institution reforms (The Presidency, 2023_[42]).



Figure 1.14. South Africa could further address corruption and governance deficiencies

Note: G20EME is computed as an unweighted average and includes Argentina, Brazil, China, India, Indonesia, Mexico, Russia, Saudi Arabia, Türkiye and South Africa. Panel A shows sector-based subcomponents of the "Control of Corruption" indicator by the Varieties of Democracy Project. Panel B shows ratings from the FATF peer reviews of each member to assess levels of implementation of the FATF Recommendations. The ratings reflect the extent to which a country's measures are effective against 11 immediate outcomes. "Investigation and prosecution¹¹" refers to money laundering. "Investigation and prosecution²¹" refers to terrorist financing.

Source: Varieties of Democracy Project, V-Dem Dataset v12; OECD, Financial Action Task Force (FATF).

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Law enforcement responses to the findings of the State Capture Commission remain slow (OECD, 2022_[24]; IMF, 2023_[13]). While the Commission recommended the investigation of a number of matters by law enforcement agencies or other regulatory bodies, under 20% of these have progressed to prosecutions and convictions by late 2023 (The Presidency, 2023_[42]). On the other hand, South Africa's National Prosecution Authority (NPA), in cooperation with law enforcement authorities in other OECD Working Group on Bribery countries, have managed to secure restitution from foreign companies that benefited from state capture. Still, more work is needed to conclude investigations and, where appropriate, begin criminal prosecutions and enforce the resulting sanctions for corruption offences, to restore public confidence and encourage the proper functioning of public services.

Law enforcement and prosecution authorities, including the NPA and the Directorate for Priority Crime Investigation have been severely weakened and have not yet fully recovered their capacity and institutional set up (MAPS, 2024_[43]). Challenges around coordination within South Africa's multiple anti-corruption authorities also undermine strong and credible action to implement anti-corruption measures (MAPS, 2024_[44]). Some progress has been achieved but challenges persist, including ensuring that anti-corruption authorities have the sufficient financial resources, skilled staff and legal power to successfully operate and ensure their independence (IMF, 2023_[13]). While the government increased the budget of the NPA from ZAR 4.5 billion to ZAR 5.406 billion (0.1% of GDP) between 2021 and 2023 (The Presidency, 2023_[42]), this amount remains insufficient (IMF, 2023_[13]). The government also strengthened the capacity of the NPA with the NPA Amendment Act. It led to the establishment of the Investigating Directorate Against Corruption (IDAC), which focuses on the highest-priority state capture cases, with the authority to have its own investigators. However, the Bill did not reform the financial and administrative independence of the

NPA from the Department of Justice, which the government had indicated it would pursue as part of the response to the Commission. Swiftly implementing this additional reform will help South Africa address its corruption and governance deficiencies. Finally, coordination within South Africa's multiple anti-corruption authorities also undermines strong and credible action to implement anti-corruption measures (MAPS, 2024_[43]) and should be improved.

The government passed the Public Procurement Act in 2024, following the State Capture Commission report that found that money was primarily extracted from the state through the abuse of procurement processes. The Act responded to a number of the Commission's recommendations and provides for a unified framework to the highly decentralised procurement system and increases transparency in processes. Nevertheless, many substantive gaps in the public procurement system remain to be settled in secondary legislation, which is not yet developed and would further reduce the risk of corruption and political interference in public procurement. The 2024 Methodology for Assessing Procurement Systems (MAPS) assessment conducted by the OECD, World Bank and African Development Bank (MAPS, 2024_[43]) especially recommends that South Africa:

- Reinforce further the regulatory authority of the Public Procurement Office (PPO) and ensure it has sufficient human resources and effective independence;
- Increase the use of digitalisation, internal controls and internal audits to detect and prevent corruption; and
- Increase the transparency of the procurement system and develop comprehensive financial disclosure rules and clear definitions of conflicts of interest.

Following its Financial Action Task Force (FATF) greylisting, South Africa has addressed many of its strategic deficiencies in its anti-money laundering and terrorist financing (AML/CFT) regime (National Treasury, 2025_[16]). The one strategic deficiency remaining is to demonstrate a sustained increase in investigations and prosecutions of serious and complex money laundering and the full range of terrorist financing activities (Figure 1.14, Panel B) (FATF, 2025_[45]).

Figure 1.15. There are insufficient safeguards against distortions induced by lobbying activities



Regulation on lobbying activities

Note: A higher indicator value reflects more regulatory barriers. G20EME is the unweighted average of Brazil, China, Indonesia, Mexico, South Africa and Türkiye. The indicator for South Africa reflects the laws and regulations in force on 1 January 2023. For some countries, the indicator reflects those in force on 1 January 2024.

Source: OECD Product Market Regulation (PMR) database.

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Among OECD and G20 emerging-market economies, South Africa has some of the lowest safeguards against potential distortions induced by lobbying activities, which does not create a level playing field for firms (Figure 1.15).

South Africa does not regulate the interactions between lobbyists and public officials, there is no public lobbying register and public officials face no disclosure requirements. Additionally, the absence of a mandatory cooling-off period for senior public officials and civil servants heightens risks of a conflict of interest. This lack of regulation can create opportunities for incumbents and well-funded corporations to influence policymakers to create barriers to entry for smaller firms and new entrants. As such, it is essential to identify and address situations where conflicts of interest could arise through regulation and ensure that the interactions and links between policy makers and interest groups are transparent (OECD, 2024[41]).

Table 1.5. OECD recommendations on macroeconomic policies in previous Surveys

Recommendations	Actions taken since the last Economic Survey
Increase the policy interest rate if needed to keep inflation expectations well anchored to the midpoint of the target band.	The South African Reserve Bank (SARB) increased the policy rate from 4% in March 2022 to 8.25% in May 2023. As inflation started to ease, the SARB started lowering the policy rate from September 2024.
Maintain a progressive consolidation strategy to bring back debt on a sustainable path.	The primary deficit is on a downward trend since 2021 but debt has continued to rise.
Privatise state-owned enterprises operating in competitive markets when the economic situation improves.	No action taken on privatisation.
Separate the responsibilities of the board clearly and the management of SOEs by giving the board the mandate to strategically supervise, monitor and audit the management of SOEs.	The National State Enterprise Bill was introduced in Parliament in January 2024, which if accepted will establish a State Asset Management SOC Ltd governed by a CEO and a board of directors.
Improve prosecution processes and the enforcement of national and foreign corruption sanctions for offences.	Prosecutions and convictions remain slow.
Reduce tax allowances and deductions and increase the taxation of fringe benefits in the personal income tax.	No action taken. Since 2023, individuals holding assets valued at ZAR 50 million or more were required to declare all their wealth.
Reduce the corporate income tax (CIT) rate while broadening the tax base.	The CIT rate was reduced by 1pp but no action was taken regarding the tax base. The global minimum corporate tax on multinationals was signed into law and backdated to take effect from 1 January 2024.
Raise additional revenue by raising the standard VAT rate slightly and compensate low-income households through transfers.	No action taken. However, the submission period for the VAT claim was reduced, which may increase tax collection.
Broaden the estate tax base significantly by reducing exemptions for life insurance, pension savings and trust vehicles as well as close other tax avoidance schemes.	No action taken.
Reduce exemptions to the carbon tax progressively and gradually increase its level.	The government has committed to annual increases the carbon tax rate until 2030. Nevertheless, the effective rate will remain low.

Table 1.6. Main findings and recommendations to boost growth and enhance fiscal sustainability

MAIN FINDINGS	RECOMMENDATIONS (Key recommendations in bold)
Delivering low and stable in	flation and financial stability
The 3-6% inflation target is higher than in trading partners, which can put pressure on the country's competitiveness. A narrower band could better anchor inflation expectations.	Reduce the inflation target and consider reducing the band around it. Adjust the monetary policy stance to keep inflation expectations anchored to the midpoint of the inflation target.
The financial sector is highly exposed to government debt, exposing it to a common risk of a sharp repricing in government debt.	Monitor and close valuation gaps in banks' holdings of government bonds.
Enhancing fiscal sustainability v	vhile promoting inclusive growth
The government plans to mitigate fiscal risks by reducing borrowing over the medium term, using a portion of valuation gains from the Gold and Foreign Exchange Contingency Reserve Account (GFECRA).	Make the allocation of GFECRA amounts explicitly conditional on reducing the debt ratio and mitigate risks to financial stability.
The expenditure ceiling has guided the trajectory of nominal spending but has not been effective at keeping expenditure below revenue growth; the debt ratio is growing and comparatively large for an emerging economy.	Establish a fiscal rule linking expenditure growth to inflation only until the medium-term debt ratio target is reached and stabilised.
Public investment as a share of GDP has dropped by 26% since 2016, negatively impacting growth, and revenues.	Boost public investment, especially in core infrastructure such as electricity, water and rail.
Social spending has a key role to play to reduce poverty. The social relief distress grant (SRD) has no permanent financing source.	Protect social spending in the course of fiscal consolidation. Ensure targeted social support to the working age population, like the SRD, is permanent but finance it with social security contributions rather than fiscal transfers.
Public wage growth often outpaced inflation, raising the wage bill share of GDP above the OECD average, but it began declining after 2020 wage freezes and headcount adjustments	Ensure public sector wages grow in line with inflation in the medium term and in the short term, to offset past overshooting, index wages below inflation for medium-high/high wages.
The tax base is limited by numerous tax expenditures, including tax deduction and allowances, hindering the ability to depend on tax revenue for consolidation efforts.	Enhance the efficiency of the tax administration. Widen the base of all direct taxes by reducing tax expenditures and increasing recurrent property tax collection. Raise the VAT rate and offer means-tested support to households.
Many spending reviews have been undertaken but the implementation of their recommendations have been slow.	Continue spending reviews and strengthen the implementation of the recommendations from spending reviews.
Inefficiencies in SOEs require large fiscal transfers and undermine total productivity growth.	Restructure SOEs to ensure their financial sustainability, including by fostering a pro-competitive environment enabling greater private participation. Enhance SOE management and establish a holding company with international governance standards.
Eskom benefits from large subsidies, including large fiscal transfers and exemption from the carbon tax, hindering incentives to transition away from coal-based electricity generation.	Reduce subsidies to Eskom and reallocate funding to support renewables and grid expansion. Mitigate the effects on the most vulnerable households and SMEs through targeted subsidies.
Continuing to fight	against corruption
The work of the State Capture Commission revealed widespread corruption in public entities, but prosecution is slow.	Strengthen the prosecution process and better enforce sanctions for corruption offences.
There are substantive gaps in South Africa's public procurement procedures, which do not limit corruption and political interference.	Reinforce the regulatory authority and improve e-procurement systems.
South Africa ranks poorly on safeguards against potential distortions induced by lobbying activities. These activities may favour the endeavors of larger firms and lead to an unlevel playing field.	Regulate the interactions between lobbyists and public officials and create a public lobbying register. Implement a mandatory cooling-off period for senior public officials.

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2 Enhancing job creation and workforce integration in a changing economy

Lilas Demmou and Nikki Kergozou

South Africa's labour market faces significant challenges, with the lowest employment rate and the highest unemployment rate among OECD and G20 countries. The exceptionally high unemployment rate combined with low worker engagement in the informal sector compared to peers reflect significant barriers to labour market participation, leading to widespread exclusion. The transition from the coal sector is exacerbating labour market challenges in some regions. Job creation and inclusion depend on business dynamism and workers' ability to connect with suitable employment. This chapter examines how regulatory barriers in the labour and product markets and transport and urban planning, limit employment. Addressing these challenges calls for policies that foster firm growth by reducing regulatory burdens, better connecting workers to jobs by reducing urban sprawl and commuting costs and enhancing the reallocation of workers by scaling up active and passive labour-market policies—such as career guidance, training and mobility support. Many South Africans struggle more to access the labour market than their peers in other economies, with South Africa displaying distinct patterns compared to OECD and G20 emerging-market countries. At 40%, South Africa's employment rate is among the lowest globally, remaining well below its pre-pandemic level and the G20 emerging-market average of around 60% (Figure 2.1, Panel A). Meanwhile, its unemployment rate exceeds the group's average by around 25 percentage points (Panel B). Additionally, the share of employees working informally is significantly lower than in peer countries, estimated at 18% by Statistics South Africa and 34% by the ILO (Figure 2.3). This means that unlike in most other emerging economies, where those excluded from formal employment often turn to informal work, South Africans in that situation are more likely to remain unemployed. This signals a high level of exclusion from labour market participation, suggesting that many people do not work at all.



Figure 2.1. South Africans struggle to find labour market opportunities

Note: G20EME is the unweighted average of Argentina, Brazil, China, India, Indonesia, Mexico, Russia, Saudi Arabia, South Africa and Türkiye. Source: OECD Economic Outlook database; OECD Labour force Statistics database; World Bank, World Development Indicators database; and Statistics South Africa.

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South Africa's poor labour market outcomes are rooted in both demand- and supply-side challenges, driven by weak economic growth, and some restrictive product market and labour policies. Sluggish economic growth, worsened over the past five years by deteriorating infrastructure and corruption, which intensified in the previous decade, have severely constrained business operations and job creation (see Chapters 1, 3 and 4). The labour market's institutional framework struggles to effectively balance employers' needs for flexibility with workers' demands for job security, fair wages and adequate support during job transitions. The restrictive regulatory environment and high market concentration stifle competition and hinder job creation. This is particularly the case for micro, small and medium-sized enterprises (MSMEs), which employed 59% of South Africa's workforce in 2022, well below the OECD average of 69% in 2020 (Small Enterprise Development Agency, 2023_[1]; OECD, 2023_[2]).

Beyond insufficient job creation, connecting workers to employment opportunities remains a pressing issue. Urban sprawl and the legacy of apartheid-era spatial planning result in high transport costs and lengthy commutes, further restricting access to jobs and exacerbating mismatches in the labour market. Finally, new challenges are emerging, notably the anticipated job losses associated with the green transition and the need to reallocate coal-mining workers to alternative employment opportunities.

To address the multi-dimensional sources of poor labour market performance, a multipronged answer is needed. First-best policies should prioritise boosting formal employment by establishing labour market friendly institutions, a business regulatory environment supportive of firm creation and expansion, education and training policies supporting upskilling as well as housing and transport policies easing access to job opportunities. At the same time, national authorities and municipalities could consider policies aimed at easing restrictions on informal work while providing incentives for formalisation. This chapter analyses key barriers to job creation and matching between employers and employees, and potential policy responses. The first section addresses labour market challenges and related policies, building partly on insights from the 2022 Economic Survey. It also explores policies to support workers' reallocation in response to job losses resulting from the decommissioning of coal-power plants. The second section examines how regulatory restrictions impacting competition and barriers to entrepreneurship impede growth, business dynamism and job creation. The third section explores how shortcomings in transport and urban planning restrict workers' access to job opportunities.

2.1. Creating well functioning and inclusive labour markets

Weak overall labour market outcomes conceal large differences between individual characteristics and geographical locations (Figure 2.2). For example, the difference in the unemployment and employment rate from the national average can vary by around 15 percentage points for certain regions and 30 percentage points for young people. These 15-24-year-olds make up almost 25% of the working-age population, highlighting that the barriers they face in entering the labour market are a key factor contributing to weak overall labour market performance. The average unemployment rate for black South Africans is almost 30 percentage points higher than for white South Africans, highlighting significant differences in economic opportunities.



Figure 2.2. Some South Africans struggle more than others to find labour market opportunities

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2.1.1. Establishing institutions that support a thriving labour market for all

The 2022 Economic Survey of South Africa analysed the role of various labour market institutions on outcomes, such as the minimum wage, collective bargaining and in-work benefits (OECD, $2022_{[3]}$). The analysis highlighted several challenges, and especially the need to ease some rigidities in the labour market while significantly increasing the support to workers and those who are unemployed.

 Wage-setting practices are ranked among the most rigid globally. Wage bargaining is often confrontational and occurs at a relatively high industry-wide level. The automatic extension of terms negotiated between larger firms and unions to smaller firms could negatively impact employment in SMEs. Additionally, job dismissal can be overly long, uncertain and costly. The government is preparing labour law amendments, aiming to revise regulation on dismissals, retrenchments, collective bargaining and strike action.

- Work does not appear to pay enough. South Africa introduced a national minimum wage in 2019 to combat
 worker poverty and foster more inclusive growth. Furthermore, low wages give employers little incentive
 to invest in improved manufacturing methods. The minimum wage is revised annually based on
 recommendations from the national minimum wage commission. The national minimum wage could
 potentially apply to nearly half of all wage earners, with full compliance expected to raise the average
 worker's wage by 65% (DEL, 2024_[4]). However, studies suggest that compliance has been low, undermining
 its intended impact. The government needs to strengthen enforcement while pursuing structural reforms
 to boost economic growth and productivity and ensure a balanced trade off in necessary minimum wage
 increases that make work pay without overly straining businesses.
- Tax-based initiatives to boost hiring, particularly of young people, have shown limited effectiveness. SMEs hire 60% of the workforce but their uptake of this tax incentive has been minimal, largely due to inadequate information, administrative bottlenecks and the costs associated with claiming the benefit.
- Public employment services are under resourced, lacking the personnel to effectively support the millions
 of job seekers. Additionally, the absence of centralised job vacancy databases also increases job-search
 costs. Some steps have been taken, for example the "Jobs/Careers Fairs" platform in Cape Town aims to
 centralise labour demand and supply as well as demand for training. Expanding and strengthening such
 platforms to cover a larger share of vacancies would significantly improve job matching and labour market
 efficiency.
- Active Labour Market Policies (ALMPs) are numerous and insufficiently integrated and there is insufficient evidence of their effectiveness (World Bank, 2022_[5]). Streamlining and increasing their efficiency is key to better support job transitions and job matching. The involvement of the private sector, such as the Youth Employment Scheme, is also welcome to help ensure the programme aligns with their needs.

While important challenges remain, some steps have been taken to address these issues since the previous Economic Survey (Table 2.1).

Table 2.1. Past recommendations on labour markets from the 2022 Economic Survey

Recommendations	Actions taken since the last Economic Survey
Move to a formula-based funding for universities, taking the number of students, their socio-economic background and outcomes into account in the formula.	No action taken.
Increase awareness of the youth employment tax incentives and simplify access costs for SMEs.	No action taken.
Streamline the bargaining system, including the rules to form a bargaining council, their representativeness and the extension of their agreements.	No action taken.
Strengthen the social transfer system to cover unemployed individuals by, for instance, making permanent the Social Distress relief (SDR) grant with a sustainable source of revenue. Consider an additional means-tested support on top of the child grant for children in very poor households.	The SDR grant has been extended. Work is ongoing to determine the sustainability of a similarly designed but permanent instrument.
Simplify access to the microbusiness regime and link administrative and social benefits to registration and take up of the microbusiness regime.	No action taken.
Increase the practical course content and the worker-firm matching at an early stage.	The Youth Employment Service, initiated by the private sector, provides young people with opportunities to attain work experience.
Strengthen the public employment service by increasing its capability and upskilling its workforce. Scale up the Active Labour Market Policies of the UIF to considerably increase the number of individuals participating in skills development and training programmes.	A new Active Labour Market Policy programme was launched in April 2024 in Gauteng Province.

2.1.2. Addressing the challenge of informality

A distinctive feature of South Africa's labour market is that beyond the low formal employment rate, the share of people who work informally is relatively low compared to peers such as Indonesia, India or Mexico, and instead appears closer to those observed in some OECD countries, such as Korea and Chile (Figure 2.3). The mirror image of the relatively low informality rate is an exceptionally high unemployment rate. South Africa is unique in that those excluded from formal employment are more likely to be unemployed than working in informal jobs, which occurs in most other emerging economies (Shah, 2022_[6]). This signals a high level of exclusion from labour market participation.



Figure 2.3. Informality is lower than in other emerging economies

Note: OECD is an unweighted average of OECD member countries excluding Australia, Canada, Israel, Japan, New Zealand and the United States. Source: ILOSTAT, Statistics on the informal economy.

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The social transfer system, often blamed for raising workers' reservation wages or discouraging job-seeking, does not seem to provide an explanation. In South Africa, working-age unemployed individuals have not been covered by social assistance until recently. The Social Distress Relief (SDR) grant was introduced during the pandemic to address this gap in the social protection system by covering unemployed working-age individuals, including informal workers. The grant is modest at ZAR 370 (which is below the poverty line) and covers about 13.3% of the population, benefiting mainly young people who have just entered the labour market and are therefore not eligible for unemployment benefits. Likewise, child support grants are also modest (OECD, 2022_[3]). The large gap between earnings from formal employment and social benefits suggests that it is unlikely that the system discourages people from searching for jobs (IEJ, 2022_[7]).

One explanation behind low informality could be linked to the difficulty to access city centres where there are greater economic opportunities. Under the Reconstruction and Development Programme (RDP), social houses were previously built on the outskirts of areas with high economic activity, forcing informal workers to travel to city centres where business opportunities are more abundant. However, costly and long commutes (see below section on transport) make accessing city centres difficult, and informal traders can travel between 2 and 4 hours to get to trading locations (Asmal et al., 2024_[8]). This may reduce the economic gains from informal work.

Another explanation stems from the specific legislative framework governing informality, partly inherited from the apartheid period. Strict laws often hinder self-employment and access to more lucrative markets. Under apartheid, regulations, such as licensing requirements and a ban on street vending, severely restricted Black South Africans from starting businesses. Although these national restrictions were lifted post-apartheid, access to prime trading spaces in central business districts (CBDs) remains tightly regulated. Cities impose uniform, restrictive rules on

informal trade, often pushing vendors to less profitable areas like townships, where smaller markets limit businesses' growth potential (Asmal et al., 2024^[8]; Skinner, 2018^[9]). Ensuring that zoning restrictions do not unnecessarily limit trading would help those most struggling to access economic opportunities and support inclusive business growth.

Regulation includes obtaining a permit to trade in a particular location and paying a monthly tariff and obtaining a business license and a Certificate of Acceptability to prepare and sell food. Sanction is criminal in the case of violation, resulting in a fine or imprisonment in all the major metropoles. However, these standards and licenses are often unaffordable or overly complex and highly restrictive compared to the approach in most developing countries (Asmal et al., 2024_[8]). Reducing digital and financial barriers to applications could lower obstacles for informal businesses. Reforms are underway through the Cities Support Programme (CSP) in the National Treasury, which is launching the City Business Process Optimisation Programme (City BPOP) to streamline regulations and boost business investment and job creation in major cities. Efforts to simplify licensing and improve informal trading permits are being considered as part of this initiative. Additionally, linking administrative and social benefits to business registration and the microbusiness regime could incentivise formalisation.

South Africa has implemented a presumptive tax regime through the Turnover Tax, a simplified system based on a business's turnover (Mas-Montserrat, Colin and Brys, 2023_[10]). This regime consolidates multiple taxes (income tax, VAT, capital gains tax and dividends tax) into a single streamlined levy, reducing the administrative burden on small businesses with an annual turnover under ZAR 1 million. Strengthening the regime by integrating social security contributions would provide workers with protection and encourage formal work. To prevent high-earning small business owners from under-reporting turnover, eligibility criteria could be tightened by excluding highly profitable sectors, setting property ownership limits or capping the number of business establishments.

Overall, a key challenge for authorities is to balance expanding economic opportunities with incentivising formalisation through well-designed policies and support mechanisms. These approaches can be complementary when implemented effectively. Governments and municipalities can foster entrepreneurship, better harness productivity and create pathways out of poverty by enhancing support systems, such as improving access to credit, simplifying business registration and further easing tax compliance burdens on small businesses and vulnerable self-employed workers (La Porta and Shleifer, 2014_[11]). These measures would stimulate economic activity and lay the groundwork for entry into formal work in the future by putting businesses and employees on a path towards complying with the standard regulations and tax rules as they grow (Mas-Montserrat, Colin and Brys, 2023_[10]). For example, the "Micro-Empreendedor Individual" programme in Brazil may provide additional insights to policy makers. The programme reduced micro enterprises' entry costs as well as their tax rates, leading to significant increases in formalisation (see Figure 2.3, Panel A).

2.1.3. Upskilling the workforce and supporting young people

The labour market is characterised by persistent mismatches between workers' qualifications, fields of study and the available jobs, highlighting a shortage of skilled and semi-skilled workers, which constrains economic growth. Skills shortages mainly result from a lack of quality education. Despite significant progress in recent decades, educational outcomes in South Africa are low and unequal (OECD, 2022_[3]). In 2022, 45% of men and 46% of women between 25-64 years old had more than an upper secondary education compared to 81 % of women and 79% of men in the average OECD country.

There are inadequacies in technical and vocational education and training (TVET). An important issue is the system's exclusionary admission criteria as well as its failure to align with the skills demanded by the labour market and a lack of cohesive coordination across programmes. Additionally, more teachers with real-world industry experience and greater use of internships and work placements would better prepare students for the demands of the job market. Making progress in this area will help support a better integration of young people as well as experienced workers transitioning away from coal industries.

Enhancing collaboration between vocational education providers, industry stakeholders and regional development agencies would improve the effectiveness of training programmes, ensuring they are relevant, comprehensive and aligned with the specific demands of the evolving job market. The German vocational education and training (VET) model offers insights on how to strengthen the connection between training and skill needs. Establishing Joint Competence Centres, like Germany's inter-company model (ÜBS), would provide participating firms access to the latest technologies and training methods, while offering continuous feedback to improve and scale training initiatives.

Enrolment in higher education and graduation rates are low, which limits the supply of skills and young people's labour market outcomes. In 2022, 11% of men and 15% of women aged between 25-34 years old had a tertiary education, slightly below the share in 2017. These shares also remain well below those in the average OECD country of 41% of men and 54% of women. Benefits accrue to those who achieve certain levels of education. In 2019, an individual who completed secondary school had on average 30% more chances to be employed than someone who did not, reaching around 25% for those with a tertiary education (OECD, 2022_[3]).

The supply of graduates is severely constrained by the lack of university infrastructure and the high cost per student (OECD, 2022_[3]). Public subsidies for low-income students are proportional to tuition fees, creating incentives for universities to set high fees. However, the number of students who qualify for subsidies is higher than the number of seats the Ministry budgets for. Formula-based financing where universities compete for public funding based on a previously determined formula could reduce the cost per student and allow more students to be enrolled and incentivise universities to increase infrastructure.

2.1.4. Improving labour market outcomes for women

South Africa performs well on many gender dimensions. The difference in labour market participation between men and women is much smaller than in many OECD and emerging economies. The World Economic Forum Global Gender Gap Index ranks South Africa 18th out of 149 countries in 2024. South Africa performs well on political empowerment (9th) but less so on economic participation and opportunity (96th). Women still suffer from an elevated level of violence and their access to assets (land for example) and inheritance rights remain unequal (OECD, 2022_[3]). There is scope to increase childcare provision, which represents an important barrier to parents, particularly mothers. In 2023, 33.6% of 0–4-year-olds were in some form of formal childcare (General Household Survey, Statistics South Africa). Increasing access to quality and affordable childcare will support mothers to participate in the labour force.

Working women earn over 20% less than men, largely due to occupational differences and overrepresentation in low-skill low-paying jobs (IMF, 2023_[12]). Ensuring access to a quality education will help increase access to work opportunities (see above). South Africa's constitution prohibits pay discrimination by gender. However, policies that enforce the equal pay legislation and support women's access to higher positions could help increase gender equality (OECD, 2022_[3]). For example, in France, firms with over 1 000 employees must publish gender representation across their senior executives and management, with targets on the share of women in senior management and management bodies.

2.1.5. Supporting workers to transition away from the coal mining sector

Climate goals pose significant challenges for various sectors (Chapter 3), particularly for the platinum and coal mining sectors, including job displacement, income losses, reskilling needs and potential relocation. The transformation of the electricity sector towards renewables, with half of its coal plants set to close within 15 years, intensifies these challenges (Chapter 4). A key policy priority is ensuring that coal mining regions create new jobs for dismissed workers and that jobseekers acquire the skills necessary to transition into these roles.

Supporting job creation in coal mining regions

Though the coal mining sector accounts for less than 1% of total employment, 87% of its jobs are in Mpumalanga province, making the regional impact significant (Bhorat et al., 2024_[13]). Furthermore, each mining job lost could affect up to four others in related sectors (e.g. retail, restaurants and recreation services) (World Bank, 2020_[14]). Against that background, to create resilient transition strategies, consensus among governments, trade unions, social partners and businesses on phasing out certain industries and identifying future economic opportunities for long-term investment is key (OECD, 2023_[15]). For example, Germany's "Coal Commission" (Commission on Growth, Structural Change and Employment) has engaged with key stakeholders to draw up a transition roadmap (OECD, 2025_[16]). Australia's clean energy workforce assessment identified the risks and opportunities for workers in high-emission industries and potential differences in the transition across regions and workers.

Supporting entrepreneurship and MSMEs in regions transitioning away from coal can enhance regional economic resilience (OECD, 2023_[15]). Strengthening MSMEs' capacity through initiatives that foster networks or partnering/mentoring with larger firms, supported by grants or tax benefits, can drive innovation, job creation and economic growth. In Korea, technoparks, established in 1998, have successfully fostered innovation and regional growth. In Germany, the IBA Emscher Park initiative combined public and private resources to launch businesses and climate projects, creating 5 000 local jobs (World Resource Institute, 2021_[17]).

Facilitating the geographical relocation of workers to areas with greater economic prospects can also smooth the transition process, in addition to strategies aiming to transform the region's industrial specialisation and create employment opportunities (D'Arcangelo and Galeotti, 2022_[18]). This approach helps redistribute workers while mitigating the impact of regional disparities. By aligning workers with emerging industries and growth hubs, relocation policies may accelerate the region's adaptation to evolving market demands and foster long-term resilience. Support could include grants or low-interest loans for reallocation costs. Access to affordable rental housing in expanding regions and cities, as discussed in the last section, plays a key role in facilitating mobility.

Supporting dismissed workers into other jobs

Aligning job reallocation and training policies will be key to support dismissed workers into new jobs. International evidence suggests that on average workers in non-green jobs have skills that would allow them to transition to green jobs but workers in production roles may struggle (Vona et al., 2018_[19]; Tyros, Andrews and de Serres, 2023_[20]). The coal industry in South Africa relies on 29% of high-skilled, 63% of mid-skilled and 8% of low-skilled workers (Bhorat et al., 2024_[13]). While high- and a portion of mid-skilled workers may transition more easily, industry specific skill losses may require retraining. Low-and part of mid-skilled workers face greater challenges and require more reskilling (OECD, 2025_[16]).

Passive and active labour market policies can support the reallocation of coal workers (OECD, 2023_[15]; 2025_[16]). International experience suggests that substantial unemployment packages have been effective in reducing opposition to change by giving dismissed workers financial security and time to find suitable employment. Public Employment Services can also assist employees to find a new job or transition to a new career through responsive career guidance and job search counselling, working closely with employers and educational institutions to align skills with market needs and future growth sectors. In response to the global financial crisis, a Labour Activation Programmes (LAP) Unit was established in the Department of Labour, funded by the Unemployment Insurance Fund. The programme's aim was to provide training and reskilling for unemployed workers registered with the Public Employment Services. The programme has increased over time, reaching 69 000 beneficiaries from 33 200 beneficiaries in 2019/20. This programme adds to the myriad of other active labour market policy programmes (World Bank, 2022_[5]). Assessing their respective effectiveness and streamlining is key before scaling them up and more generally increasing the resources of employment services, which are under staffed (OECD, 2022_[3]).

2.2. Establishing a regulatory environment for business and job growth

A thriving economy is characterised by dynamic firm entry, growth and exit, all of which are essential for sustaining long-term economic, innovation and employment growth. Encouraging entrepreneurship and new business

creation fuels a competitive environment, which, in turn, benefits from a strong regulatory framework that ensures fair competition. This creates a virtuous cycle, where fair opportunities for growth further stimulate innovation and job creation (Gal and Theising, 2015_[21]). Equally important is allowing distressed firms to exit the market smoothly, preventing resources from being locked into unproductive uses. However, South Africa's private sector has low firm dynamism and is characterised by large firms that account for a large share of employment and revenue. Characterised by the dominance of large SOEs and monopolies, industries are highly concentrated, restricting the growth of small businesses. Job creation is concentrated predominantly in incumbent firms, which are relatively old and large while job creation from entry and exit is negligible (Reyes et al., 2019_[22]). As a result, micro, small and medium enterprises employed around 59% of the workforce in 2022, lower than the OECD average of 69% in 2020 (Small Enterprise Development Agency, 2023_[1]; OECD, 2023_[2]). Micro firms have difficulties to grow, with about two-thirds of South Africa's MSMEs being self-employed individuals and only one-third with employees (Department of Small Business Development, 2024_[23]).





A. Overall economy-wide Product Market Regulation indicator, 2023/2024



Note: The economy-wide PMR indicator in Panel A is a weighted average of the 15 sub-indicators in Panel B. A higher indicator value reflects more regulatory barriers. G20EME is the unweighted average of Brazil, China, Indonesia, Mexico, South Africa and Türkiye. The indicator for South Africa reflects the laws and regulations in force on 1 January 2023. For some countries, the indicator reflects those in force on 1 January 2024. Source: OECD Product Market Regulation (PMR) database.

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South Africa's overall regulatory framework does not appear to be conducive to business dynamism. The OECD's 2023/24 Product Market Regulation (PMR) indicators suggest that the country's economy-wide regulation is the most restrictive amongst OECD and five other G20 emerging-market economies (Figure 2.4, Panel A) (OECD, 2024_[24]). South Africa's score shows no improvement relative to the previous 2018 update of the PMR indicators. South Africa is far from international best practice in 13 out of 15 low-level indicators that compose the economy-wide PMR indicator (Panel B). Improving the regulatory environment in South Africa has the potential to unlock growth and employment opportunities (Box 2.1). The Survey identifies two broad areas for priority action. Prioritising areas where regulatory barriers could have a significant impact on growth and are furthest away from international best practice would support business dynamism, including simplifying the regulatory framework and easing the administrative burden, further simplifying public procurement and improving the governance of state-owned enterprises (Chapters 1 and 4). South Africa should also accelerate the transformation of energy and the transport sector, including by reducing barriers to entry and strengthening competition (Chapters 3 and 4).

Box 2.1. Quantifying the impact of OECD-recommended reforms on GDP

OECD research estimates the impact of some of the key structural reforms proposed in this Survey using a Dynamic Stochastic General Equilibrium (DSGE) model of the South African economy. It estimates a positive impact of pro-competition policy reforms on GDP of around 4.5 percentage points on the level of GDP after 10 years (Table 2.2).

Table 2.2. Estimated impact of selected reforms on GDP

Percentage point deviation in the level of GDP compared to the pre-reform steady state

Policy reforms	1 year	5 years	10 years
Product market reforms that raise competition in the non-tradable sector	-0.4%	0.3%	0.2%
Product market reforms that raise competition in the tradable sector	2.4%	1.2%	1.3%
Increasing public investment by 1 ppt of GDP financed by taxes	1.5%	1.6%	1.9%
Enhanced public procurement policies that lead to a 10% reduction in the price of public investment	0.0%	1%	1.1%
jource: Fall and Cahu (2022 _[25]).			

2.2.1. Supporting firms' entry and expansion

Recent studies on firm entry and exit in South Africa are scarce, but some evidence highlights low entry rates and weak SME contributions to job creation, underscoring structural barriers to entrepreneurship. The Global Entrepreneurship Monitor (GEM) survey reveals a decline in business entry since the pandemic, with only 8.5% of adults involved in early-stage ventures in 2022/23, down from 11% in 2019 and below the 14% global average across 49 countries. Similarly, only 10% of adults intended to start a business in the next three years – the lowest in 20 years – compared to higher rates in Brazil (52%), Indonesia (36%) and India (22%) (GEM, 2023_[26]).

Easing the licensing and permit regime

Uncertainty around regulation can limit business initiatives. The administrative requirements for limited liability companies and personally-owned enterprises are below the OECD average. However, starting a business is lengthy (40 days in 2020 according to World Bank Doing Business). Additionally, South Africa's licensing and permit regime is ranked highly restrictive compared to OECD and selected G20 economies, placing unnecessary burdens on firms and increasing compliance costs (Figure 2.5, Panel A). No public up-to-date inventory exists of all permits and licenses businesses need, while all licenses and permits must be periodically reviewed. Additionally, any delay in the licensing process burdens entrepreneurs because there is no "silence is consent" principle, which grants implicit approval after a certain time period. Creating an inventory of permits and licenses and introducing a silence-is-consent rule where appropriate would make product market regulation less of an obstacle to job creation. The regulatory burden is also unnecessarily increased by the lack of any differentiation in the length and complexity of

the licensing procedure according to the level of risk associated with the economic activity to which the license or permit is linked. Additionally, public bodies are not required to adhere to the "once-only" principle, which ensures that data and information only needs to be provided to public bodies once. Implementing such measures would ease the burden of administrative and licensing requirements imposed on firms and would help increase firm creation and boost their productivity.





Note: A higher indicator value reflects more regulatory barriers. G20EME is the unweighted average of Brazil, China, Indonesia, Mexico, South Africa and Türkiye. The indicator for South Africa reflects the laws and regulations in force on 1 January 2023. For some countries, the indicator reflects those in force on 1 January 2024. The indicator "Licenses and permits" is one of the two indicators in the "Communication and simplification of administrative and regulatory burden" low-level indicator, shown in Figure 2.4, Panel B. The indicator "Professional services regulation" impacts several low-level indicators including "Involvement in business operations in service sectors", "Barriers in service sectors" and "Retail price controls and regulation", shown in Figure 2.4, Panel B.

Source: OECD Product Market Regulation (PMR) database.

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Loosening regulations in professional services sectors to support access

Restrictive regulations in professional services stifle business dynamism in services markets by limiting competition and reducing opportunities for innovative entry. The OECD Services Trade Restrictiveness Index for South Africa was above the OECD average in 2023, although below rates in many large emerging economies. South Africa's retail sector is significantly more heavily regulated than those of OECD and selected G20 economies.

Operating barriers in most professional services in South Africa covered by the PMR indicators are relatively high (Figure 2.5, Panel B). Entry in these professions is generally restrictive compared to the average OECD country, with only one pathway to become a lawyer, civil engineer or real estate agent, and two pathways to become an accountant or architect. Further, nationality is required to practice as a lawyer or real estate agent. Architects and civil engineers who studied abroad must pass a local exam to be allowed to practice. It is also a requirement to be a member of a professional association, which creates an additional burden. These high entry barriers make it more difficult for workers to change occupations and hamper the efficient allocation of labour resources (Bambalaite, Nicoletti and von Rueden, $2020_{[27]}$). Simplifying regulatory constraints imposed on professional services would foster entry into these professions as well as improve access to these services, especially for small businesses, through lower prices and more innovative service offerings. Setting clear criteria for recognising foreign qualifications could help address skills shortages (see above) and further increase competition in professional services (OECD, $2020_{[28]}$). Changing these criteria could help support the effectiveness of changing the visa regime to facilitate skilled immigration.

Reducing red tape and simplifying administrative requirements

Administrative barriers cost a larger share of turnover for smaller firms than for large ones, discouraging MSMEs from expanding and creating jobs (Christensen, Hegazy and van Zyl, 2016_[29]). Red tape can be a particular challenge for South Africa's MSMEs, with the country recording the lowest ranking in the PMR low-level indicator that measures efforts in communicating and simplifying the regulatory burden (Figure 2.6, Panel A). While South Africa has a public online database of all primary laws, such a database does not exist for subordinate regulations. The country does not have a requirement to use 'plain language' in the drafting of new primary laws and subordinate regulations, as is the case in the majority of OECD countries. Such policies would allow entrepreneurs to better understand regulatory requirements and decrease compliance costs.





Note: A higher indicator value reflects more regulatory barriers. G20EME is the unweighted average of Brazil, China, Indonesia, Mexico, South Africa and Türkiye. The indicator for South Africa reflects the laws and regulations in force on 1 January 2023 and does not incorporate changes from the 2024 Public Procurement Act. For some countries, the indicator reflects those in force on 1 January 2024. The indicator "Communication and simplification of the regulatory burden" is one of the two indicators in the "Communication and simplification of the administrative and regulatory burden", shown in Figure 2.4, Panel B. The indicator "Public procurement" is one of the low-level indicators shown in Figure 2.4, Panel B. Source: OECD Product Market Regulation (PMR) database.

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Several reform plans propose measures to reduce red tape, including the third National Integrated Small Enterprise Development (NISED) Strategic Framework approved in 2023 and the late-2020 Economic Reconstruction and Recovery Plan. A dedicated team has been established in the Presidency under Operation Vulindlela to improve the business environment. The government passed the National Small Enterprise Amendment Bill in mid-2024, which created the Small Enterprise Development Finance Agency, a one-stop shop for aspiring entrepreneurs. The Act also establishes the Office of the Small Enterprise Ombud Service to tackle unfair practices. Although limited progress appears to have been made in recent years (Portfolio Committee on Small Business Development, 2024_[30]), swiftly implementing these plans will help improve the regulatory environment for firms to grow.

Unlocking SMEs' opportunities through simplified public procurement

Simplifying public procurement policies to align with international best practices could open the door for more MSMEs to participate and support competition. The rules on public procurement are among the least competition-friendly among OECD and selected G20 emerging economies (Figure 2.6, Panel B). The government passed the Public Procurement Act in 2024 to unify the framework to the highly decentralised procurement system and increase transparency in processes (see Chapter 1). Nevertheless, continuing reform efforts could further support competition. The time allotted to bidders to prepare their bid and entry requirements could be made proportional to the value or complexity of the tender, as in most OECD countries. Additionally, minimum time periods for

procurement procedures beyond open tenders, such as small value and restricted competition procurement, could provide greater clarity and certainty for MSMEs. Requiring contracting authorities to consider dividing public procurement contracts into lots when designing public tenders encourages the participation of smaller firms, as firms can bid for separate lots, and do not need to bid for the whole contract. Removing the need for firms to be registered in a specific registry to be able to submit a bid in a public tender could also help reduce unnecessary burdens. The recent rule change around no longer needing to ensure the availability of funds before a procurement procedure is carried out increases the risk that the procurement procedure will not eventuate into a signed contract due to a lack of funding (MAPS, 2024_[31]). This uncertainty reduces the attractiveness of bidding, particularly for smaller firms. Additionally, the high share of invoices not paid on time, estimated at up to 18.5% of total invoices (MAPS, 2024_[31]), may also be particularly constraining for MSMEs, limiting their participation. Ensuring that public procurement reforms occur alongside reforms to SOEs and to reduce corruption will help boost their maximum possible benefits.

2.2.2. Helping firms to restructure or exit when distressed

South Africa's insolvency regime is less efficient than in many OECD and G20 emerging-market economies (André and Demmou, 2022_[32]). Moving towards a well-designed insolvency regime could help facilitate the timely exit of non-viable firms, enabling the efficient reallocation of labour and capital to more productive firms, which would strengthen job creation and productivity (Adalet McGowan and Andrews, 2018_[33]).

Personal costs to failed entrepreneurs are elevated (Figure 2.7, Panel A). The time to discharge debt is lengthy. Procedures are still managed by regular courts of law, which tend to move slowly (OECD, 2022_[3]). Exemptions on personal assets are some of the most limited, with no exemptions except for modest personal items and working equipment and there are relatively few available prevention and streamlining procedures. Additionally, there is no early warning system, unlike in most OECD countries. Pre-insolvency regimes exist, although there are no special insolvency procedures for SMEs.

Barriers to restructuring are also elevated (Figure 2.7, Panel B). While in most countries, creditors can only initiate liquidation, in South Africa creditors can also initiate restructuring, which can help firms that encounter temporary distress to be successfully restructured in a timely manner. However, South Africa has an indefinite length of stay on assets in restructuring, which can slow asset recovery. New financing continues to have priority over secured creditors in the event of restructuring, which could adversely affect the long-term availability of credit and legal certainty (Adalet McGowan and Andrews, 2018_[33]; André and Demmou, 2022_[32]). Unlike in most OECD countries, management is dismissed during the restructuring process, which does not incentivise early filing. Continuing to streamline insolvency procedures will help to free up resources for new entrants to grow.

Figure 2.7. An inadequate insolvency framework hinders firms' ability to exit and restructure



OECD insolvency indicator, 2022, zero represents no measured barriers

Note: The more efficient the insolvency regime, the lower the value of the indicators. Source: André and Demmou ($2022_{[32]}$).

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Table 2.3. Past recommendations to boost the regulatory environment

Recommendations	Actions taken since the last Economic Survey
Align sector regulators and the Competition Commission to strengthen competition policies and its enforcement.	No action taken.
Allocate new frequencies in a fair manner.	Auctions of low-frequency band (700MHz and 800MHz) of the spectrum have taken place. Still only two operators sell access to their infrastructure to Mobile Virtual Network Operators (MVNOs).

2.3. Creating inclusive cities to better connect workers with jobs

2.3.1. Maximising agglomeration benefits through urban planning and housing policies

Low-density urban spaces in South Africa pose significant barriers to labour market inclusion and business growth, particularly for MSMEs. Apartheid-era segregation policies have left a legacy of urban sprawl and fragmented communities, with settlements far from city centres (Figure 2.8, Panel A) (Lochman, 2022_[34]). This spatial dislocation undermines productivity and inclusion, limiting access to jobs and making it difficult for small businesses, including informal ones, to achieve the critical mass needed to thrive (OECD/UN ECA/AfDB, 2022_[35]).



Figure 2.8. Urban density is low and is associated with high house prices

Note: In Panel A, a low entropy index signals a more uniform distribution of income groups across the city and lower levels of segregation. In Panel B, growth is calculated over 2000-14. Built-up statistics are calculated using Florczyk et al. (2019) http://publications.jrc.ec.europa.eu/repository/handle/JRC117104; population per capita is from UN World Population Prospects; "Built-up" is defined as the presence of buildings (roofed structures).

Source: OECD (2021[36]).

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Since the end of apartheid, various policies have been implemented to address this challenge. Policies such as the corridors of freedom in Johannesburg aimed to connect underserved remote townships to the city centre via bus rapid transit (BRT) and inclusionary housing programmes, with mixed success. Various public housing programmes have delivered 300 000 houses over the past five years. Yet, subsidies have largely focused on easing access to home ownership and building freestanding homes on the urban periphery, where ineffective transport systems limit access to jobs (see next section). As a result, several policies that focused on improving access to decent housing have had the undesirable effect of isolating segments of the population from labour market opportunities. Meanwhile, the supply of social rental housing in densely populated urban areas has fallen short of demand as it has been difficult to keep up with rapid population growth in large municipalities. A significant housing backlog persists, with over 2.4 million households registered on the National Housing Needs Register in 2023. This has often resulted in the expansion of informal settlements. For example, between 1996 and 2011, population growth in Cape Town was 18 times larger than that of the housing market, resulting in large informal settlements (Horn and Van Eeden, 2018_[37]). In 2023, 12.2% of South African households lived in informal dwellings (General Household Survey, Statistics South Africa).

The strong policy focus on homeownership at the periphery of cities compared to renting may have lowered labour mobility and increased the unemployment rate of owner-occupants compared to renters (Caldera Sánchez and Andrews, 2011_[38]). Almost 57% of households own their home outright, a further 7.6% own their home with a mortgage and 22.5% rent (CAHF, 2023_[39]). The government is increasingly acknowledging the role of the rental market and is developing a plan for its promotion (Department of Human Settlements, 2025_[40]).

Social housing programmes are gradually being reformulated as urban development projects that actively counter apartheid-era spatial planning and support urban densification. The White Paper for Human Settlements aims to revamp housing policies, including by facilitating public-private partnerships and encouraging densification. It especially points to the need to implement pro-densification policies, re-develop the inner-CBD and prioritise housing areas close to public transport and development corridors (Department of Human Settlements, 2025_[40]). In response, new policies encourage the development of affordable rental housing, including through the Small-Scale Support Framework, which supports rental housing projects, involving partnerships with the private sector and NGOs.

Reforming restrictive local building regulations could help support urban densification and housing supply. Policies such as floor area and building coverage ratios, which cap the maximum allowed built-up area, often prevent highrise developments. For example, easing such regulations in Paris doubled the construction of apartments from 40 000 to 80 000 units per year (Haussman et al., 2023_[41]). These constraints also reduce the housing market's ability to respond to fluctuations in demand, increasing prices and worsening affordability. This challenge is evident in South Africa, where a low increase in urban density has been historically coupled with rapidly rising prices (Figure 2.8, Panel B) (OECD, 2021_[36]).

2.3.2. Reducing transport times and costs

Long commutes and costs are a significant barrier for many South Africans to get to work, particularly low-income households. Around 70% of discouraged job seekers cite their location as the key constraint to looking for a job (Mlatsheni and Ranchhod, 2017_[42]). For work-related travel, 44% of workers use private vehicles, while 80% of public transport users commute via minibus taxi (Statistics South Africa, 2021_[43]). Average commute times reflect why: drivers of private vehicles spent 44 minutes commuting, minibus taxi users spent 63 minutes, bus users spent 84 minutes and train users spent 107 minutes in 2020. Commuting costs are substantial and disproportionately affect low-income households, consuming up to 37% of post-tax income for the lowest quintile and up to 80% when including the time spent commuting (Shah and Sturzenegger, 2022_[44]; Mlatsheni and Ranchhod, 2017_[42]). Although driving a private car incurs the lowest cost, it is inaccessible for the majority of South Africans.

Policies that reduce the time and cost and increase the safety of public transport would ease the burden of commuting. Currently, most subsidies are allocated to bus and rail public transport, which serve fewer people and have deteriorated in quality in recent years. To improve the availability of safe and quality public transport, national and local governments are undertaking numerous reforms, including the devolution of provincial bus contracts and passenger rail to municipalities under the Cities Support Programme (CSP). This aims to allow municipalities to develop a mix of public transport adapted for local needs while reducing grant inefficiencies. While promising, scaling up municipal capacity will be crucial for success (Chapter 3).

Private minibus taxis are at the core of South Africa's transport system but face regulation issues, resulting in some unsafe vehicles and reckless driving. Despite efforts to formalise the sector and ensure compliance with regulation, progress has been limited. However, ongoing plans to integrate minibus taxies into public transport network under the CSP are promising (Chapter 3).

Aligning transport, urban planning and housing policies and reducing the fragmentation of land use and infrastructure planning will be key to increase workers' mobility (OECD/UN ECA/AfDB, 2022_[35]). The CSP promotes policy coherence and tackles spatial inequalities through initiatives such as the Integrated Public Transport Network (IPTN) corridor densification project, which brings together key departments (land-use planning, transport, economic development and human settlements departments) to develop a metropolitan densification strategy. A pilot project in four major cities aims to unlock land-use applications for residential and commercial developments along these corridors and increase the use of these integrated networks. Initiatives to improve access to timely and granular sub-metropolitian administrative tax data have supported urban planning and economic development. Some lessons could also be drawn from Ireland's Office of Planning, created in 2018 to implement a "well-enforced top-down spatial planning framework" to mitigate the risk of greater urban sprawl.

Table 2.4. Main findings and recommendations to strengthen labour market outcomes

MAIN FINDINGS	RECOMMENDATIONS (Key recommendations in bold)
Creating well functioning a	nd inclusive labour markets
Restrictive zoning prevents self-employed workers from reaching more lucrative markets, exacerbating their exclusion.	Revise restrictive zoning to improve the access of informal workers to more markets.
Complex registration and expensive licensing limit people from becoming self-employed.	Simplify the registration process for informal entrepreneurs and reduce the financial cost of applications.
The gender pay gap is higher than the OECD average and in most emerging countries.	Enforce equal pay legislation and support women's access to higher positions for more gender equality.
While coal jobs account for a small share of total employment, the transition away from coal poses specific challenges due to a high regional concentration and significant trickle-down effects.	Prepare and implement long-term transition plans for coal regions, which collaborate and coordinate across stakeholders. Create the conditions to foster entrepreneurship, such as combining public and private resources or creating business networks. Facilitate the geographical relocation of workers through grants or low-interest loans and policies that support the rental housing market.
The vocational education and training (VET) system is likely to face a significant strain as displaced coal workers seek new employment. The VET system is facing several challenges, including restricted access and a weak effectiveness of training programmes.	Enhance collaboration between vocational education providers, industry stakeholders and regional development agencies. Establish inter-company Joint Competence Centers to provide SMEs access to the newest training methods and technologies.
Training provided by the "Labour Activation Programmes Unit" has increased but remains small. The take up of benefits is low. Employment services lack resources to efficiently support job seekers and deal with large dismissals and retraining needs in coal mining regions.	Improve career guidance, job search counselling and collaboration between public employment services, employers and educational institutions. Streamline and strengthen the effectiveness of active labour market
	policies. Enhance employment services' capacities, especially access to a centralised job database.
Establishing a regulatory environment the	at supports firm creation and job growth
South Africa's licensing and permit regime is ranked highly restrictive, placing unnecessary burdens on firms and increasing compliance costs.	Make product-market regulation less of an obstacle to job creation, create an inventory of all permits and licenses businesses need and introduce a "silence is consent" rule where appropriate.
Restrictive regulations in professional services stifle business dynamism, limit competition and reduce opportunities for innovative firms to enter.	Simplify regulatory constraints imposed on professional services. Set clear criteria for recognising foreign qualifications.
South Africa ranks poorly in efforts in communicating and simplifying the regulatory burden.	Establish a public online database for all subordinate regulations. Use plain language in drafting laws and regulations.
Public procurement rules create unnecessary burdens, limiting the ability of smaller firms to participate.	Make the time allotted to bidders and entry requirements proportional to the value or complexity of the tender and require contracting authorities to consider dividing public procurement contracts into lots.
The insolvency regime is relatively inefficient, limiting the timely exit of non- viable firms and enabling capital and labour to be reallocated to more productive firms and supporting ich creation	Remove the requirement for management to be dismissed during restructuring.
Creating inclusive citie	to boost job creation
A strong focus on home ownership over renting lowers labour mobility and contributes to a higher unemployment rate.	Continue developing the rental housing market and encourage the development of affordable rental housing.
Low-density urban spaces pose significant barriers to labour market inclusion and business growth, particularly for SMEs. Long commutes and costs are a significant barrier for many South Africans to get to work. Restrictive local building regulations limit urban densification.	Further develop corridor densification projects, ease building restrictions and align densification strategies across government. Prioritise housing near public transport and development corridors and incentivise pro-densification policies.

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3 Supporting climate-change mitigation and adaptation

Nikki Kergozou

South Africa needs to accelerate its efforts to reduce greenhouse gas emissions to meet its commitments, while adapting to climate risks. Gradually increasing the effective carbon price can strengthen incentives to efficiently reduce emissions. Improving the availability of quality public transport options and implementing railsector reforms will reduce transport emissions. Finally, more effective sectoral policies, including across agriculture, industry and carbon sinks would also help reduce emissions. Climate policies will require significant resources, which the country also needs to eliminate poverty and reduce inequality. Paying close attention to the political economy of climate policies. Strong governance practices and clear responsibilities and coordination across government agencies will support policy implementation. South Africa is highly vulnerable to the changing climate. Enhancing water-supply security, resilience to flood risks and climate-resilient infrastructure requires well-functioning municipalities, sufficient financing and greater insurance coverage.
Reducing greenhouse gas (GHG) emissions and preparing for the impacts of climate change in South Africa is challenging. As a semi-arid country, South Africa is likely to face more frequent periods of droughts. With growth being sluggish, resources to finance the transition are limited and compete with other pressing issues, such as reducing poverty. In this context, this chapter considers policies to help South Africa achieve a cost-effective and fair climate-change transition, while becoming more resilient to climate change.

The chapter accompanies Chapter 4 on South Africa's electricity sector, which is also key for reducing emissions, but which is analysed separately due to other critical issues around energy security. Additionally, Chapter 2 outlines labour market and social policies to help ensure a just green transition.

3.1. South Africa faces significant mitigation and adaptation challenges

At first sight, South Africa's performance in terms of greenhouse gas (GHG) emissions appears relatively good compared to other countries. Its emissions per capita are below the OECD average and similar to the European Union average (Figure 3.1, Panel A). One factor contributing to South Africa's relatively low emissions per capita is its relatively modest GDP and consumption per capita. In addition, total GHG emissions have been declining in recent years. In 2022, emissions had fallen by around 18% since a peak in 2008, although they remained around 40% above 1990 levels (Panel B).

This performance hides, however, worrisome emission pressures over the medium to long term. Population and economic growth are two key factors that will put upward pressure on total emissions (Panel C). South Africa's population increased by 64% between 1990 and 2022 and is projected to increase by around 9% between 2022 and 2030 and by 24% between 2022 and 2050. In parallel, a relatively slow annual increase in economic activity, averaging only 0.8% over the past decade, has limited the increase in total emissions. If potential growth picks up, emissions could rise quicky if the structure of South African GDP does not also change. An increase in the availability of electricity and structural reform efforts could lead to such an acceleration in growth (Chapters 2 and 4).

South Africa's economic activity is highly emissions and energy intensive in part due to coal-generated electricity (Panels D and E). The GHG intensity of GDP has declined since 1990, partly reflecting the larger size of the services sector in the economy, the shift to electric furnaces in the iron and steel sector, the decline in aluminum production and the decrease in livestock (DFFE, 2024_[1]). Nevertheless, the energy South Africa is using is becoming more carbon intensive (Panel F).

Consequently, mitigation action must accelerate rapidly for South Africa to meet its 2030 emission target of 350-420 Mt CO₂e and its 2050 commitment to net-zero emissions (Panel B). This will require action across sectors to reduce the energy intensity of GDP (Box 3.1). The financing of such reforms could benefit from more effective climate taxation, which will also help change incentives, together with financial assistance for the climate transition from developed countries to complement limited resources in South Africa.

Climate mitigation policies will provide additional benefits. For example, mitigation action will benefit health, with the coal-intensive economy contributing to elevated levels of pollution. Mean exposure to fine particulates (PM2.5) was the fourth highest amongst G20 countries in 2019. Exposure substantially increases the risk of heart and respiratory diseases and stroke. Furthermore, progress on mitigation policies can also help address other dimensions of the green transition. For instance, tackling mitigation can reduce some types of biodiversity risk. While mitigation policies will reduce risks, adaptation policies should also be strengthened as South Africa will need to adapt to more frequent and intense drought, changing rainfall patterns and flooding.

The following section of this chapter outlines key institutional and governance challenges to support the climate transition. The third section looks how mitigation and financing policies could be achieved in a fair and efficient way. The fourth section focuses on policies to reduce emissions in various sectors: transport, agriculture and forestry, and industry. Lastly, the chapter discusses some of the challenges in adapting to climate-related hazards.



Figure 3.1. GDP is highly emission intensive while emissions per capita are below average

Note: G20EME is an unweighted average. Emissions exclude LULUCF unless stated. GDP measured in 2015 PPP USD. Panel D: Emissions per unit of GDP. Panel E: Total energy supply per unit of GDP. Panel F: CO₂ emissions from fuel combustion per unit of total energy supply. Source: Department of Forestry, Fisheries and the Environment (2024₁₂₁); OECD Environment Statistics database; IEA World Energy Balances database; IEA Indicators of CO₂ Emissions from Fuel Combustion Statistics: Greenhouse Gas Emissions from Energy database.

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Box 3.1. The breakdown of emissions across sectors

Around 41.1% of emissions result from electricity generation and 5.8% from the manufacturing of solid fuels, including coal (Figure 3.2, see Chapter 4). Nevertheless, achieving climate objectives will also require policy action beyond the electricity sector. In 2022, and excluding land use, land-use change and forestry (LULUCF):

- The agriculture sector represents 11% of emissions, with enteric fermentation (i.e. cattle) contributing to 68% of these emissions. Agricultural emissions have declined by 9% since 2000 as livestock numbers have fallen. The sector is facing challenges in reducing emissions, managing water resources and adapting to climate change.
- Transport accounted for 11% of emissions, with road transport representing 10.7%. Public transport suffers from accessibility, reliability, safety and affordability concerns while urban sprawl places heightened demands on the transport system. A low share of freight is transported by rail.
- Industrial processes accounted for 6.4% of emissions in 2022, including ferroalloys (1.8%), iron and steel (1.3%) and cement (1%), and manufacturing industries and construction accounted for 5.6%. There remains room to improve processes and become more energy efficient.
- Solid waste disposal accounted for 2.4% and wastewater treatment and discharge for 1.9% of emissions. Landfill rates are high and are often not operated in line with national standards.

Land use, land-use change and forestry reduced net emissions by 9% in 2022, the largest sectoral decline, accounting for 54% of total reductions (or 31 Mt CO₂e annually from 2010 to 2022).

Figure 3.2. Achieving climate objectives requires emission reductions across all sectors



GHG emissions by sector as a percentage of total emissions, 2022 or latest available

3.2. Achieving targets requires an enhanced policy framework and governance

3.2.1. Meeting climate targets will be challenging

South Africa's emissions of 436 Mt CO_2e in 2022 were within the target range of 398-510 Mt CO_2e for 2025 and are likely to remain within the range over the next three years (Figure 3.1, Panel B) (DFFE, 2024_[1]; 2024_[2]). However, several studies estimate that South Africa will not attain its 2030 target (NewClimate institute et al., 2022_[3]; PBL, 2024_[4]; United Nations Environment Programme, 2023_[5]). Emissions need to decline by a minimum of 3.6% and a maximum of 19.7% from 2022 to achieve the 2030 target range of 350-420 Mt CO₂e. This decline may be compromised if South Africa does not complete its reforms in key electricity policies (DFFE, 2024_[1]) (see Chapter 4). Emissions will need to decline significantly to meet South Africa's aspirational goal for reaching net-zero carbon emissions by 2050, as outlined in its 2021 Low-Emissions Development Strategy (LEDS).

Achieving the 2030 target requires more ambitious policies. The 2030 target is more ambitious than the previous Nationally Determined Contribution (NDC) for 2030 and is almost consistent with the Paris Agreement's 1.5°C temperature limit (Climate Action Tracker, 2024_[6]). Achieving the 2030 target will require 3% additional investment per year across the energy, transport, waste, agriculture and environment sectors (DFFE, 2024_[1]). However, there remains a notable absence of an explicit, detailed transition path for achieving net-zero emissions by 2050. Providing more detailed information on the planned transition pathway would be highly beneficial to increase certainty for investors and funding. In addition, determining and committing to quantitative sectoral targets across all emitting sectors could help reach overall emission targets. A Draft Sectoral Emission Targets Report was released for public comment in 2024 but only some sectors face quantitative targets and others face qualitative targets, such as ensuring the implementation of a particular policy. South Africa aims to submit another updated NDC in 2025 for 2030 and 2035.



Figure 3.3. Climate policy is becoming more stringent

Average stringency by policy category in South Africa

Note: Policy stringency is defined as the degree to which policies incentivise emission reductions. High values indicate that the policy in each year was more stringent compared to all other countries and years and not necessarily that the policy is sufficient to meet mitigation goals. Source: OECD Climate Actions and Policies Measurement Framework (CAPMF) database.

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OECD indicators suggest the stringency of South Africa's climate action has increased yet remains weak compared to OECD and G20 economies. The Climate Actions and Policies Measurement Framework suggests a sharp increase in the stringency of targets, governance and data and modest increase in non-market-based instruments, such as standards and regulation (Figure 3.3). The stringency of market-based instruments, which includes explicit and implicit carbon pricing tools or other charges related to reducing emissions, is broadly unchanged. The

Environmental Policy Stringency Index, which includes water and air quality, also points to a low level of policy stringency in 2020, the third lowest across OECD and G20 economies (not including Argentina and Saudi Arabia).

The OECD's Climate Actions and Policies Measurement Framework suggests that South Africa's climate strategy is similar to that of Latin American countries, including Argentina, Brazil, Chile, Costa Rica, and Peru, as well as Australia, India, Indonesia, Israel, Mexico, Saudi Arabia and Türkiye (D'Arcangelo, Kruse and Pisu, 2023_[7]). These countries typically focus on a few policy instruments, which are usually non-market based, concentrated in a few sectors, typically industry, and whose stringency is relatively weak.

3.2.2. Improving climate governance and policy implementation

Although South Africa has strong climate policy ambitions, there is a notable disparity between these ambitions and practical outcomes (Presidential Climate Commission, 2024_[8]; Averchenkova, Gannon and Curran, 2019_[9]). While energy issues are front of mind, climate change remains a low public priority, resulting in low public pressure and few political costs for "bad" climate behaviour (Calland, 2023_[10]). Examples of disparities between ambitions and outcomes include:

- The Climate Change Act was first released for public consultation in 2018, tabled in Parliament in 2022, enacted in July 2024 and came into operation in March 2025, excluding some deferred provisions (Box 3.2). Until its enactment there was no legal enforcement for several climate policies and the 2021 NDC was not enshrined in law.
- The slow implementation of the carbon tax has added to uncertainty (World Bank Group, 2022_[11]). The first phase of the tax started in 2019, after almost 10 years of consultation, in part due to the lack of horizontal coordination between the National Treasury and the Department of Environmental Affairs (now the Department of Forestry, Fisheries and the Environment (DFFE)) (Averchenkova and Lazaro, 2020_[12]). The second phase, scheduled to occur after a government review, which could adjust rates and tax-free allowances, wa delayed from 2023 to 2026.
- Compulsory carbon budgets and mitigation plans for companies have been delayed by several years. Introduced in the National Climate Change Response Policy in 2011, carbon budgets were voluntary in their first phase, originally intended for 2016-2020. Compulsory carbon budgets are planned to come into effect in 2026.
- Several key electricity sector reforms have taken years to be implemented (see Chapter 4).

Poor clarity on roles and responsibilities of environmental competencies within government and government departments working in silos result in contrasting policies and contradictory government positions (Averchenkova and Lazaro, 2020_[12]; Presidential Climate Commission, 2024_[8]). The Presidency, Department of Forestry, Fisheries and the Environment, Department of Mineral Resources and Energy and National Treasury are pushing ahead with policies and frameworks with insufficient alignment (Presidential Climate Commission, 2024_[8]). Ensuring the coordination of climate policies across ministries and levels of government can help boost policy effectiveness. The 2024 Climate Change Act aims to encourage coordination and foster institutional coherence and enhance adaptation governance across levels of government. The Act requires every organ of state exercising a power that is affected by climate change to assess risks and vulnerabilities while adhering to its objectives. In addition, ensuring a robust policy framework and governance structure for climate policies, involving clear roles and responsibilities and coordination across various government agencies will be essential for the timely enactment, implementation and coordination of climate legislation and policies (DFFE, 2024_[2]).

Box 3.2. A snapshot of institutions, policies and Acts that put climate goals in action

South Africa's climate policy is largely shaped at the national level. Key institutions include the following:

• The *Department of Forestry, Fisheries and the Environment (DFFE)* coordinates and monitors national environmental policies.

- The *Presidential Climate Commission (PCC)* advises on mitigation and adaptation measures and monitors and evaluates progress towards targets. The President chairs the Commission with members representing government, organised labour, civil society and business.
- *Municipalities* manage water and waste services. They play a key role in adaptation plans, climate-related disasters, local infrastructure and land-use planning, and distribute around 40% of electricity.

Recent key climate policies and legislation include the following:

- The 2011 *National Climate Change Response Policy (NCCRP)* outlines the vision and policy framework to respond to climate change.
- The *National Climate Change Adaptation Strategy (NCCAS)* outlines a vision for adapting to and building resilience against climate change.
- The *Just Transition Framework* developed by the Presidential Climate Commission sets out a vision for shifting to an equitable, zero-carbon economy and identifies key policy areas and principles. It initially focused on the coal and auto value chains, agriculture and tourism.
- The 2024 *Climate Change Act* provides a regulatory framework for setting national and sectoral emission targets and carbon budgets to high-emitting companies. It also introduces institutional and coordination arrangements across national, provincial and local governments. The Act mandates the alignment of all laws, policies and measures of government departments with its provisions. It also imposes obligations on all three tiers of government to map, plan for and respond to adaptation needs. The Act came into operation in March 2025, excluding some deferred provisions.
- The *Just Energy Transition Investment Plan (JET IP)* outlines investments in electricity, new energy vehicles, green hydrogen and municipal capacity between 2023 and 2027 (see Chapter 4).

Source: DFFE (2024 $_{[2]}$); Presidential Climate Commission (2022 $_{[13]}$).

3.2.3. Strengthening climate advice

A greater role for expert advice within the Presidential Climate Commission (PCC) could help bring a longer-term and evidence-based perspective (Averchenkova and Lazaro, 2020_[12]). The PCC currently advises on mitigation and adaptation measures and monitors and evaluates progress towards climate targets. Several countries have created independent advisory bodies (Box 3.3). Some have active technical advisory roles in setting targets and proposing policies. These advisory bodies can also help disseminate knowledge about climate change and nurture constructive narratives about climate policies, helping build public acceptance and trust (D'Arcangelo et al., 2022_[14]). Increasing the share of climate scientists on the PCC could help support the quality of technical scientific advice. Few current members have scientific credentials, most represent government, organised labour, civil society and business.

The PCC could play a larger role in providing guidance and support to the government on policy implementation and coordinating policies across ministries and levels of government, which has been a challenge (see above). For example, establishing a clear agenda with the government could help ensure that the PCC advises on pertinent challenges and policy questions. In addition, increasing technical discussions with government departments and the PCC could help foster policy coordination. The independence of the PCC's advice could be strengthened by ensuring sufficient financing for its core activities. In the 2023/24 financial year, 43% of the PCC's revenues were from donors. The Climate Change Act outlines that the PCC can receive funding by way of grants or donations that must be unconditional. However, the need for significant donations to undertake their functions may increase risks of lobbying. Providing the PCC with sufficient means will ensure their capacity to fulfil these functions and reduce the risk of a conflict of interest.

A potential lack of independence of the PCC could limit its role as an independent advisor, its policy credibility and its ability to strengthen climate governance (Averchenkova and Lazaro, 2020_[12]). Independent advisory bodies can make climate policies more informed and predictable and less prone to political cycles. Some help coordinate different policies across government. The responsibility that these bodies assume over policy recommendations,

even if the government makes the final decision, can potentially alleviate political difficulties when making controversial choices (D'Arcangelo et al., 2022_[14]). Such a body can also help manage trade-offs across policies and sectors. However, the PCC risks lacking independence, with the President appointing its members. Adapting the role of the PCC to a more independent climate advisory body could further help support climate governance.

Box 3.3. Independent climate advisory bodies can help strengthen and coordinate policy

The UK's Climate Change Committee (CCC) is an executive non-departmental public body. It provides independent analysis and advises the government on setting legally binding carbon budgets and reaching the goals of the UK's Climate Change Act. It also monitors government actions. The Committee annually reports on progress to parliament. The government must respond to these reports and produce statements on the policies implemented to meet the carbon budget and emission goals.

In New Zealand, the Climate Change Response (Zero Carbon) Amendment Act (2019) established a Climate Change Commission. This Commission provides independent expert advice to the government and reviews progress towards emissions reduction and adaptation goals.

The Danish Environmental Economic Council provides analysis and advice to policymakers. The Council prepares an annual climate status report that assesses whether existing policies are sufficient to meet emission targets and presents a possible climate policy programme to the Parliament.

The Netherland's Environmental Assessment Agency annually releases the Climate and Energy Outlook, which reports the expected CO_2 emissions and the progress of the country in reducing them.

Source: D'Arcangelo et al., (2022_[14]).

3.3. Broadening mitigation policies to reduce emissions while raising revenues

Economy-wide climate mitigation measures in South Africa include carbon pricing, fuel taxes, carbon budgets, regulation and fiscal incentives. While encouraging mitigation efforts, they can also represent a source of government revenues, which will be key to support green investment and enhance social policies. Accessing international climate finance, such as the Green Climate Fund, and leveraging private sector investments will also be essential.

3.3.1. Mobilising financing for climate action

Climate finance in South Africa needs to increase. South Africa requires on average ZAR 535 billion (around 7.6% of 2023 GDP) per year to meet its NDC target by 2030 and on average ZAR 334 billion (around 4.8% of 2023 GDP) per year to meet its net zero goal by 2050 (de Aragão Fernanes et al., 2023_[15]). This is a three to fourfold increase from the tracked annual average climate finance of ZAR 131 billion over 2019-21. South Africa's ambitions in its climate change policy depend on available financing. For example, 3% more investment per year compared to the investment that will be generated from planned policies outlined in South Africa's Sectoral Emission Targets would reduce emissions to the lower bound of the 2030 target band (DFFE, 2024_[1]).

International financing could represent a significant source of climate financing. Over 2019-21, 91% of South Africa's tracked climate finance came from domestic sources, of which 86% came from the private sector (de Aragão Fernanes et al., 2023_[15]). Under the Paris Agreement, developed nations are obligated to provide financial assistance to support the climate transitions of developing countries. A key goal in South Africa's updated first Nationally Determined Contribution is to access a minimum of USD 8 billion (around 2% of 2023 GDP) per year in international financial support by 2030. Over 2021 and 2022 combined, South Africa received over USD 5 billion in bilateral support and USD 26 million in multilateral support (DFFE, 2023_[16]), well below this objective.

One key source of international financial support is the Just Energy Transition Partnership (JETP), yet this represents only a small amount of the total support needed. The JETP is an international financing cooperation mechanism

designed to help coal-dependent emerging economies make a just energy transition away from coal. By 2024, the JETP had promised USD 11.7 billion in financing, with around USD 821 million in the form of grants. The JETP spurred South Africa to prepare the Just Energy Transition Investment Plan (JET IP), to guide the funding and identify areas to bridge financing gaps. It estimates investment needs at ZAR 1.5 trillion (USD 98.7 billion) between 2023 and 2027. While below the amount required, financing from the JETP is intended to leverage more resources from private and public sources.

Many of South Africa's climate policies have taken years to be implemented yet trust in climate governance and policies and the ability to see tangible progress mitigation and adaptation actions will play a key role in sourcing additional financing. Research indicates that institutional strength, measured through metrics such as the rule of law, governance and corruption, plays a decisive role in determining a country's ability to efficiently reduce emissions and access climate finance (Lyeonov et al., 2023_[17]). This underscores the importance of robust governance and transparency in climate policies and the need to address corruption (Chapter 1). Enhancing institutional frameworks will enable a more equitable and cost-effective green transition, while simultaneously promoting broader economic growth (Chapters 1 and 4). Increasing carbon pricing and removing fiscal support to fossil fuels can also support revenue (see below).

3.3.2. Prioritising policies that efficiently reduce emissions while providing financing

Increasing carbon prices alongside support for households and firms

Carbon pricing is a key policy tool to reduce emissions in a cost-effective manner (D'Arcangelo et al., $2022_{[14]}$; $2022_{[18]}$). Carbon pricing provides incentives to abate emissions in cost-effective ways and to invest in low-carbon technologies. In addition, it temporarily increases government revenues, which can support green investment or social policies to offset the potential regressive or affordability impact of mitigation policies or fiscal consolidation efforts.

South Africa's average net effective carbon price is low by international standards and, as in most OECD countries, there is significant variation across sectors and energy sources (Figure 3.4). Average net effective carbon prices are below the OECD average in the electricity and industry sectors and above the OECD average in the buildings, agriculture and fisheries and transport sectors (Panel B). This is largely due to fuel excise taxes leading to relatively higher prices for diesel, gasoline and kerosene while carbon tax rates are zero to low across the board (Panels B and C).

South Africa's effective carbon tax rate, the rate that firms actually pay by accounting for the low carbon tax rate and the significant share of emissions exempt from taxation, is estimated to be insufficient for the country to meet its 2030 emission target (IMF, 2023^[19]). Achieving this target would require effective carbon tax rates to be significantly higher than those currently proposed by 2030, assuming no other mitigation measures (IMF, 2023^[19]) (Table 3.1).

An increase in the effective carbon tax rate could occur through a higher carbon tax rate, which is currently planned to increase but will remain relatively low. The government has enacted annual increases in the carbon tax rate until 2030 (Table 3.1). There are no annual increases currently proposed beyond 2030, though the government has committed to quadruple the rate between 2030 and 2050 to USD 120. While more ambitious and incremental increases are necessary, the overall approach may be needed in the short term to balance various constraints. A strong and clear commitment that climate policies, including effective carbon tax rates, will increase in the coming years and decades in order for South Africa to meet its climate commitments, will encourage firms to increasingly prioritise investments and lower their carbon footprint. Adhering to announced future tariffs increases and demonstrating a consistent track record of action up to 2030 can provide the necessary policy certainty without prematurely committing to a specific annual outlook for carbon tax rates. Premature commitments risk locking in rates that may, when implemented, fail to sufficiently incentivise firms to reduce their emissions or adequately reflect the prevailing economic environment.

Figure 3.4. The average carbon price is low and differs considerably across sectors and sources



Average net effective carbon prices, 2023





Note: The net effective carbon price is the net effect of fuel excise taxes, carbon taxes, permit prices and fuel subsidies. Source: OECD Net Effective Carbon Rates database.

StatLink ms https://stat.link/vko9gj

An increase in the effective carbon tax rate could also occur by reducing large tax-free allowances that lower firms' carbon tax liability (Table 3.1). The combined maximum tax-free allowances for emissions exempt from the carbon tax represent 85% of combustion emissions and 95% of industrial process and fugitive emissions. A 2024 National Treasury discussion paper set out proposals to reduce some of the tax-free allowances (National Treasury, 2024_[20]). After public consultation, the 2025 Budget proposed to maintain the basic tax-free allowance until the end of 2030 and proposed no plans to reduce the total size of other allowances.

Reducing total tax-free allowances will incentivise emission reductions, but not all allowances have an equal impact on emissions. Allowances that provide no incentive to reduce emissions should be reduced first. This includes the basic allowance, the allowance for industrial process and fugitive emissions and the allowance for trade-exposed sectors. The trade-exposure allowance is not targeted to the most trade-exposed firms. Benefitting firms must be in a sector with a trade intensity of at least 30% to fully benefit from the trade exposure allowance, which is well below the average sectoral trade intensity of 69% (National Treasury, 2024_[20]).

	Combustion emissions		Industrial process and fugitive emissions	
	2025	2030	2025	2030
Carbon tax rate (ZAR/tCO2e)	236	462	236	462
Basic tax-free allowance (% of emissions)	60	60	60	60
Industrial process and fugitive allowance (% of emissions)			10	10
Trade exposure allowance (% of emissions)	5	5	10	10
Performance allowance (% of emissions)	5	5	5	5
Carbon offset allowance (% of emissions)	10	15	5	10
Carbon budget allowance (% of emissions)	5	0	5	0
Maximum allowance (% of emissions)	85	85	95	95
Effective carbon tax rate (ZAR/tCO2e)	35	69	12	23
Effective carbon tax rate required to meet 2030 emission target (ZAR or USD/tCO $_{2e}$)		ZAR 2200 / USD 120		ZAR 2200 / USD 120

Table 3.1. The effective carbon tax rate is insufficient to meet 2030 emission targets

Source: National Treasury, 2025 National Budget; IMF ($2023_{[19]}$).

Increasing the share of tax-free allowances that provide some incentive to reduce emissions – the performance allowance and the carbon offset allowance – will better support climate objectives:

- The performance allowance incentivises firms to reduce their emissions to a sectoral benchmark. These benchmarks, last reviewed in 2021, will be updated in 2025 to reflect technological developments. Ensuring their regular revision and stringency will be key to their effectiveness.
- The carbon offset allowance reduces the tax liability of firms that invest in carbon offset projects. It aims
 to provide flexibility to hard to abate sectors, incentivise mitigation and investment in sectors not directly
 covered by the tax, such as agriculture, forestry and waste, and develop the carbon market. This allowance
 will represent 10-15% of firms' emissions in 2026. This rate will be slightly above the typical allowance
 globally of around 5-10% but appears appropriate given substantial green investment needs. Similarly,
 allowing new renewable energy projects to qualify as carbon offset projects, though uncommon
 internationally, may be appropriate given emission reduction and energy security goals (Chapter 4).

While carbon offset projects incentivise a reduction in emissions, firms' ability to qualify for the carbon offset allowance has been limited. One contributor is lengthy bureaucratic processes and elevated costs from following international standards. South Africa is developing a framework and criteria for evaluating and approving local carbon standards that could be eligible under the carbon offset system. Ensuring the swift publication of these standards will be key to increase the number of projects. Supporting the development of the local carbon market, including the capacity and expertise within firms to initiate and develop carbon offset projects, will also help increase the supply of projects.

Increasing political acceptability

A more ambitious increase in effective carbon prices could provide a significant source of revenues for climate policies until the decrease in emissions begins to lower revenues (Black et al., $2024_{[21]}$). For example, broad-based effective carbon prices of at least EUR 60 or around ZAR 1 100 per tonne of CO₂e, which still remains below the price needed to meet 2030 emission targets, could generate revenues of 8.4% of GDP based off South Africa's emissions and revenue in 2018, up from 2.6% of GDP (D'Arcangelo et al., $2022_{[18]}$). Such an increase is also estimated to reduce emissions by 18.5%, assuming a linear emission responsiveness to effective carbon prices.

Making higher effective carbon taxes politically acceptable is a significant challenge. Low economic growth and elevated geopolitical uncertainty are increasing firms' vulnerabilities and limiting the acceptability of increasing effective carbon tax rates. Offsetting regressive elements can help increase public acceptance of climate policies (Dechezleprêtre et al., 2022_[22]). South Africa does this with its carbon tax, though low carbon tax revenues, which reached only 0.03% of GDP in the 2023/24 fiscal year, will keep this channel limited. An increase in the carbon tax

could help increase support, such as funding the expansion of the electricity grid and transmission infrastructure, reskilling programmes, free basic electricity, public transport infrastructure, municipal infrastructure, water, fire, waste mitigation and adaptation programmes and disaster risk reduction (National Treasury, 2024_[20]). Promoting public awareness that carbon tax revenues could help fund such policies could help increase its acceptability.

Removing fiscal support to fossil fuels

While fuel taxes are relatively high, there remains government support for fossil fuels that weakens incentives for energy savings or fuel switching (while reducing government revenues). Fuel taxes were estimated at 1.3% of GDP in the 2023/24 fiscal year. However, in 2022 the fiscal cost of support measures for fossil fuels reached an estimated 1.05% of GDP, which is well above the OECD and G20 averages of 0.6% and 0.4% of GDP (OECD, 2023_[23]). Some industries are eligible for a partial or full refund of the fuel levy for diesel use, notably electricity, mining, manufacturers of foodstuffs and agriculture. The 2025 Budget announced that this will increase to a full refund on eligible diesel purchases from April 2026. Individuals benefit from under-taxed fringe benefits for the private use of company cars within the personal income tax. These tax benefits for individuals and businesses should be phased out (Chapter 1). Congestion pricing can also raise revenues, which could help fund public transport infrastructure, while reducing car use and addressing externalities from road transport (see below).

Increasing the efficiency of carbon budgets

There are challenges in ensuring effective and efficient carbon budgets. Following almost 15 years of discussion on the policy (see above), mandatory carbon budgets for large companies in high-emitting sectors were intended to enter force in 2026. However, their implementation, required under the Climate Change Act, has been deferred until regulations for their implementation have been developed. Compliance costs can be understood as an implicit carbon price (D'Arcangelo et al., 2022_[14]). The Department of Forestry, Fisheries and the Environment will allocate relevant entities a five-year carbon budget. Emissions exceeding this budget will be subject to a higher carbon tax rate (of ZAR 640 per tonne of CO₂e compared to the standard rate of ZAR 308 in 2026).

One concern is that carbon budgets are expected to be set at the firm level, creating more opportunities for lobbying, which could lead to lenient budgets and unfair policies – particularly given South Africa's weak safeguards against lobbying (see Chapter 1). At the same time, defining carbon budgets at the sectoral level poses challenges due to the country's highly concentrated market structure. Another issue is the integration of stringent sectoral emission benchmarks with the existing carbon tax system, which already includes a tax-free allowance for companies that meet sectoral benchmarks (see above). In the long run, transitioning to an emissions trading scheme (ETS) could facilitate more cost-effective emissions reductions. However, at least in the short to medium term, an ETS would face significant practical challenges in South Africa (Partnership for Market Readiness, 2017_[24]).

3.4. Supporting climate change goals across economic sectors

Beyond cross-sectoral policies, such as the carbon tax, sector-specific policies can help address the particular mitigation challenges that each sector faces and ensure alignment with total emission goals. Transport, agriculture and land-use and industrial policies can play a key role in climate mitigation policies.

3.4.1. Creating a greener and more efficient transport system

South Africa's fragmented towns and cities, high private passenger vehicle use and limited formal public transport make it difficult to create an efficient and low-emission transport system. Segregation policies during the apartheid era have left a legacy of spatially dislocated settlements and urban sprawl. This results in long travel distances, difficulties in making public transport financially viable, increasing emissions as well as costs for firms to transport goods and for people to get to work (Chapter 2).

The formal public transport offer has deteriorated in recent years, largely due underfunding, corruption and inefficient management (Walters and Pisa, 2023_[25]), as has freight rail transport. In 2020, 43.5% of workers used private transport as their main mode of travel to work (Statistics South Africa, 2021_[26]) and the share of goods transported by road has increased sharply since 2020 (RSA, 2023_[27]). The projected increase in the population from 63 million in 2025 to 75 million in 2050 will increase the demand for transport, while rising GDP per capita will likely increase the use of private vehicles. Similarly, economic growth will increase freight transport. Without reforms that ensure the availability of quality public transport options and low-emission freight transport, transport-related emissions risk increasing.

Reviving rail transport

Passenger and freight rail services function poorly, with issues in service reliability and access, safety and security and train overcrowding (Department of Transport, 2021_[28]). Among workers who used public transport, the share who commuted by rail declined from 12.9% to 3.2% between 2013 and 2020 (Statistics South Africa, 2021_[26]). Overall dissatisfaction with services increased from 47% to 66% of households over the same period. Notable issues included waiting time (82%), travel time (72%) and security on the train (62%). A low share of freight is transported by rail. This results in higher emissions and costs, reducing export competitiveness and making imports more expensive.

Rail infrastructure has significantly degraded due to a long period of underinvestment and increasing theft and vandalism, reducing train services (Department of Transport, 2022_[29]; 2021_[28]). Improving the rail network is complicated by there being two track gauges, a narrow gauge (Cape gauge) as well as a standard gauge. Gradual progress towards a single gauge is needed. The Department of Transport is undertaking strategic rail network planning and oversight to guide investment decisions. This includes classifying branch lines as strategic or non-strategic, with strategic lines put out for concessioning when their infrastructure needs extend beyond the government's budget.

State-owned railway enterprises Transnet and PRASA face significant operational, financial and governance challenges, which stem from institutional dysfunctionalities related to market behaviour, roles and responsibilities (Department of Transport, 2022_[29]). Transnet is responsible for freight transport through railway, ports and pipelines infrastructure. PRASA, the Passenger Rail Agency of South Africa, operates urban rail networks and long-distance passenger services.

Reforms are making important changes to improve the governance of Transnet and PRASA, open the rail sector to competition and create the conditions to support private sector investment, but must be fully implemented to reap the benefits. They include the 2022 National Rail Policy, the Economic Regulation of Transport Act and the Freight Logistics Roadmap, which have been advanced through the National Logistics Crisis Committee. Reforms are splitting the market structure. This includes transforming Transnet Freight Rail, which operates and manages the long-distance rail network, by separating its Infrastructure Manager and Train Operator functions. Consequently, every open line will be managed by an infrastructure manager, who can provide no preferential access for any train operator.

The reforms will allow and regulate private rail-service operators. To support competition in the rail sector, the Economic Regulation of Transport Act established a single transport regulator, covering the rail sector, and merging the previously separate aviation, maritime and road transport regulators. The regulator will monitor and enforce compliance, regulate prices and investigate complaints, helping to increase competitiveness and efficiency and ensure access to transport networks. This is a welcome step to provide the necessary conditions for private investment. Ensuring that the regulator has sufficient resources and independence will help it to most efficiently increase competition.

The declining rail freight sector has resulted in long delays in freight transport, constraining businesses and limiting exports, and has become increasingly uncompetitive with road transport. The government, businesses and unions formed the National Logistics Crisis Committee (NLCC), chaired by the President, to support the implementation of numerous detailed plans. This includes the Freight Logistics Roadmap, which will identify suitable areas for private

sector participation, given the significant investment needs. Ensuring the necessary enabling conditions, including strong governance frameworks and regulation, will help support private investment.

Improving local formal and informal public transport

The formal public transport offer has deteriorated in recent years, which includes a limited number of public buses that struggle to achieve financial viability. In 2020, around 16.6% of public transport users commuted to work by bus, down from 19.5% in 2013. Since 2009 the Public Transport Network Grant has incentivised cities to develop Bus Rapid Transit systems, although its take up has been slow (OECD, 2022_[30]). Improving the financial and operational sustainability of existing systems will be key to understand the possibilities to further expand public transport to meet transport needs.

Reforms intend to devolve provincial bus contracts and passenger rail to municipalities to help improve public transport, yet this relies on municipalities having sufficient resources and capacity. This reform under the Cities Support Programme intends to allow municipalities to use financial resources more efficiently to develop road and rail transport adapted for local users' needs and optimise public transport routes. It also aims to reduce grant inefficiencies and prevent the duplication of subsidies. While this reform offers potential, ensuring sufficient municipal capacity to implement these projects will be key to develop a quality public transport offer (see below).

Minibus taxis took over 80% of public transport users to work in 2020 (Statistics South Africa, 2021_[26]), providing many options in routes and schedules, yet greening the sector faces significant challenges. The industry is highly fragmented, poorly regulated and operates partly informally: around 30% of minibus taxis operate without a license (Walters and Pisa, 2023_[25]). Some local governments have engaged with minibus taxi operators when first rolling out Bus Rapid Transit systems, involving operators as shareholders and drivers (OECD, 2022_[30]). However, efforts to formalise the sector have made limited progress since, in part due to the complexities of the sector. More recently the government's Revised Taxi Recapitalisation Programme provides drivers an allowance to scrap unroadworthy vehicles while also aiming to formalise the industry. Continuing efforts to formalise the sector will help increase compliance with emission standards and regulations (ITF, 2023_[31]). Supporting the digitalisation of minibus taxi services, such as cashless fare collection, as is being piloted, could also contribute. The Cities Support Programme proposes a framework to include minibus taxis in the integrated public transport network system. A pilot project aiming to formalise taxi associations through creating companies and supporting businesses should start in 2025.

Greater support could encourage minibus taxis to modernise the fleet with more fuel-efficient vehicles and transition to electric vehicles in the long term (Department of Transport, 2018_[32]). Electrification will require increasing the supply of renewable energy (see Chapter 4) whilst in the meantime developing innovative solutions, including solar panels, taxi stands and batteries. The Cities Support Programme aims to identify the potential of transitioning the industry to electric vehicles and support the capital investment in charging infrastructure. Some private companies retailing and leasing electric minibus taxis are using solar energy while other private companies and research institutions are investigating how to advance the feasibility of electric minibus taxis, including retrofitting vehicles and infrastructure (Stellenbosch University, 2024_[33]). Such initiatives are at an early stage and further support could advance their progress. As their feasibility advances, support measures, such as guaranteed loans conditional on formalisation and compliance with regulations, could help drivers invest in electric vehicles.

Reducing the use and increasing the energy efficiency of private passenger vehicles

Introducing congestion pricing in some urban settings for fuel-based vehicles can incentivise the use of public transport and electric vehicles, address externalities from road transport more effectively than fuel taxes (van Dender, 2019_[34]) and help fund public transport infrastructure. Adjusting charges based on the time or day and traffic volumes can help optimise the policy (ITF, 2021_[35]). For example, in Norway all major cities use environmentally differentiated rates to discourage urban traffic and reduce congestion. Investing revenues into improving public transport infrastructure can help improve public transport and political acceptability (ITF, 2023_[31]). For example, London's congestion charge funds public transport.

Improving road maintenance would also help reduce emissions. The maintenance backlog for surfaced roads was estimated at around 3% of GDP in 2022 (OECD, 2022_[30]). Uneven road surfaces substantially increase vehicles' fuel consumption. Operation Vala Zonke programme aims to fix potholes on national, provincial and municipal roads.

Aggressive driving consumes more fuel than standard driving behaviour and can increase road casualties. Road mortality is elevated: around 24.5 South Africans per 100 000 die every year on the roads, compared to 21 per 100,000 in the average low-income country (WHO, 2023_[36]). Encouraging drivers to modify their behaviour will help reduce emissions and improve road safety for drivers and pedestrians.

Recommendations	Actions taken since the last Economic Survey
Restore management capacity and effectiveness of PRASA, the state- owned metro-train company, so as to improve the urban rail system.	PRASA continues to strengthen rail services; the numbers of fully operational lines and functional stations have significantly increased.
Accelerate the deployment of the integrated national transport regulator to ease the cooperation between rail transport providers.	The Economic Regulation of Transport Act established a single transport regulator June 2024 but is yet to be fully implemented.
Expand the Bus Rapid Transit systems to more cities using the Public Transport Network Grant.	No action taken.
Reduce fuel-related tax benefits for individuals and businesses and develop public transport.	No change to fuel-related tax benefits. The authorities are undergoing significant reforms to rail transport.
Augment the funding of road infrastructure from the general government budget based on cost-benefit analysis.	Funding for road infrastructure increased by 8% in the 2024/25 Budget.

Table 3.2. OECD recommendations in previous Surveys on transport

3.4.2. Improving agricultural practices and increasing the capacity of carbon sinks

Some policies promote the use of conservation and climate-smart agricultural practices and technologies but an overarching policy could advance the reduction in agricultural emissions (DFFE, 2024_[2]; DFFE, 2020_[37]; Switch Africa Green Programme, 2020_[38]). The 2017 Draft Conservation Agriculture Policy and the 2018 Draft Climate Smart Agriculture (CSA) Strategic Framework include measures to reduce the vulnerability of agricultural systems and integrate climate smart agriculture practices. However, these policies never received final approval. Updating and approving them will significantly enhance agricultural practices. Agriculture is subject to the carbon tax indirectly through fuel and energy costs, and energy-intensive inputs such as fertiliser, although the fuel tax rebate dilutes incentives to lower fossil-fuel use.

High levels of inequality and historical remnants of the apartheid era are highly visible in the agricultural sector and need to be considered when designing climate policies. The government is in the process of redistributing agricultural land currently held by the government to indigenous farmers, although this restitution has been slower than intended (OECD, 2020_[39]). Accelerating land reform could help increase the uptake of CSA practices, access to capital and investments in climate-smart technologies.

Land-use, land-use change and forestry (LULUCF) has contributed the most to emission reductions between 2010 and 2022 (DFFE, 2024_[2]), yet additional policies that reduce deforestation could further increase the size of carbon sinks. This could include developing and implementing the National Reduction of Emissions from Deforestation and forest Degradation (REDD+) programme, which started in 2015 and represents one of the qualitative sectoral targets of the Department of Forestry, Fisheries and the Environment (DEFF, 2020_[40]). A potential barrier identified in 2020 is that the management of woodlands, indigenous forests, forest regulations and oversight in the Department of Forestry, Fisheries and the Environment faces severe financial and resource capacity constraints (DEFF, 2020_[40]). Ensuring sufficient capacity will be key to the programme's success.

Around 31% of South Africa's land area is covered by forests, which are highly exposed to wildfires, with 71% of tree-covered areas exposed to very high or extreme fire danger for more than three consecutive days between 2018-2022. Fire Protection Associations can struggle with the participation of landowners on whose land fire may start, funding and inadequate fire-fighting equipment (DFFE, 2024[41]). Ensuring sufficient resources for effective fire management will help support carbon sinks.

3.4.3. Reducing emissions in industry

Improving energy efficiency will be key to decarbonise industrial processes. Key contributors to industrial process emissions include ferroalloys (1.8%), iron and steel (1.3%) and cement (1%), while manufacturing industries and construction account for 5.6%. As countries implement increasingly stringent climate policies, including on imported products, insufficient progress in reducing emissions could put South Africa's industrial and manufacturing exports at risk. The recent regulation mandating all newly imported electric motors to meet certain efficiency performance standards will help unlock greater efficiency gains (IEA, 2021_[42]). Complementing this with measures that extend to the wider motor-driven system and other industrial equipment, including the implementation of energy management systems, could enable further savings (IEA, 2021_[42]). In buildings, strengthening energy management systems and standards for appliances, especially for cooling, will help reduce energy consumption (IEA, 2021_[42]). Continuing to implement process and energy efficiency improvements and increase fuel switching and material substitution could reduce emissions by 40% in heavy manufacturing sectors, including metals, minerals, machinery and pulp and paper (NBI, 2023_[43]). However, emissions in iron and steel and cement production are strongly directly related to their physical production process (NBI, 2023_[43]). Increasing use of new technologies, such as green hydrogen, will play a key role in decarbonising the sector.

3.5. Strengthening resilience and adaptation to climate risks

South Africa is highly vulnerable to the changing climate (DFFE, 2024_[2]). Average temperatures are rising (Figure 3.5, Panel A). Population exposure to heat stress is higher than in many OECD and G20 economies (Maes et al., 2022_[44]). Rainfall intensity is increasing while the fresh water supply system is already under strain and climate change is adding to existing water security challenges (DFFE, 2020_[37]). Agriculture is facing increasingly variable weather conditions, lowering cropland soil moisture (Panel B). Climate change will degrade land and impact yields, pest outbreaks and crop production (DFFE, 2020_[37]). Climate change is disproportionately impacting low-income earners and vulnerable populations, who often live in areas more at risk yet have fewer resources to manage such shocks (DFFE, 2024_[2]). Women will also experience climate change differently to men, with women more vulnerable to the impacts of poverty.



Figure 3.5. South Africa is getting hotter and drier



Source: OECD Environment Statistics database.

StatLink and https://stat.link/k8ry1f

South Africa's climate adaptation policies face challenges. Climate change adaptation measures cannot change the likelihood of a hazard occurring or its intensity but can influence the degree of a country's exposure and vulnerability, including by supporting South Africa's key challenges of reducing poverty, unemployment and

inequality. South Africa's 2020 National Climate Change Adaptation Strategy (NCCAS) enhanced adaptation governance and legal frameworks, which were enshrined in the 2024 Climate Change Act. The NCCAS also aims to enhance water-supply security, deploy flood protection measures, support climate-smart agriculture and develop climate-resilient infrastructure. However, these plans face several challenges, including poorly functioning municipalities, unequal agricultural water rights, insufficiently priced water and poorly maintained water infrastructure, discussed below.

Obtaining sufficient financing is another barrier to adaptation policies (see above). The National Climate Change Adaptation Strategy is estimated to cost up to USD 292 billion, or 86% of 2020 GDP, over 2021-2030, whilst the government faces fiscal constraints. Over 2019-21, only 12% of total climate financing received was dedicated to adaptation and 7% to both adaptation and mitigation (de Aragão Fernanes et al., 2023_[15]). Measuring progress will be key to help attract financing and inform and adjust adaptation policies (OECD, 2024_[45]).

3.5.1. Improving the functioning of municipalities to implement adaptation policies

Municipalities have a key role to play in climate policies, particularly adaptation policies, but are struggling to achieve their mandates. Municipalities manage water and waste services and play a key role in urban planning and infrastructure. In 2023, 163 out of 257 municipalities were classified as dysfunctional, in part due to resource constraints, poor governance and ineffective and sometimes corrupt financial and administrative management (Presidency of the Republic of South Africa, 2023_[46]). Some local governments are unaware of how to select, prioritise and implement climate actions and others lack support from national and provincial governments (Presidential Climate Commission, 2024_[8]; Averchenkova and Lazaro, 2020_[12]). Municipality's lack of institutional capacity can hinder communication between the central coordinating body for environmental policy, the Department of Forestry, Fisheries and the Environment and implementing agencies (DFFE, 2023_[16]).

Local governments' ability to operate effectively and implement climate policies is constrained by insufficient financial resources due to an unsustainable financial model (Presidential Climate Commission, 2024_[8]; Sibiya et al., 2023_[47]). Municipalities receive around 10% of their funding from central government and tariffs from public service delivery make up the remainder. However, tariff revenue is being reduced by fewer households paying their service bills since the pandemic. While some municipalities have incorporated climate projects in their integrated development plans, no budget is allocated to them (Sibiya et al., 2023_[47]). Central government is taking steps to support municipalities, including under phase 2 of Operation Vulindlela (see Chapter 1). The Local Government Climate Change Support Programme aims to facilitate capacity building and knowledge transfer. The Climate Change Response Fund in development aims to mobilise public and private funding for adaptation, including for infrastructure resilience, technical assistance and capacity building. Nevertheless, reforming the municipal financial model, which is currently being reviewed, will help ensure that municipalities have sufficient financial resources and skilled staff, and improve their governance the efficiency of service delivery, which will be key for them to successfully implement climate policies and provide services (Box 3.4, and see Chapters 1 and 4).

Box 3.4. Ensuring sufficient waste services

Many municipalities struggle to deliver waste services and operate landfills in line with national standards and licensing requirements. Around 84.4% of urban households and 12.5% of rural households had their refuse removed weekly or less regularly in 2023 (General Household Survey), often leading to illegal dumping or burning of waste. Out of what was collected, 89% went to landfill in 2017 (Department of Environmental Affairs, 2018[48]). Insufficient waste services and the burning of waste impact air and water quality, contaminate land and release hazardous compounds.

Under the National Waste Management Strategy, the Department of Forestry, Fisheries and the Environment is supporting local governments to implement integrated waste management plans and services. However, financial constraints remain a major hurdle. Gradually introducing waste charges would help recover the cost of services and encourage waste reduction. Reforming the municipal funding model could also benefit waste services.

3.5.2. Improving the management of water

South Africa's fresh-water supply system is under strain and will face increasing challenges as the climate changes. Climate change is increasing evaporation, and changes in soil moisture and changes in recharge and runoff are also likely to impact water quality. Large differences in rainfall across the country contribute to the challenge. Water-supply shortages could significantly limit economic growth and living standards (see Chapter 1). Cape Town almost ran out of municipal water in 2019 and Johannesburg faced regular interruptions over 2024. Demand for water is also increasing as the population and industry grows.

Numerous dams help manage water resources and deal with floods and drought. These can store around two-thirds of the country's mean annual rainfall. Furthermore, water is imported from Lesotho. However, South Africa is approaching full utilisation of available surface water yields and running out of suitable new dam sites (DWS, 2023^[49]).

Increasing the efficiency of agricultural water consumption

Agriculture and livestock are estimated to use around 64% of the country's water yet the sector pays significantly lower tariffs than other users (DWS, 2023_[49]; OECD, 2020_[39]). Agricultural water consumption is largely unmetered and there are concerns about unauthorised abstraction and wastage. While farmers have increased the efficiency of their irrigation, there remains scope for improvement (Olley et al., 2024_[50]). Pricing water, whilst including provisions to ensure equity, can help increase the efficiency of its use.

Not all farmers have equal rights to access water. The government is in the process of redistributing agricultural land to indigenous farmers, which has been slow. Nevertheless, the reallocation of water rights has not always kept pace (OECD, 2020_[39]). As such, the transfer of some irrigable land without a water allocation has limited the ability of some recipients to use the land productively (DWS, 2023_[49]). One aim of the National Water Amendment Bill, released for public comment in late 2023, is to strengthen the ability of the Department of Water and Sanitation to improve equity in water use allocation and reform water entitlements. A swift implementation of the Bill, redistribution of land and reallocation of water rights could help increase uptake of climate-smart agricultural practices, investments in irrigation schemes and other infrastructure.

Increasing the efficiency and quality of municipal water supply systems

Studies found that 29% of municipal water supply systems were identified to be in a critical state of performance in 2023, up from 18% in 2014 (DWS, 2023_[51]). Additionally, 47% of fresh water supply was estimated to be either lost before reaching the customer or not paid for, wasting water and potential revenue. Municipal-run water management services are performing poorly, impacted by shortfalls in skilled personnel, planning, maintenance and sound accounting and effective billing measures. Contributory factors include illegal connections and poor revenue collection (DWS, 2023_[52]).

Furthermore, water quality is poor: 46% of water supply systems have an unacceptable level of microbiological water quality (DWS, 2023_[51]). An estimated 64% of wastewater treatment works are at a high or critical risk of discharging partially treated or untreated water into rivers and the environment. Wastewater discharge has negative environmental impacts and poses risks to human health, such as cholera outbreaks. Poor water quality is often related to sub-standard operations, defective infrastructure, inadequate disinfection and a lack of scientific knowledge (DWS, 2023_[51]).

In a welcome step, the Water Services Amendment Bill will separate the role of the water services provider from that of the water services authority, the latter having a supervisory role. The Bill would also increase the capacity of the Department of Water and Sanitation to ensure compliance and that license conditions are being met. The Bill also has provisions allowing the Department to issue directives to municipalities that do not meet standards, including requiring the authority to contract a competent licensed provider. The National Water Resource Strategy (NWRS-3) also proposes objectives around the institutional framework and regulation, capacity and skills, financial stability and legislative and policy gaps. Implementing these reforms swiftly will be key to addressing South Africa's water crisis. The reform to the trading services grant, adding performance incentives for metropolitan municipalities, will help establish improved institutional arrangements and drive strategic investments in water infrastructure. Insufficient financial resources are often cited as a root cause of non-compliant water treatment works and networks. Revisions to tariffs in 2026 should support financial sustainability, with the National Treasury developing tools to help determine cost-reflective tariffs (DWS, 2023_[51]). The revised Norms and Standards in respect of tariffs for water services will update the framework on how Water Service Providers can set service tariffs. The revised Pricing Strategy for raw water use charges will establish pricing that ensures cost recovery for operating, maintaining and investing in water infrastructure. The pricing strategy allows for differentiated prices for equity reasons and across geographic areas and categories of water use and users. As outlined in the National Water Resource Strategy, more action is needed to develop a credible national water and sanitation investment framework and funding model for investment. Regulation and pricing reforms will help increase private-sector involvement through public-private partnerships or performance-based contracts to support the service delivery and meet investment needs (DWS, 2023_[52]).

Municipal water supply systems are also compromised by customer debt and illegal water use, largely by mining operations and farmers for irrigation (DWS, 2023_[49]). Legal enforcement is often slow and weak due to limited judicial system capacity. Administrative penalty provisions are being increased in the case of a breach of a law or license. Proposed measures to help improve monitoring and enforcement and reduce water theft include a greater use of remote sensing tools, such as satellites and drones.

Municipalities also lack sufficient technical and scientific staff. In 2023, water supply systems were estimated to require at least 203 more technical staff in addition to the existing 745, and an additional 197 scientists in addition to the existing 160 (DWS, 2023_[51]). Only 33% of water-treatment work (WTW) staff attended training in the two years leading up to the 2021-22 audit cycle. Coupling sufficient resources with increasing training to ensure skilled staff can help ensure efficient operating, maintenance and investment.

3.5.3. Increasing resilience to flood risks

According to the South African Insurance Association, a large share of households are underinsured against flood risk, which are becoming more frequent. Take up of flood insurance is low in many countries, implying that households, businesses and governments directly absorb losses from flooding. South Africa's flood events can be significant: infrastructure and business losses from the 2022 floods in KwaZulu-Natal are estimated at 0.5% of GDP (Grab and Nash, 2023_[53]). Central government assistance to municipalities in the event of disasters is available through the Municipal Disaster Response and Recovery Grants and the forthcoming Disaster Risk Financing Strategy aims to enhance the distribution of funds within and across spheres of government during disasters. Expanding the role of private insurance would reduce the risk to the government. One route is to increase public awareness of flood risk to encourage take up, for example through improved dissemination of information on climate-related risks and impacts and increased financial education. The implementation of South Africa's Financial Inclusion Policy Framework could also increase awareness. The South African Reserve Bank (SARB) continues efforts to mitigate the financial stability risks associated with climate change on the insurance industry (Chapter 1).

Insurance coverage can also be strengthened through government support. Flood insurance coverage could become even lower if more frequent and/or severe climate events lead to higher premiums. A national catastrophe insurance programme targeting floods could be one way to lower the protection gap. This would also align with South Africa's Disaster Risk Financing (DRF) strategy currently in development, which aims to increase disaster funding. Given South Africa's low property insurance penetration, a basic direct natural disaster insurance programme might be most effective (OECD, 2021_[54]). In many countries this direct insurance is provided by a public insurer. This includes Iceland (natural catastrophe perils), New Zealand (certain natural catastrophe perils) and the United States (flood and earthquake in California and various perils in many states through residual plans). In some countries, coverage is provided by a private insurer with a public mandate and/or financial backing, such as in Germany for terrorism or Türkiye for earthquakes. South Africa already has a state-owned insurance company, the South African Special Risk Insurance Association (Sasria). The Association established to manage the risk of riot and civil commotion; its role could be expanded to cover natural disasters.

Government can also help reduce flood risk and support insurance through land-use planning and flood mapping (OECD, 2016[55]). The forthcoming Disaster Risk Financing Strategy aims to enhance data collection and management to improve risk assessment. More stringent planning and restrictions can reduce the level of assets exposed to flood risk or reduce

the impact of flooding through the use of natural mitigation measures, such as wetlands. Improved flood mapping can help with the emergency response and develop the flood insurance market.

Table 3.3. Main findings and recommendations to support climate policies

MAIN FINDINGS	RECOMMENDATIONS (Key recommendations in bold)				
Enhancing climate governance and the climate policy framework					
South Africa is on track to meet its 2025 emission target, but risks not meeting its 2030 target.	Determine and commit to quantitative sectoral targets across all emitting sectors in a timely manner.				
Key climate policies and legislation often take several years to be implemented, increasing uncertainty and deterring investment.	Ensure the timely implementation of climate change legislation and policies and the effective coordination of policies across ministries and levels of government.				
The climate governance system faces challenges. Poor clarity on government roles and responsibilities of environmental competencies results in contrasting policies and contradictory government positions.	Ensure that the Climate Change Act supports effective coordination of climate change policies across ministries and levels of government.				
Broadening mitigation policies to reduc	e emissions while generating revenues				
The effective carbon price is increasing but will remain insufficient to meet its 2030 emission target due to low carbon tax rates and tax-free allowances that lower firms' carbon tax liability for up to 85-95% of their emissions, while climate finance needs are high.	Reduce the tax-free allowances on significant shares of firms' emissions progressively and gradually increase the level of the carbon tax. Continue to support green investment needs, enhance social policies to reduce the regressive elements of carbon taxation or support fiscal consolidation efforts.				
Fuel taxes are high, but some sectors are eligible for a partial or full refund of the fuel levy. Fringe benefits for private company cars are under taxed.	Phase out fuel-related tax benefits for individuals and businesses.				
Mandatory carbon budgets for large companies in high-emitting sectors will come into force in 2026 yet detailed information is lacking, limiting firms' ability to plan and make investment decisions.	Consider moving towards an emissions-trading scheme over the long term.				
Supporting climate change ge	oals across economic sectors				
People and businesses make extensive use of road transport while the formal public transport offer has deteriorated in recent years. Minibus taxis provide flexible transport, yet the sector is partially informal and fragmented and insufficiently complies with regulations and road traffic laws. Many vehicles are poorly maintained and unsafe.	Increase the availability of safe and quality public transport to encourage substitution away from private passenger vehicles. Continue efforts to integrate the minibus sector into the formal transport system.				
Bus contracts and passenger rail are being devolved to municipalities.	Build municipal capacity to ensure quality public transport, including by ensuring sufficient funding.				
Use of passenger and freight rail services is low. The sector is facing challenges of service reliability and access, safety and security, underinvestment, theft and vandalism. Transnet Freight Rail is being separated into Infrastructure Manager and Train Operator functions. The recent single transport regulator will help increase competition.	Swiftly implement the Freight Logistics Roadmap. Ensure the full separation of the state-owned freight transport operator into the Infrastructure Manager and Train Operator functions. Ensure the recently established transport regulator has sufficient resources and independence.				
Further use of climate-smart agricultural practices and technologies could reduce emissions.	Publish an updated policy that promotes climate-smart agricultural practices and technologies and considers food security and prices.				
Implementing additional deforestation programmes could further increase the size of carbon sinks.	Address the financial and resource capacity constraints in the management of woodlands and forests.				
Strengthening resilience and adaptation to climate risks					
Local municipalities are often severely under resourced. They struggle to implement climate policies, provide water services and maintain water infrastructure. Climate change will further strain the water supply.	Ensure that municipalities have sufficient financial resources and skilled staff to implement climate policies and provide quality water services.				
Water prices do not always ensure cost recovery for operating, maintaining and investing in infrastructure. Municipalities struggle with customer debt and water theft.	Implement the revised norms and standards for tariff setting, the revised pricing strategy for water use and the penalty provision in the case of water theft.				
Some areas of the country are prone to flood risk, although a vast proportion of South Africans are underinsured.	Strengthen insurance coverage, for example through a national catastrophe insurance programme targeting floods.				

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4 Reforming South Africa's electricity sector

Lilas Demmou

South Africa's electricity sector has been in crisis for over 15 years, failing to meet electricity demand and leading to worsening shortages and planned electricity outages since 2019. Outages have caused significant economic damage, although they notably declined in 2024. The sector is also a major emitter, with coal accounting for 80% of power generation. While progress in renewable energy has been made, it remains insufficient. Comprehensive institutional reforms and investment are needed to ensure reliable supply and accelerate the transition to a cleaner, more diverse energy mix. Key reforms include increasing private sector involvement and competition to boost Eskom's efficiency and financial stability. Encouraging private investment through an independent transmission operator will bridge network investment gaps. A strategy is needed to revamp distribution, reducing municipalities' reliance on electricity revenues and improving service. Reforming pricing to balance affordability with incentives for efficiency and the transition from coal is essential. For over 15 years, South Africa's electricity sector has been under immense stress. Over the past five years the problems have significantly worsened. The sector has failed to secure sufficient electricity supply to meet demand, stifling economic opportunities in the country. Facing supply shortages, the government imposed rolling power cuts, known as load shedding, leading to significant economic losses. Power cuts, which have sometimes lasted up to 12 hours a day, make running a business difficult, as reliable alternative electricity sources are not yet available at a sufficient scale. Furthermore, coal accounts for around 80% of electricity generation, contributing to 41% of greenhouse-gas emissions in 2022 (IEA, 2024[1]). This underscores the importance of transitioning the electricity sector, a key priority for the green transition, as discussed in Chapter 3.

Recent reforms are already transforming the electricity sector (Box 4.1), delivering progress, especially through the expansion of renewable electricity sources, which has helped ease some of the supply constraints. To fully unlock South Africa's economic potential and foster stronger, greener and more inclusive growth, it is crucial to maintain strong momentum in completing ongoing reforms that will accelerate the shift towards renewable electricity. Key remaining challenges include establishing a wholesale electricity market, scaling up electricity supply, accelerating the transition away from coal, expanding the transmission grid and redefining municipalities' roles in electricity distribution to better serve end users. While renewables are not a silver bullet, they represent a powerful opportunity to ease the electricity-supply constraints on economic growth, better serve end users through a more decentralised and secure electricity supply and decarbonise the economy.

This chapter examines challenges and reforms in the electricity sector, proposing strategies to enhance efficiency, security, affordability and sustainability. It begins by outlining key issues, including electricity security, financial stability and decarbonisation, along with recent reforms. The second section highlights progress in renewable energy under the Energy Action Plan and steps towards decarbonisation goals. The third section focuses on structural transformation of the generation and distribution activities through better regulation and governance. The fourth section explores ways to boost financing and private sector participation in transmission, while the final section reviews pricing strategies to balance costs and ensure affordability.

4.1. Achieving key policy objectives: electricity security, financial sustainability, effective municipalities and decarbonisation

4.1.1. Deteriorating generation capacity is compromising electricity security

South Africa's state-owned electricity supply has deteriorated significantly in recent years, partly due to shortfalls in investment in new generation capacity and insufficient maintenance of an aging fleet of power stations. Capital expenditure by the state-owned electricity utility company Eskom has declined substantially since the late 2010s. Eskom's electricity generation in recent years has been a fraction of that in the early 2000s (Figure 4.2, Panel A). The Energy Availability Factor (EAF), a measure of operational capacity computed as the ratio of actual electrical energy output to maximum electrical energy capacity, has long been trending down, reaching 55% in 2022 from more than 90% in 2000 (Panel B). With the average age of coal power stations at 41 years and maximum lifespans of around 60 years, energy losses due to deteriorating plant and equipment have steadily increased over the years, while units in some power stations have increasingly been shut down for safety reasons. Furthermore, Eskom's efforts to build new generation capacity have run into significant delays and cost overruns, further weighing on the capital stock and profitability.

Rolling power cuts (load shedding) have occurred in most years since they began in 2007. Furthermore, the number of pre-arranged load-shedding days has increased in recent years and skyrocketed in 2023 to nearly 300 days (Figure 4.2, Panel C). The impact of loadshedding on households and businesses has been severe, driving those who can afford it to increasingly rely on diesel generators, while leaving others without electricity. According to the last available World Bank Enterprise Survey, 92% of firms report having experienced electricity outages in 2020, much more than in the average in upper middle-income countries (44%) and in Sub-Saharan African countries (77%).

Box 4.1. Key features of South Africa's electricity sector

The electricity sector has been structured vertically around the state-owned enterprise Eskom, which produces 90% of electricity, primarily from coal-based sources. The sector has significantly transformed over the past 15 years. Since 2011, independent power producers have supplied electricity to Eskom through the Renewable Energy Independent Power Producer Programme (REIPPP). The Electricity Regulation Amendment Bill adopted in August 2024 marks a significant milestone and lays the groundwork for establishing a competitive market in the medium term.

Figure 4.1. Main players in South Africa's electricity sector



Source: OECD.

Eskom fully owns and operates the transmission grid. However, since mid-2024, transmission activities have been legally separated from Eskom's other activities following the creation of the National Transmission Company South Africa. This wholly owned subsidiary of Eskom will act as the interim Transmission System Operator until an independent entity firm is established.

The distribution of electricity is divided between Eskom and municipalities. Municipalities primarily purchase electricity from Eskom and a small share purchase from independent producers. Some municipalities also operate generation facilities. The special role of municipalities in South Africa relates to obligations to provide electricity written in South Africa's constitution, which explicitly lists low voltage distribution as a competence of municipalities (referred to as "electricity reticulation").

The electricity used by end users can be sourced from different providers: Eskom, municipalities but also Independent Power Producers and through self-generation. The licensing threshold for embedded generation was eased in 2021 and removed in 2022, allowing large end users to establish direct bilateral contracts with producers or self-generate electricity. Alongside these generators, the share of small-scale embedded generation and rooftop solar panels in the overall electricity supply is rising, though it remains modest.



Figure 4.2. Electricity supply from Eskom has declined and become less reliable

Note: In Panel A and B, data refers to fiscal years, i.e. the 2013 financial year refers to the year ending March 2013. Panel A: Total capital expenditure of the Eskom group excludes capitalised borrowing costs. Panel B: EAF is a measure of power station availability, taking account of energy losses not under the control of plant management and internal non-engineering constraints. Panel C: Loadshedding refers to the scheduled and controlled power cuts that rotate available capacity between all customers when demand is greater than supply in order to avoid blackouts. Distribution or municipal control rooms open breakers and interrupt load according to predefined schedules.

Source: Eskom; The Outlier and EskomSePush, Loadshedding Tracker; and South African Reserve Bank (2024_[2]).

StatLink and https://stat.link/c6rf4v

Load shedding eased considerably in 2024, to only 69 days. The Energy Availability Factor rose to 67% in July 2024, the highest since 2021, due to improvements in Eskom's supply, as important stations like Kusile were reactivated (in October 2023), but also due to lower demand for electricity amid sluggish growth and increased self-generation. The installation of privately-owned solar photovoltaic (PV) systems, also known as embedded generation, has surged in recent years, rising from 1.2 GW in 2021 to 6.1 GW by 2024. In 2023 alone, self-generation capacities increased by 73%. Business and commercial sectors account for 71% of self-generation installations, agriculture for 17% and households for the remainder (CRSES, 2024_[3]).

While the suspension of load shedding since March 2024 represents notable progress, significant challenges persist, and the system remains fragile, as evidenced by the return of load shedding in early 2025. First, despite the growth in self-generation, it is still far from being able to substitute for coal generation, accounting for only 11% of total capacities. Furthermore, since 2010, both electricity production and demand have trended down, with Eskom's output at its level observed in the early 2000s. Currently, seven out of eighteen power stations are operating below 60% capacity, with one as low as 32%. The aging fleet will require Eskom to gradually decommission several power stations over the next five years, further reducing its generation capacity. This underscores that while recent

improvements have alleviated some supply constraints, concerns about the capacity of the electricity system to meet higher demand, should economic growth accelerate, remain.

4.1.2. Electricity shortages are a barrier to economic growth

A stable electricity supply is essential for operating businesses, promoting industrialisation and fostering innovation and is a key determinant of household welfare (Box 4.2). Frequent power outages disrupt manufacturing processes, increasing production costs and decreasing productivity (Allcott, Collard-Wexler and O'Connell, 2016[4]; Mensah, 2016[5]). Energy-intensive industries reliant on continuous power, such as manufacturing and transport, are particularly affected (Alam, 2014[6]).

Box 4.2. Impact of electricity shortages on growth and productivity: a brief overview of the literature

Macroeconomic and sectoral impact

Studies show a significant negative relationship between electricity shortages and economic growth, as power outages lead to a decline in industrial and commercial activities (Fisher-Vanden, Mansur and Wang, 2015_[7]).

Adaptation through adjusting the production process and input substitution

Uncertain power availability can prompt firms to substitute from electricity-driven machines towards other machines or labour (Abeberese, Ackah and Asuming, 2021_[8]), or to resort to backup power solutions (e.g. diesel generators or outsourcing energy-intensive production process). This is found to mitigate productivity losses but without offsetting them (Fisher-Vanden, Mansur and Wang, 2015_[7]).

Impact on investment, innovation and technology adoption

Power outages can deter overall investment because firms become reluctant to expand and adopt new technologies, reducing productivity and economic growth (Lebepe and Mathaba, 2024_[9]). While firms, especially the largest, are more inclined to invest in response to an electricity supply shock, productivity may decline as many technologies rely on electrical machinery (Wang, 2020_[10]).

Impact on firms' dynamism

Small firms have comparatively limited capacity to invest in generators or adopt other energy-efficient technologies in the face of power outages. This may lead to a disproportionate share of these firms closing, reducing firm dynamism and thereby productivity (Khalid, 2011_[11]). Symmetrically, improving access to electricity is associated with firm creation (Lipscomb, Mobarak and Barham, 2013_[12]).

Economic costs for the South African economy have been substantial. A study commissioned by Eskom estimates the total cost of load shedding at ZAR 43.5 billion from 2007 to 2019, an amount broadly equivalent to the impact of the 2008/09 financial crisis on GDP growth. Over this period a 1% decline in electricity sales was associated with a 0.4 percentage point reduction in GDP growth on a quarter-to-quarter basis. Despite occurring over a much smaller time period, the cost to growth surged fivefold between 2020 and Q1 2023, reaching ZAR 224 billion (Kay, Nel and Kiln, 2023_[13]). This represents a loss of 1.2% of the cumulative GDP in level terms over this period.

Exceptionally high load shedding in 2023 is estimated to have reduced GDP growth by 1.5 percentage points, leading to sluggish growth of 0.7% (Figure 4.2, Panel D). The impact has been estimated at 0.7 and 0.5 percentage points for 2022 and 2024 (SARB, 2024_[2]). Overall, load shedding has been the primary factor driving the decline in potential output, with average growth falling from 3.9% between 2000 and 2009 to just 1.4% in the years following the Great Financial Crisis (see Chapter 1). Potential growth has been estimated to be around 0.7% in 2022 and 0.0% in 2023 (Janse van Rensburg and Morema, 2023_[14]). With the ease of load shedding, the South African Reserve Bank estimates that the impact on economic growth will be reduced to only 0.2 percentage points in 2025.

4.1.3. Eskom's financial difficulties are weighing on public finances

South Africa's power crisis is deeply intertwined with Eskom's financial crisis, with the state-owned enterprise in severe financial stress. Declining sales have strained the utility company's financial health. Between 2013 and 2023 Eskom's total sales fell by nearly 15%, with a particularly large fall in sales to the rail sector (Figure 4.3, Panel A). Part of the decline can be attributed to sluggish economic growth and structural changes in economic activity, leading to lower electricity consumption by large end users that previously formed Eskom's core baseload. Increasing self-generation by businesses and households in response to poor reliability in grid electricity has also played a role.

Eskom has found itself in a vicious cycle. The company has significantly increased its prices to deal with increasing losses while not yet able to ensure security of supply, making alternative power options even more attractive and aggravating its financial difficulties. Electricity tariffs have increased almost tenfold since 2000, rising particularly steeply since 2009, dramatically more than consumer price inflation (CPI) (Figure 4.3, Panel B). One reason behind Eskom's insufficient financial profitability is that prior to the recent steep increases, tariffs had been lower than the cost-recovery level for several decades (see section below on tariff setting). Additionally, corruption and mismanagement have further undermined the utility company 's financial sustainability (see below).



Figure 4.3. Eskom's prices have risen faster than CPI inflation

Source: Eskom and OECD Analytical database.

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Eskom's deteriorating financial health has undermined its capacity to undertake the necessary investment to become economically viable. Its credit rating has sunk to "speculative" grade, limiting its borrowing capacity even further, and forcing the government to implement successive bailouts (Figure 4.4). Significant fiscal transfers from the central government have been required to ensure the financial survival of the utility company, weighing on public finances. Eskom's debt burden represents 15% of government debt and around 8% of GDP (Panel B).

To restore Eskom's financial stability, the Eskom Debt Relief Act passed in June 2023 covers ZAR 254 billion (5.5% of GDP) of Eskom debt (including ZAR 168 billion in capital and ZAR 86 billion in interest) over the next three years. The strict bailout conditions include a moratorium on further borrowing. New debt or government guarantees are subject to the National Treasury's approval (National Treasury, 2023_[15]). The strict conditionality imposed through the moratorium on new debt is intended to secure public funding. However, the arrangement risks hindering the deployment of investment in security of supply along with the green transition of the electricity supply sector. The government should closely monitor such risks.



Figure 4.4. Eskom has large liabilities and has been frequently bailed out

Note: Panel B: Eskom's debt covers debt securities and borrowings, derivatives held for risk management and finance lease liabilities. 2024 figures are estimated using March 2024 financial statement data.

Source: South African National Treasury; Eskom; OECD Analytical database; and OECD calculations.

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4.1.4. Many municipalities struggle to efficiently distribute electricity

Municipal governments play a key role in the electricity sector (see Box 4.1). This stems from provision obligations in South Africa's constitution. Municipalities distribute around 40% of electricity, mainly serving households and small businesses. The remaining 60% is distributed by Eskom, mainly serving large users and municipalities with no distribution network.

When municipalities are responsible for electricity distribution, they are generally the sole distributors in their respective locality. Approximately two-thirds of municipalities are licensed by the energy regulator (NERSA) to serve as electricity distributors. This role includes responsibility of maintaining infrastructure, providing new connections and setting minimum service level standards and subsidy levels for low-income consumers. Reflecting the concentration of the population and economic activity in relatively few municipalities, approximately 20 municipalities account for almost 90% of the municipal electricity market (Vanheukelom, 2023_[16]).

Many municipalities struggle to deliver reliable electricity services. Much of the distribution infrastructure is poorly maintained and suffers from high technical losses, leading to frequent power outages, on top of those from scheduled load shedding (Vanheukelom, 2023^[16]). Furthermore, theft and vandalism during load shedding has regularly led to further local outages. Most municipalities struggled to perform maintenance and safeguard infrastructure assets because they spend only 1% of their infrastructure value on repairs and maintenance, compared to a national norm of 8% (Auditor General South Africa, 2022^[17]). The development of renewable electricity introduces additional challenges for financially constrained municipalities. The intermittency of renewables requires substantial investments to balance supply and demand, necessitating advanced grid management technologies, electricity storage solutions and smart grids (Johnstone and Haščič, 2012^[18]; Ledger, 2024^[19]).

Similar to Eskom, high financial debt limits the capacity of many municipalities to invest in a reliable distribution network as well as in new technologies to accommodate the rise of renewables (Figure 4.5, Panel A). Nearly half of municipalities, including some of the largest ones, have serious financial problems, raising concerns about their ability to effectively perform their functions (Auditor General South Africa, 2022_[17]; National Treasury, 2022_[20]). Almost 80% of municipal debt resides with 20 municipalities that are particularly struggling to provide electricity (National Treasury, 2024_[21]). Most municipal debt is in the form of arrears owned to Eskom (Panel B). This debt has

steadily increased over the years, reaching a record of ZAR 75 billion in February 2024, twice the level in 2021. Arrears feed into Eskom's financial health, accounting for 15% of Eskom's total debt.

To address the systemic challenge of municipal debt to Eskom, a debt relief programme was introduced in 2023. It allows municipalities to write-off part of their debt, provided they commit to financial sustainability and operational best practices. The programme's strict conditions ensure accountability, with non-compliant municipalities required to request NERSA to revoke their electricity license. However, not all heavily indebted municipalities are yet participating, potentially reducing its impact. Some aspects of the debt relief programme raise concerns. For the debt that is not written off, the programme requires municipalities to set up dedicated and ring-fenced sub-accounts for payments to Eskom. It is reasonable to ask municipalities to earmark revenues from their electricity distribution activities. However, there are concerns that to fulfil reimbursement obligations, municipalities will have to also use direct transfers from the central government, potentially reducing the resources available to alleviate poverty and inequality (e.g., funds for free access to electricity grants) (Ledger, 2023_[22]). Ensuring that reimbursement plans are carefully tailored to avoid such unwarranted effects is key.



Figure 4.5. Municipalities are highly indebted



Source: National Treasury, Municipal Borrowing Bulletin, Issue 30, September 2023; Eskom (2024), Financial results presentation; OECD Analytical database; and OECD calculations.

4.1.5. Continuing the fight against mismanagement and corruption

The "Zondo Commission" exposed extensive governance failures at Eskom involving organised criminal networks and government involvement (Zondo Comission, 2022_[23]). By late 2023, 15 cases against previous Eskom directors had been prepared, revealing internal and external collusion in procurement abuses. These findings have led to changes in Eskom's management.

The economic costs of corruption at Eskom are significant, though hard to quantify precisely. Mismanagement and procurement fraud led to inflated operating costs, delayed projects and insufficient effective investment, all factors that have contributed to load shedding and thereby sluggish growth and poor quality of life. For example, the Special Investigating Unit (SIU) is now investigating allegations around nine contracts involving coal and diesel, focusing on irregularities like advance payments, poor coal quality controls and unusually favourable contract terms, all irregularities that inflated Eskom's operational costs. The new and large Medupi and Kusile power stations illustrate mismanagement issues, with both projects facing massive delays, design flaws and cost overruns, partly due to corrupt contract practices and weak oversight. Cost overruns to complete the Kusile and Medupi power stations are estimated to have increased costs by about 185% and 66% (Tshidavhu and Khatleli, 2020_[24]).

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While law enforcement efforts do take time, most investigations have not yet progressed to prosecution and convictions, further contributing to public distrust (see Chapter 1). More work is needed to conclude investigations and, where appropriate, begin criminal prosecutions and enforce the resulting sanctions for corruption offences. At the company level, efforts such as promoting channels for reporting corruption and fraudulent activities should be further encouraged.

4.1.6. Decarbonising the electricity sector has a long way to go

South Africa's Low Emission Development Strategy aims to achieve net zero emissions by 2050. Decarbonising electricity generation is key as the sector accounts for 41% of total emissions and 58% of energy-related emissions in 2022((IEA, 2024_[1]),Chapter 3), largely because coal accounts for around 83% of power generation (Figure 4.6, Panel A).



Figure 4.6. Predominantly coal-fired generation is resulting in high emissions

Source: IEA Data Services.

Progress in decarbonising the electricity sector has been insufficient so far. Emissions from grid electricity generation and heating have recently declined, but this is more due to the decline in grid electricity consumption and supply disruptions than from intentional policy efforts. Consumption of grid electricity per capita declined by 17% from 2000 to 2021 (Ledger, 2024_[19]). In fact, the emissions intensity of the sector has remained stable despite the increase in renewables generation (the share of renewables reached 9% in 2021). The opposite has been observed in China and India (Figure 4.6, Panel B).

In the short-to-medium term, there are some trade offs between accelerating the green transition and securing a sufficient supply of electricity. To support the latter, the Energy Action Plan (see Box 4.1 and Box 4.7) pushed for maximising the use of the existing coal capacity. Eskom's renewed focus on maintenance has enabled the return to service of several power stations. To further alleviate the strain, the government has proposed to postpone the decommissioning of the coal power plants in Mpumalanga Province, as well as Eskom's Camden, Grootvlei and Hendrina power plants from 2023-2027 to 2027-2030 (Department of Mineral Resource and Energy, 2024_[25]).

The most recent draft of the Integrated Resource Plan (IRP 2023), released in 2024 and currently under discussion, serves as a strategic framework for energy planning in South Africa. Unlike the IRP 2019, which had forecast the shutdown of old coal plants (Figure 4.7, Panel B), the 2023 plan does not include such closures and instead focuses on completing ongoing coal capacity projects. As a result, coal capacity is projected to increase to 39.4 GW by 2030, up from 33.4 GW in the 2019 plan. This reflects a continued emphasis on maintaining baseload power due to energy security concerns.

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In contrast, the allocation for renewable energy sources (wind and solar) has been reduced. Total renewable capacity is now projected to reach 25.7 GW by 2030, down from 31.1 GW in the previous plan. However, the 2023 IRP highlights a significant increase in distributed generation capacity, rising from 4.5 GW in the 2019 plan to 11.3 GW in the latest draft. Despite this growth in distributed generation, it appears insufficient to fully offset lower projections for overall renewable energy capacity. Though admittedly prioritising energy security may be necessary in the short term, this approach may delay decarbonisation and the 2030 emission target might be missed.

4.2. Scaling up renewable electricity generation

There has been a significant boost in renewable generation over the last decade, driven by the renewables auction programme and the ongoing 2022 Energy Action Plan (see Figure 4.6, Panel A). Despite progress, further efforts are still needed to achieve renewable energy targets and electricity security. First, from an international comparison perspective, South Africa's share of renewables in energy supply is still lagging behind (Figure 4.7, Panel A). Second, according to the last Transmission Development Plan, achieving a resilient and secure power system by 2035 requires 61.3 GW of renewable generation capacity to be in place. As of 2022, there was only 11.1 GW renewables capacity (Panel B). This progress appears insufficient to meet the 2035 target, even considering the increase in small-scale embedded generation, which reached 6.1 GW by the end of 2024 (see below). While ongoing advancements in this area are expected to add several new energy projects to the pipeline, the pace of progress still needs to accelerate.



Figure 4.7. Renewable electricity generation has a long way to go

Note: In Panel A, renewable energies exclude solid biofuels. In Panel B, renewables cover wind energy, solar PV energy, hydroelectric (included imported), pumped storage schemes and concentrated solar power.

Source: OECD Environment database; and Eskom (2022), The Eskom Transmission Development Plan 2023-2032.

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To accelerate the expansion of renewable capacity, South Africa relies on several plans and strategies (see Box 4.7). Primary objectives include maximising generation from independent power producers and significantly increasing renewable electricity supply through small-scale generation.

4.2.1. Maximising renewable generation from independent producers

The Renewable Energy Independent Power Producers Programme (REIPPP) launched in 2011 has been the most important programme established so far to facilitate private sector investment into grid-connected renewables generation. This scheme allocates long-term power purchase agreements from Eskom to independent renewable

power producers (via competitive auctions). There have been seven rounds of auctions since the programme began. As of 2023, 123 projects have been awarded and 6 200 MW of capacity installed (or 5% of South Africa's energy supply was added to the market). The programme promoted competition among independent generators, with only minimal changes to the market structure.

The programme has helped drive down the price of renewable electricity. Between 2015 and 2021 the average bidding price declined by 45% for solar power and 36% for wind power. Since 2019, the average cost of renewable electricity production has been below that for coal-based production in South Africa. This has been reinforced by the increasing costs of extracting high-quality coal, which is deeper than low-quality coal (OECD, 2022_[26]). Compared to European countries, evidence suggests that South African auctions have experienced the sharpest reductions in auction prices and a clear price convergence towards global technology cost estimates (LCOE), highlighting the intense competition within the South African auction programme (Kitzing et al., 2022_[27]). As of 2022, the average retail tariff for electricity was USD 0.18 per kWh while the price of renewables tendered during the Fifth Renewables Procurement Round was about 10 times lower (Figure 4.8). While tariffs include other costs related to the upgrade and maintenance of the grid, this comparison suggests relatively high cost-competitiveness of renewables.



Figure 4.8. Solar photovoltaic auction capacity and prices of the REIPPP Programme

Note: Bid window 1 (2011): 30 projects; Bid window 2 (2012):19 projects; Bid window 3 and 3.5 (2013-2014):21 projects; Bid window 4 (2018): 26 projects; Bid Window 5 (2021): 25 projects; Bid Window 6 (2022): 6 projects. Bid Windows 7 is ongoing. Source: Department of Mineral Resources and Energy (DMRE).

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While the REIPPP has been largely successful, some challenges remain, and additional barriers continue to slow the transition to renewables. Significant delays in the schedule of renewable auction rounds (hereafter, "bid window") have brought uncertainty for investors and developers, slowing the expansion of renewable projects. As a result, achieving a continuous stream of revenues for renewable generation enterprises has been challenging, with many going out of business between rounds (Obisie-Orlu, 2023_[28]). However, there have been welcome efforts to improve the auction process. The 7th Bid Window, launched in December 2023, was amended to introduce a reserve bid to ensure continuity if the preferred bidder fails to deliver and to implement a "first ready, first served" rule for grid connection allocations. Reducing the gap between bid windows would help ensure further continuity of new renewable generation projects. Another area for maximising the effect of the programme is revising its conditionality. Bidders are judged not only on cost but also on a range of other criteria, including job creation, local content, management control, skills development, and socio-economic development (Presidency of the Republic of South Africa, 2023_[29]). Limiting the number of criteria could accelerate the development of renewables capacity. Finally, looking ahead, a potential consideration is the long-term sustainability of the sector. While the REIPPP has been highly successful and low auction prices are not currently a concern, the absence of reference prices (or floor prices) could become relevant in the future. Such mechanisms can help ensure the long-term stability of the supply

chain by providing a predictable investment environment, encouraging consistent participation and preventing excessively aggressive bidding that could compromise project viability and quality. Given that South Africa's programme is already characterised by low auction prices, setting a reference price above these levels to enhance financial sustainability and attract investment in the value chain must be approached cautiously, to avoid undermining competitive bidding.

The 2022 Energy Action Plan encourages additional generation projects beyond the REIPPP auction programme. The measures include removing the obligation to hold a generation license for independent renewable producers selling electricity directly to end users in December 2022 and easing the entrance of private suppliers to invest in renewable generation projects. Consequently, major industrial consumers can either produce their own electricity or source it directly from private suppliers. A measure allowing municipalities to buy and generate their own electricity by establishing bilateral contracts with independent renewable power producers since 2023 is also encouraging renewables generation. While major metropolitan areas have already begun to do so, smaller and heavily indebted municipalities lack the financial and technical capacity to take advantage of this opportunity (see next section).

4.2.2. Increasing small-scale renewables generation

Encouraging more rooftop solar

The installed capacity of rooftop solar has been growing rapidly, from 1.2 GW in 2020 to 6.1 GW by 2024 (CRSES, 2024_[3]), helped by measures in the Energy Action Plan. Tax incentives include a 25% rebate on the cost of solar panels up to a maximum of ZAR 15 000 against installers' tax liability, as well as a 125% capital depreciation allowance in the first year of installation. Additionally, the National Treasury has launched the Energy Bounce Back (EBB) Loan Guarantee Scheme to help small and medium enterprises finance rooftop installations. The scheme aims to support the installation of up to 1 GW of additional generation capacity by reducing the risk taken by banks providing finance. Under the scheme the government assumes initial losses (up to 20% of the value of the loan) in case of non-reimbursement, while finance providers assume the risk if non-reimbursement continues.

While effective at easing access to finance, fiscal incentives primarily cater to wealthier households and larger companies due to the high initial investment costs. Furthermore, only tax-paying households and businesses can take advantage of these incentives. Incentives for low-income households and smaller businesses should be considered in addition, not least as this can help improve electricity supply in low-income areas. A scheme in India (PM Surya Ghar: Muft Bijli Yojana programme) targets low-income households, providing subsidies and secure loans for households to install solar panels, with revenues from sales of excess electricity generated used to repay the loan.

Recent import tariff hikes on some items of equipment used in photovoltaic generation risk hindering growth in renewable generation. To protect domestic manufacturers and boost job creation, the International Trade Administration Commission (ITAC) of South Africa introduced a 10% tariff on solar photovoltaic panels, cells and modules in July 2024, following the recommendations of the Renewable Energy Masterplan. However, the capacity for local manufacturing to ramp up production is uncertain, not least because of electricity shortages and skill gaps. Consequently, tariffs might mainly translate into higher costs and supply shortages. To mitigate these risks, a temporary rebate for importers has been issued conditional on a specific permit allowed by the ITAC. However, combining increases in tariffs and rebates for importers may be unnecessarily complex, potentially increasing barriers to renewables expansion.

Furthermore, the 10% import tariff increase on photovoltaic equipment represents a partial policy reversal, as it follows a reduction of import tariffs on transformers from 100% to 30% in 2023, heightening uncertainty for investors. Reducing import tariffs on more equipment could further accelerate renewable power generation and alleviate supply chain issues. Overall, the joint impact of higher trade tariffs established in 2024, specific rebates for importers and the 2023 tariff reduction on some imported equipment should be closely monitored and trade

barriers eventually phased out. More incentive-oriented measures, such as funding for R&D, lower interest rates and export credits, could better foster green competitiveness and innovation (Haussman et al., 2023_[30]), as discussed in the previous Economic Survey (OECD, 2022_[26]).

Developing solar home systems in remote areas

Despite significant strides in expanding the distribution network, 14% of households still do not have electricity access. Since 1999, the Integrated National Electrification Programme (INEP) has provided capital subsidies to municipalities and Eskom to address the electrification backlog for low-income households. However, achieving universal grid access remains challenging, particularly in remote areas. The current annual electrification rate of 5 to 10% is insufficient to meet the 2030 target in South Africa's National Development Plan (Meyer and Overen, 2021_[31]). Renewables offer a promising solution for electricity access in remote and underserved areas through off-grid generation or small smart grids. Several emerging economies, such as India and China, have achieved universal access to electricity. In particular, solar home systems can play a crucial role (Zubi et al., 2019_[32]). These opportunities are especially promising in northern regions of South Africa, which have some of the highest levels of sun exposure in the world. The Department of Electricity and Energy (DEE) has advanced this effort through its Integrated National Electrification Programme (INEP) Grant, recently funding off-grid solutions like solar home systems and other renewables generation for low-income households in remote areas. Ensuring adequate funding and effective implementation is crucial. Stronger coordination between the DEE, municipalities and stakeholders can accelerate electrification. Future revenues from an increase in the effective carbon tax rate (see Chapter 3) could be used to expand off-grid renewable access.

4.2.3. Promoting battery storage solutions

In the medium to long term, the shift to renewables depends on robust storage solutions that ensure grid stability and facilitate the integration of solar and wind energy. Battery storage addresses intermittency by storing surplus power during peak production and releasing it when demand is high. In South Africa, it is particularly crucial for providing industrial consumers with continuous electricity during load shedding and outages, as well as for establishing effective mini grids in remote areas.

South Africa is expanding battery storage through two key programmes: the Battery Storage IPP Procurement Programme (BESIPPPP) and the Risk Mitigation IPP Procurement Programme (RMIPPPP), which supports hybrid solutions. These initiatives build on the success of REIPPP, fostering private sector participation through competitive bidding, driving down costs, and developing a battery storage market. In November 2023, South Africa selected preferred bidders for the first BESIPPPP tender, with four programmes reaching commercial close at the end of 2024. A third bid window was launched on 28 March 2024 (National Treasury, 2025_[33]). International support, particularly through concessional finance, is also boosting South Africa's battery storage sector. The World Bank and African Development Bank are funding a hybrid renewable project within the Eskom Just Energy Transition Partnership (JETP) to replace a decommissioned coal plant with solar, wind, and 150 MW of battery storage.

While these initiatives are promising, challenges persist. Lengthy negotiations, bureaucratic delays and Eskom's financial instability create risks for investors. Additionally, grid capacity constraints continue to cause project delays and cancellations, highlighting the need for further infrastructure investment as discussed in the section below (IEA, 2024_[34]).

4.3. Transforming the structure of the electricity sector

A fundamental restructuring of the entire electricity supply chain is needed to sustain momentum on decarbonisation and to ensure long-term electricity security. This includes establishing a competitive market, opening the distribution segment to include private operators and strengthening municipal financial and managerial capacities.
4.3.1. Establishing a competitive electricity market

The electricity regulation component of the OECD's Product Market Reform (PMR) indicator shows that South Africa's electricity sector is more heavily regulated than that of many OECD and emerging economies (Figure 4.9). Eskom operates in the transmission and distribution segments of the sector in addition to generating around 91% of the country's electricity (see Box 4.1).

The current market structure limits the entry of new players in all segments. It provides preferential access to Eskom's ageing fleet of coal-based generation plants to the grid, limiting competition and compromising progress towards decarbonisation and greater electricity security. In both the transmission and distribution segments, third-party access conditions are not yet fully established. Access to the high-voltage transmission grid has been so far mainly limited to the specific contracts procured by Eskom and the Department of Mineral Resources and Energy, with access granted based on grid availability and a priority to Eskom generators. This may create a conflict of interest as Eskom has the power to set barriers to renewable electricity investments and give priority to Eskom generation. Integrating electricity generated by independent power producers or self-generation into the distribution network is also conditional on municipal approval, with only a few municipalities having approved installations of embedded generation in their network facility (World Economic Forum, 2024_[35]).

Figure 4.9. Barriers to competition in the electricity sector are high



Composition of the electricity indicator in 2023-24

Note: The Electricity indicator is the weighted average of the four components. The indicator for South Africa reflects the laws and regulations in force on 1 January 2023. For some countries, the indicator reflects those in force on 1 January 2024.

Source: OECD Product Market Regulation database and OECD-WBG Product Market Regulation database for 2023/2024.

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In 2024 significant progress was made in laying the foundations for a more modern governance and market structure for the electricity industry. Most notably, Eskom is being unbundled into three separate entities, each with independent management and financial autonomy. Most notably, the newly National Transmission Company of South Africa (NTCSA), operational since July 2024, has been established as a wholly owned subsidiary of Eskom with an independent board, which is an important step towards full unbundling. This separate entity is expected to better ensure fair access to the grid for all electricity generators. A new fully independent transmission system operator (TSO), expected to replace the NTCSA, will manage the competitive market.

The Electricity Regulation Amendment Act passed in August 2024 establishes a framework for a competitive regulatory environment. Importantly the framework lays the groundwork for creating a wholesale electricity

market. i.e. a trading platform where electricity can be bought and sold, which will facilitate a more flexible and efficient expansion of generation capacity. Notable transformations include:

- A Central Purchasing Agency will operate within the NTCSA and fulfil the role of the "Single Buyer". This is
 an important step towards a more decentralised market, compared to the current auction programme,
 which restricts participation to predefined bid windows determined by the Department of Mineral
 Resources and Energy (DMRE).
- In the new system, independent power producers will be able to trade on the wholesale market, responding to price signals based on real-time supply and demand dynamics (NTCSA, 2022_[36]). The platform will include a "day-ahead market" to match supply and demand on an hourly basis.
- A market code is being developed to outline the rules of the market governing the trading and settlement and procedures of the new transmission company. The draft is under consultation.

Timely and effective implementation of these most recent reforms, including establishing the full independence of the transmission company, will be key. A five-year transitional period is planned to make the NTCSA fully independent from Eskom and to establish the Transmission System Operator. The market is projected to start in 2026 with a limited number of participants. This phased approach will allow adequate time to develop and implement the essential institutional framework, including the market code, vesting contracts and tariff regulations. There is also a need to reform the Municipal Finance Management Act to allow municipalities to procure from traders or directly on the wholesale market via the Market Operator. While a careful approach is essential to safeguard the market's integrity, a phased implementation can facilitate this process. However, it is crucial to proceed without unnecessary delays to maintain momentum and confidence in the market's development.

In addition, under current plans, the legal separation of the distribution and generation segments into subsidiaries of Eskom will last until 2027, which should be accelerated. Separating the distribution grid operator functions – responsible for operating and maintaining the grid network – from the electricity trading activities, which could be open to competition, has the potential to significantly enhance service delivery to end users. One important implication is that the municipal trading function would eventually be open to competition; households and businesses would then be able to choose their electricity provider. Yet openness to competition requires establishing national regulation governing "use-of-network" access. This is commonly referred to as "wheeling" by trading entities (see the section on tariffs below). Progress is underway, with the National Wheeling Framework published for public consultation in August 2024.

The structure and governance of the proposed Transmission System Operator and the rules and regulations around the wholesale market are still not fully defined. This is especially the case for the trading platform and the dayahead market. Providing more details on the structure of the future electricity market and the timeline of the changes would further increase policy certainty and support private investment. Another concern expressed by some municipalities relates to the risk that the new competitive environment reduces the revenues they stem from electricity. Opposition risks delaying the reform's implementation (Crompton, 2024_[37]). To reduce opposition from municipalities, complementary reforms are necessary to ensure the sustainability of the municipal fiscal model within the new electricity market.

4.3.2. Revamping the sources of municipal funding and building capacity

Revising municipality's funding model to reduce their dependency on electricity revenue

Many South African municipalities rely heavily on revenues from electricity sales. Currently these revenues represent around 25-30% of total municipal government income. However, the share varies widely across regions, from 3% in areas where Eskom distributes electricity to nearly 50% elsewhere (Statistics South Africa, 2022_[38]). Amidst tight fiscal constraints and high indebtedness, municipalities often use electricity revenues to cross-subsidise debt and fund other initiatives, paring back spending on the electricity network under their responsibility.

Municipalities generate revenue by applying a markup to the electricity they purchase from Eskom, contributing ZAR 23 billion (around 0.4% of GDP) to net municipal revenue in 2020/21. This markup is intended to fund infrastructure and provide profit margins but raises concerns about inefficiency and poor governance in some municipalities. On the other hand, several municipalities make a net loss, buying more electricity from Eskom than they sell to end users. This is likely due to outdated and poorly maintained distribution infrastructure causing power losses and challenges in collecting payments from households and businesses (Mathoppo and Minnaar, 2023_[39]). Rising bulk tariffs are reducing municipal margins, leading them to explore surcharges to sustain revenue. The National Treasury is developing regulation for these charges and exploring alternative revenue sources, with a draft set for public comment soon.

In the medium to long term, transferring operations of struggling municipalities to a third party could improve service delivery. A concession agreement with an independent company could ensure the necessary investments that municipalities are currently unable to finance, while generating stable revenue through concession fees. Clear provisions for service quality delivery, access and affordability would also be essential. Portugal successfully adopted this model, transferring operations to private operators while municipalities retained ownership of the distribution grid. In 2020, there were 13 distribution system operators in Portugal (IEA, 2022_[40]). However, opening the distribution to private players may add to financial difficulties for many municipalities. Revising municipalities' reliance on electricity revenue would ease resistance to this shift. A comprehensive review of the Local Government Fiscal Framework -including revenue models, electricity pricing and grants- is underway by the National Treasury.

In the short to medium term, efforts should focus on improving tax collection and the operational capacities of struggling municipalities. Greater reliance on property taxes under the current fiscal framework could reduce dependence on electricity revenues (Box 4.3). However, uneven local government capacity, particularly in rural areas, limits tax collection. Supporting administrative capacity building and ensuring regular valuation roll updates are crucial. Many municipalities struggle with the "market value" property tax approach (which applies tax rates to property market values), suggesting a need for revision (Franzsen, 2022_[41]). Technologies (such as IA tools) can support timely and accurate assessments.

Finally, more transparency and regulation are needed around cross subsidisation to ensure that it does not compromise electricity services. For example, making all information on cost structures, outage performance and investment plans publicly available and easy to access would foster transparency and accountability and prevent strong increases in distribution costs.

Box 4.3. Sources of municipal revenue

Direct transfers

Transfers from central government to municipalities include a core unconditional grant and several conditional grants. Unconditional grants account for 50% of total revenue across municipalities and conditional grants account for 40%. The importance of conditional grants has increased over time as some municipalities have failed to deliver services.

The Equitable Share Grant is the main form of unconditional funding for the purpose of providing equal access to essential public services, including water, waste and electricity. Conditional grants include the Infrastructure Grant, the Urban Settlements Development Grant, the Water Infrastructure Grant, the National Electrification Programme Grant and the Capacity-Building Grant.

Self-generated revenues

Taxation powers in South Africa are highly centralised and the municipal tax base is typically narrow. Municipalities mainly derive revenue from service delivery and property taxation, though revenue collection is often weak (OECD, 2022_[26]). Rural municipalities with mainly low-income inhabitants receive most of their revenue from grants through a larger part of the Equitable Share Grant, while urban municipalities raise a major part of their revenue from their own sources.

Enhancing the capacity of municipalities to manage electricity distribution

Many small municipalities face significant challenges in effectively managing distribution grids, hindering both infrastructure maintenance and expansion. Since 1995, national authorities have offered capacity building support through the Municipal Finance Management Act, offering guidance, training, workshops, and the prescribed publication of performance indicators on municipal service delivery. The Municipal Finance Improvement Programme further supports distressed municipalities by enhancing revenue management, strengthening policy implementation and building technical capacity for sustainable fiscal management. Despite spending ZAR 40 billion in municipal capacity building between 2016 and 2021, significant deficiencies remain. A diagnostic review conducted by the National Treasury in 2022 identifies measures to ease capacity bottlenecks, including improving expenditure reporting, collecting more targeted data from municipalities, streamlining existing conditional grants' components and increasing learning opportunities (National Treasury, 2022_[42]). Progressing with the plan would be highly beneficial.

The South African government is acutely aware of the challenges posed by municipalities' capacity, often associated with the deteriorating state of infrastructure and trading services. Several initiatives are underway to enhance capacity and incentives to deliver essential services. One such initiative is the upcoming National Treasury's trading services reforms for metropolitan municipalities, which will introduce performance-based financial incentives to reward effective decision making and strong performance. Operation Vulindlela Phase II reforms will be expanded to reforms that will strengthen local government and improve the delivery of basic services. This will include: improving the performance of metropolitan water and electricity utilities; strengthening oversight, intervention and support in failing municipalities; and reviewing the institutional structure of the local government system through an updated White Paper on Local Government. Furthermore, the National Energy Crisis Committee (Workstream 5) is specifically focused on reforms within the electricity distribution sector, contributing to policy discussions and the development of strategies for wheeling, market formation, trading, and strengthening distribution grid capacity. Advancing in all these areas as planned is critical.

Promoting municipal partnerships or shifting responsibilities to provinces can also help address managerial capacity issues. Smaller municipalities can collaborate with larger ones with stronger management capabilities, reducing network fragmentation that hampers governance and exacerbates territorial inequalities. Fragmentation also complicates planning for transmission lines, increasing challenges between Eskom, municipalities and independent power producers (World Economic Forum, 2024_[35]). An initiative from the 1990s to consolidate municipal distribution networks into regions through regional energy distributors (REDs) could be revived to enhance financing, optimise investment and improve governance. However, this would require a constitutional amendment and hence is a medium- to long-term goal. In the interim, the government could incentivise informal case-by-case pooling, such as financial rewards for large, well-functioning municipalities mentoring smaller ones or tie the debt moratorium framework for distressed municipalities to capacity-building efforts with well-functioning municipalities.

Strengthening the role of municipalities as contractors of electricity projects

Since 2022 municipalities have been able to procure electricity from independent producers and have been developing their own generation capacity. This potentially contributes to advancing energy security and decarbonisation, but so far take-up of these opportunities has been limited.

The complexity of procurement contracts combined with a lack of project management capabilities dissuade many municipalities from engaging with independent producers. Incentives for municipalities to pool distribution management (as discussed above) could help in this regard. Another approach is to lower the complexity of contracting, for example by standardising project documents, such as purchasing power agreements, construction agreements and operation and maintenance agreements (World Economic Forum, 2024_[35]).

The new Procurement Bill, signed into law in July 2024, is an important first step to consolidate and streamline the country's procurement system (see Chapters 1 and 2). The bill lays the foundation for a single public procurement

system across the entire state, e.g. departments, municipalities and State-Owned Enterprises. Moving forward with its implementation is essential and should be accompanied by close technical support and guidelines to assist municipalities in implementing their own renewable electricity procurement programmes.

A unified procurement system can also reduce the risk of corruption (see Chapter 1) through standardised practices that facilitate the oversight of contracts. Further progress in this regard could also be achieved by promoting transparency. Ensuring public access to procurement information is key to accountability, yet enforcement remains weak due to poor IT skills and limited management capacity, especially in small municipalities (Dullah Omar Institute, 2023_[43]). Encouraging the systematic use of the National Treasury e-Portal to display procurement information could foster a culture of transparency. Progress has been made with the Treasury publishing municipal financial data and launching the Municipal Money portal to boost public awareness and engagement.

4.4. Reducing financing barriers to catalyse private sector transmission projects

Expanding and upgrading the transmission network should be a key pillar of South Africa's electricity policy. Insufficient and ageing grid capacity is a major barrier to the expansion of renewables generation and contributes to problems in electricity security. For example, during the Sixth Renewables Procurement Round, wind projects could not progress because Eskom was unable to provide the connections to the grid.

The pace of installing new transmission lines has to ramp up to support the expanded generation capacity needed in the coming years. The best locations for large-scale renewables generation are generally far from South Africa's main urban areas. According to Eskom's Transmission Development Plan (TDP), 14 000 km of new transmission lines are needed between 2023 and 2032, equivalent to around half of the current 33 000 km of transmission lines. The increase in the installation pace needed to achieve this goal is substantial. Over the past decade or so, typically no more than 500 km of transmission lines have been installed annually (Figure 4.10). The Development Plan anticipates ramping up annual installation to over 2 000 km by the late 2020s.

Reducing the time required to plan and build new transmission infrastructure is needed. New grid infrastructure often takes eight to ten years from planning to commission, compared with one to five years for new renewables generation projects. The Transmission Development Plan, updated every year, provides important strategic orientation by detailing how the network will develop over the next ten years. However, implementation remains uncertain, in particular due to tight financing constraints.

Figure 4.10. South Africa is planning to ramp up the installation of transmission lines



Installation of new transmission lines and projected needs

StatLink and https://stat.link/v7grjp

4.4.1. Bridging the financing gap through independent power transmission projects

Eskom has so far mainly financed its investments through a mix of loans, grants, public transfers, international finance and sovereign guarantees from the government and multilateral development banks. However, as discussed above, Eskom's and the government's ability to finance investments is constrained by Eskom's debt moratorium, coupled with diminished fiscal space, successive economic shocks and low growth. Development finance institutions have provided significant loans to South Africa to support the green transition and overcome electricity transmission challenges. A notable source of funding will be USD 8.5 billion in the form of (mainly) concessional finance from the International Partners Group, with a significant share devoted to improving the transmission and distribution network (see Chapter 3). Nevertheless, the announced support falls short of the estimated USD 47 billion required for the transition of the electricity sector (Figure 4.11, Panel A) and the estimated USD 21 billion investment needed for transmission lines. Eskom has so far secured USD 4 billion (Panel B).



Figure 4.11. Significant funding is required for the energy transition

Source: South African Presidency; IEA.

To bridge the transmission financing gap, cross-country experience suggests various solutions (Box 4.4). There is limited appetite for privatising Eskom, yet promoting independent power transmission (IPT) projects may be the most viable option, alongside reforms to the corporate governance of Eskom and procurement. The IPT approach, increasingly adopted in emerging economies, requires fewer reforms than privatisation or full grid concessions. Under this model, Eskom would contract an IPT project to provide and manage transmission lines for an agreed availability fee. A pilot IPT procurement process is scheduled for the second half of 2025, overseen by the Independent Power Producer Office, with market tenders expected to be launched by late 2025. Meanwhile, the National Treasury and NTCSA are finalising the regulatory framework to support this initiative.

Box 4.4. Financing options for the expansion of the transmission grid: international experiences

International experience highlights four main models for financing and operating transmission grids:

• **Public ownership** is the most common model, where a state-owned enterprise (SOE) holds exclusive responsibility for building and operating the transmission grid.

Country examples: Belgium, France, the Netherlands, the Slovak Republic.

StatLink and https://stat.link/mfpy4a

• Whole of grid concessions grant the responsibility of transmission grid ownership to a private company for a time-limited concession, typically 20 to 30 years.

Country examples: Mali, Philippines, Senegal.

• **Private ownership** transfers the responsibility of transmission grid ownership to a private company, which must secure financing from various sources as well as regulated tariffs.

Country examples: Germany, the United Kingdom, the United States.

• The **independent power transmission** model assigns a portion of the investment to a private company, which is responsible for constructing, operating and maintaining specific grid lines.

Country examples: Australia, Brazil, Colombia, India, the United States.

Country-specific examples of successful Independent Power Transmission models include:

- In *India* one of the major private transmission companies, Adani Transmission Limited, has a portfolio of more than 185 000 km of transmission lines across 13 states. In 2020, the company raised USD 1 billion by issuing bonds, with strong global participation in bond issuance.
- In *Egypt* between 2014 and 2020 the Egyptian Electricity Transmission Company commissioned over 3 600 km of 500 Kilovolt (KV) transmission lines, more than doubling the length of transmission lines, which were mainly used to connect new renewable electricity projects.
- In **Brazil** between 1999 and 2017, the electricity regulator (ANEEL) conducted 38 tenders for IPT projects, awarding 211 projects with a combined length of over 69 000 km.

Source: Kristiansen (2022 $_{[44]}$) and Flavin and Ketchum (2023 $_{[45]}$).

4.4.2. Securing private finance for transmission projects

Scope for increasing further sovereign guarantees is limited amid fiscal risks

South Africa could build on its success with the Independent Power Producers (IPP) programme by launching an Independent Power Transmission (IPT) initiative. However, transmission projects have long timelines, require substantial upfront investment and face heavy regulatory burdens, leading to complex risk issues (Box 4.5). Consequently, financing for transmission often comes at a premium (Sweerts, Longa and van der Zwaan, 2019[46]; Ameli et al., 2021[47]).

In South Africa, securing private backing for such ventures is further complicated by concerns over Eskom's financial stability. Lenders may be wary of entering into contracts with Eskom, particularly if the new transmission utility (NTCSA) inherits a significant portion of Eskom's debt. Additionally, an ageing, undermaintained transmission network heightens the risks for IPT projects. All this makes financing more difficult and necessitates sovereign guarantees to alleviate these concerns. Yet, amid mounting fiscal pressure and large contingent liabilities (Figure 4.12), the South African government may struggle to provide the large-scale guarantees needed for IPT projects.

Given the potential high fiscal costs if contingent liabilities materialise, the National Treasury has established an effective framework to assess and manage these risks, serving as a model for implementing such frameworks (Bachmair, Aslan and Maseko, 2019_[48]). Recent rounds of IPP projects already indicate a slowdown in guarantees, with developers citing difficulties in obtaining their preferred guarantees as a significant barrier (GreenCo, 2022_[49]). If demand for risk mitigation tools is not met, IPT projects would potentially stall, slowing down the pace of investments. A partial alternative to the expected decline in sovereign guarantees is to establish an institutional environment reducing risks.

Box 4.5. Transmission projects are more difficult to finance due to higher risks

Transmission projects have specific risks that make their financing difficult. These include:

- A long-term horizon: Long timelines expose investors to higher financial risks as returns fluctuate with interest rates, inflation and economic cycles.
- Uncertain demand: Transmission projects' profitability can suffer from economic or grid inefficiencies, causing unpredictable demand and reduced revenue streams.
- Policy and regulatory risks: The risk of policy priorities shifting or complex regulations diminish incentives for investors to commit to long-term projects.
- Large fixed investments: The substantial upfront capital required increases both credit and operational risks.

Moreover, transmission infrastructure cannot be used as collateral as the lines are not owned by the private company and there is no established market to value these assets.

A key challenge in creating a new IPT market is developing a framework that efficiently distributes risks among stakeholders to facilitate investor access to finance (Table 4.1).

Table 4.1. Balancing the allocation of risks under an IPT model

	Type of risk	Government	State-owned company	Project company	Consumers
Financial/ Macroeconomic	Demand	Х	X		Х
	Credit	Х		Х	
	Inflation				Х
	Interest rate			Х	
	Foreign exchange		Х		
Regulation	Land acquisition	Х	Х	Х	
	Issuance/renewal of permits/license	Х	Х	X	
Political	Change in policy priorities	Х			
Operational	Construction of new assets			X	
	Maintenance (if in the contract)		Х	Х	

Figure 4.12. Contingent liabilities increase fiscal risks



Government guarantees to Eskom and Independent power producers (IPP) as a share of GDP

Note: Fiscal years, i.e. 2012 refers to April 2011 to March 2012. GDP data and OECD projections are used as the denominator. Source: National Treasury (2025), 2025 Budget Review.

StatLink and https://stat.link/norkq4

Easing financing barriers by lowering-financial, regulatory and change-of-policy risks

The National Treasury in collaboration with the World Bank is developing a Credit Guarantee Vehicle that pools resources from multiple sources, including Multilateral Development Banks, private investors and the government. This approach distributes risk among multiple stakeholders, reducing reliance on sovereign guarantees. Initially, the focus will be on independent transmission projects to address the energy transmission gap, with a potential expansion to other sectors in the medium term. The Credit Guarantee Vehicle is expected to be operational by the end of 2025. The development of such blended finance is promising but is not a silver bullet. Reducing the perceived risks for investors remains key to crowd in private investors.

The government could further ease financial risks for investors by promoting the use of specific de-risking tools that ensure a clear revenue stream for the investor. This could include placing a share of Eskom's revenues in a secured account (an "escrow account") to pay investors providing transmission services (Steyn et al., 2024_[50]). South Africa has already used this approach to finance investment in water infrastructure, where an additional end-user charge is ringfenced to repay an infrastructure investment loan. Such model could be applied to an IPT model with an "IPT charge" to customers. To reduce financial risks for the government, payment could be made conditional on the availability of transmission capacity.

The government could also ease regulatory risks by fast tracking procurement and simplifying administrative procedures for installing renewables infrastructure and transmission lines. Several actions have already been taken:

- Environmental permits are waived in low-environmental impact areas while strategic infrastructure projects receive permits within 57 days. Registration to the electricity regulator (NERSA) averages 19 days while land-use authorisations now take 30 days, down from 90 days.
- Priority zones have been designed for transmission lines and Renewable Energy Development Zones, easing
 permits for wind and solar PV development.
- The Energy One Stop Shop (EOSS), launched in July 2023, coordinates approvals across government for planning and construction authorisations.
- The Department of Trade, Industry and Competition (DTIC) provides dedicated resources to facilitate applications.

Efforts are underway to coordinate demand at the local level and to introduce a single electronic entry point for electricity-related permits and licences. Progressing in these areas will be another welcome improvement. Establishing a "silence is consent" rule would further enhance business dynamism in the sector (see Chapter 2.2).

More policy work is needed to facilitate the acquisition of land-use rights for renewable electricity generation. IPPs and Eskom often have to negotiate with multiple landowners and the right of expropriation is rarely applied for transmission projects (World Economic Forum, 2024_[35]). The new Electricity Regulation Amendment Act aims to strengthen expropriation provisions by authorising the Minister to expropriate land or land rights on behalf of licensees. A swift implementation of this project combined with measures facilitating IPP's access to government-owned land would further help.

The government could ease the "change-in-policy" risk inherent in long-term infrastructure projects. Investors will only commit to long-term financing if they trust the legal and political processes and are confident that successive governments will not unilaterally alter contracts. Political risk insurance is currently provided, often by the World Bank's Multilateral Investment Guarantee Agency (MIGA), in case of losses related to political causes, easing financing barriers for long-term projects.

Finally, an important direction to mitigate perceived risks is for the government to demonstrate consistency in environmental policies and a solid track record of action, which directly influence investors' calculations of rates of return. Similarly, the Transmission Development Plan is critical in outlining development targets for transmission lines and reporting the progress of their implementation. Adhering to these commitments will be essential for building and maintaining the market's trust.

4.5. Reforming electricity pricing to improve cost-reflectiveness and affordability

South Africa's electricity pricing reform needs to address three challenges while ensuring that electricity remains affordable: establishing price signals for the green transition, moving towards cost-reflective prices and supporting the expansion of electricity supply by independent generators.

4.5.1. Strengthening price signals to encourage a shift away from coal-based generation

In South Africa, coal-based electricity is heavily subsidised, keeping prices low and slowing the green transition (Qu et al., 2023_[51]). Eskom receives direct subsidies that reduce its coal generation costs. Since 2009, it has paid an electricity levy on fossil fuels and nuclear power but has been exempt from the carbon tax. In 2026, the electricity levy will be replaced with the carbon tax. The carbon tax policy planned for 2026 includes tax-free allowances on up to 85% of Eskom's emissions. However, until 2030, Eskom's total levies and taxes will remain unchanged, with any difference in the electricity levy and the carbon tax being offset accordingly. Stronger price signals are needed to incentivise Eskom to shift away from coal. Progressively channelling central government transfers to Eskom towards renewable generation would help strengthen price signals.



Figure 4.13. Taxes and levies are overshadowed by the implicit carbon subsidy

Note: Panel A: Fiscal transfers to Eskom are divided by Eskom's CO2-equivalent emissions. Eskom is currently exempt from the carbon tax. Electricity levy is the environmental levy on electricity generated in South Africa from non-renewable sources and revenues from non-Eskom producers are assumed to be negligible. Eskom's CO2-equivalent emissions for 2024 are estimated based on quarterly data. Source: National Treasury; Eskom; and OECD calculations.

StatLink and https://stat.link/vik8ad

4.5.2. Progressing towards cost-recovery electricity tariffs

The debate over electricity pricing has intensified over the past decade, driven by sharp price hikes that have raised overall prices almost tenfold since 2000 (see Figure 4.3). The current pricing methodology has fueled disputes between Eskom and the regulator (NERSA), highlighting several challenges (Box 4.6). A major issue is whether to raise tariffs to reflect true electricity costs, after years of below-cost pricing that weakened Eskom's finances and led to repeated government bailouts (Eskom, 2021_[52]). Moving to a pricing methodology allowing cost recovery, however, must be balanced with affordability (see section below). Moreover, for a cost recovery approach to be acceptable, it is essential that services are delivered efficiently, minimising unnecessary costs. The unreliability of electricity services combined with corruption and mismanagement that have contributed to driving up operational costs, further complicates public acceptance of higher rates. Yet, successful electricity sector reforms in regions like Latin America, Europe and Central Asia show that middle- and high-income users are generally willing to pay cost-reflective rates if service quality is reliable (Trimble et al., 2016_[53]).

Implementing cost-recovery tariffs is essential for Eskom's financial health but requires progressing further towards efficient operations to avoid burdening consumers with unnecessary costs. Achieving this heavily depends on fundamental structural reforms. The planned reforms aim to create a decentralised wholesale market in five years and to contribute to promoting efficiency (see the section above on transforming the electricity market structure). At the same time, pricing methodology also has a role to play. To enhance efficiency, NERSA developed a new framework, the Electricity Price Determination Rules (EPDR), in December 2023. Although it was initially set to take effect in 2025/2026, its implementation is now on hold, which should be reconsidered given the ongoing challenges. While not a complete solution, the EPDR introduces improvements, including benchmarking costs across the sector, increasing transparency by unbundling generation, transmission, and distribution costs and removing the clawback clause that had allowed Eskom to raise tariffs to recover past losses (Box 4.6). Advancing all of these reforms is essential to reach fair, cost-based electricity tariffs while ensuring support for low-income households. Future reforms could also explore a model used in Germany, where utility revenues are separated from operational costs. This "revenue cap" limits how much a utility can charge based on its revenue needs rather than on all its expenses, helping keep prices stable and affordable (see Box 4.6) (Energy parternship, 2017_[54]).

Box 4.6. Current electricity tariff methodology in South Africa and alternative approaches

Main drawbacks of the current electricity tariff methodology in South Africa

Tariffs are set according to the Multi-Year Price Determination (MYPD) methodology, which determines the allowable revenue that Eskom can earn to cover costs given expected electricity sales. Using this methodology, Eskom applies for the approval of a particular tariff from the regulator (NERSA), which either occurs or NERSA suggests another. Increasing conflicts between the regulator and Eskom reflect the inherent limits of this methodology, most notably the:

- Clawback option. Under the "the Regulatory Clearing Account" option, Eskom can request tariff
 adjustments to offset revenue declines, whether due to increased costs of primary energy or declining
 domestic sales. This approach allows Eskom to pass on revenue shortfalls to consumers, including those
 stemming from mismanagement. This diminishes incentives for cost-effectiveness and fails to
 appropriately share risks between the utility and consumers (Ismail and Wood, 2023_[55]).
- Lack of transparency. While the regulator and Eskom publish documents each year outlining the request and decision-making process, there remains a lack of transparency regarding the specific costs associated with generation, transmission and distribution activities. This opacity, often characteristic of a vertically integrated public utility, prevents identifying areas for cost-efficiency improvements.
- Inadequate trade-off between cost-reflectiveness and affordability. Prices have not been cost reflective
 for a long time, undermining Eskom's ability to generate adequate returns and contributing to a buildup of debt (Eskom, 2023_[56]; 2021_[52]; Trimble et al., 2016_[57]). However, recent price hikes have led to a
 significant price catch-up to international standards (Figures 4.3 and 4.14) and made electricity less
 affordable (Labuschagne, 2024_[58]).

Different approaches for tariff regulation

• *Cost-based (rate-of-return) regulation*: Tariffs are set to cover system operators' justified costs, including operating and capital expenditures costs, plus a return on invested capital. This approach is expected to ensure the financial sustainability of the utility.

Country examples: China, Canada, Indonesia, South Africa

• *Revenue or price-cap regulation*: Revenues or prices are fixed for a set period. Tariffs adjust annually for inflation and efficiency gains. Operators are encouraged to be efficient because they can keep the savings from efficiency improvements, i.e. the difference between the price cap and the effective price.

Country examples: this is the main common approach adopted in European countries for instance in Italy, Germany, Norway and the United Kingdom

• *Performance-based (Yardstick) regulation*: These models, less common, link tariffs to performance or compare operators to drive improvements in efficiency and service quality. Best performers provide the benchmark against which other operators' performance is assessed. Therefore, this approach is particularly sensible in the competitive segments of the electricity sector and is usually combined with other approaches.

Country examples: The Netherlands, Norway

The main trade-off between these different approaches is the balance between the risk that the operator does not recover costs and incentives for efficiency. While the main objective set by the regulator may depend on local conditions and the main principle behind electricity tariff methodology may vary accordingly, countries typically adopt a hybrid regulatory approach. For instance, efficiency incentives (such as an X-efficiency factor) are increasingly introduced alongside price cap or rate-of-return regulation, as seen in Europe and Australia. To mitigate capital expenditure bias – where capital investments are favoured over operational spending – regulators also implement measures that promote operating expenditures (such as in Austria where both costs are considered jointly) or link cost-based approaches to service improvements and cost efficiency.

4.5.3. Implementing effective tariffs to accommodate a decentralised electricity system

The shift towards a more decentralised electricity system presents significant challenges for distributors. In the traditional system, NERSA regulates tariffs at each stage: i) Eskom's tariffs, which average all costs (generation, IPP purchases, transmission and distribution); ii) wholesale tariffs, which set the prices for Eskom's sales to other distributors, i.e. municipalities; and iii) distribution tariffs for municipalities, which aim to cover both electricity costs and distribution expenses (including maintenance and expansion). With more Independent Power Producers (IPPs) and small-scale generators now using distribution networks to reach end users, new "use-of-network" (or "wheeling") tariffs are needed. These tariffs, currently unregulated by NERSA, are left to municipal discretion. However, the absence of national legislation may hinder the growth of electricity supply from IPPs and small-scale generators.

Two critical challenges need to be addressed: i) incentivising self-generators to connect to the grid and sell their electricity surplus and ii) safeguarding the financial sustainability of municipalities:

- Most municipalities manage small-scale generation, offering households credits for surplus electricity, which offset their bills. However, these credits expire annually, discouraging net selling. Cape Town's "Cash for Power Programme", launched in January 2023, addresses this, allowing households to earn credits against their full municipal bill and receive cash for surplus power sold to the grid. Expanding this programme nationwide could greatly increase small-scale grid generation.
- As more households and businesses generate their own electricity, the volume of electricity transmitted through municipal distribution networks may decrease, leading to reduced revenue from electricity sales. Since fixed operational costs depend on the size of the network to maintain and upgrade – rather than on the flow of electricity – municipalities are likely to face increasing financial stress. To mitigate this risk, tariffs can be structured with fixed charges ensuring that municipalities recover the costs of distribution activities even if electricity sales decline significantly. However, it requires careful design to maintain incentives for self-generators to sell electricity to the grid.

A common billing framework providing clear guidance for municipalities on establishing use-of-network charges would help mitigate the above challenges and reduce uncertainty for generators. Progress in this area is underway, with the National Wheeling Framework published for public consultation in August 2024. Once approved, it will be adopted and implemented by municipalities. Advancing this process would be highly beneficial. To process the large volume of billing data, end users' meters and municipalities' digital capabilities need to be significantly upgraded. Higher cost-reflective tariffs combined with short-term targeted financial transfers could help cover the costs of these investments.

4.5.4. Boosting the political acceptability of price increases through targeted support

Moving to cost-reflective electricity pricing and strengthening price signals that disincentivise the use of coal are crucial for Eskom's financial stability and for advancing the transition away from coal. However, affordability remains a key challenge: between 2007 and 2022 electricity prices rose by 450%, far outpacing inflation (129%) and reaching above OECD averages, placing an increasing strain on households (see Figure 4.3, and Figure 4.14, Panels A and B). Although Eskom requested NERSA's approval for a 36% tariff increase effective March 2025, NERSA approved a lower increase of 12.7%. The approved hike still exceeds inflation by a wide margin and is likely to place a disproportionate burden on low- and middle-income households, while potentially accelerating the shift toward off-grid solutions among higher-income groups. Opposition to increases in electricity prices often arises from concerns about the impact on firms' profitability and affordability for vulnerable households. Public acceptance can be increased by clearly communicating how the additional revenue will be used to help mitigate the adverse effects of higher electricity prices and improve access for households and SMEs (Dechezleprêtre et al., 2022_[59]). Although unseen on users' electricity bills, taxpayers already shoulder the costs of subsidising Eskom's operations through large transfers.

To better support firms, higher electricity prices could be accompanied by targeted and time limited support to help those highly impacted adjust. Lessons in policy design could be drawn from the subsidies introduced in most OECD countries over the period of high energy prices in 2021-22. For example, some countries capped electricity prices for specific kinds of businesses, such as small enterprises (e.g., France, Japan) or certain energy-intensive industries (e.g., France, Italy, Spain). Some countries temporarily reduced energy-related taxes (e.g., Austria, France, Germany) or network fees (e.g., Estonia, Italy). Evidence suggests that on average, firms can adapt to higher electricity prices and achieve increased productivity in 4-5 years by investing in energy efficiency (André et al., 2023_[60]). However, adaptation hinges on the availability of alternative energy sources, highlighting the importance of scaling up renewable electricity generation. Firms' ability to adjust also depends on having robust environmental policies and a strong macroeconomic environment.

To better support households, the main challenges are to improve access to electricity infrastructure and ensure affordability. Specific support is already in place, in particular the Free Basic Electricity (FBE) subsidy, which has provided a free allowance of 50 kWh per month to disadvantaged households since 2003. This programme should be strengthened and take up improved, with an estimated 5.4 million or almost 80% of eligible households not receiving it in 2020 (Figure 4.14, Panel C). The main challenges include poor targeting (as many municipalities lack registries of indigent households), weak administration (municipalities struggle to implement and monitor these registries) and coordination issues between Eskom and municipalities when Eskom is responsible for delivery. Additionally, the FBE programme currently provides an insufficient amount of free electricity to fully meet basic needs, such as cooking and heating (Ledger, 2021_[61]). Estimates suggest that the FBE allocation would need to be increased by 50% to adequately support eligible households (Vanheukelom, 2023_[16]).

Several actions could be considered to support the take up of the FBE subsidy and increase its effectiveness at fighting energy poverty. First, improving communication on the availability of the scheme, simplifying registration as well as increasing transparency in municipal fund usage is crucial to ensuring resources are allocated as intended. In some municipalities, the transfers received to compensate for the subsidy are used for other purposes (Ledger, 2021[61]). This should be dissuaded by strengthening municipalities' accountability, including greater conditionality on using these funds alongside measures to improve oversight, including the implementation of penalties when FBE is not properly delivered. However, revising the unconditional nature of grants may prove challenging, as it constitutes a constitutional right of municipalities. Several actions could be taken to improve managerial capacities of municipalities. Stronger support in maintaining up-to-date indigent registers could be achieved by better integrating municipal databases with national social grant recipient lists. Training municipal staff in efficient database management, including the use of digital tools, would also enhance accuracy and administration. Expanding the use of prepaid meters can also help automate FBE distribution while improving coordination between Eskom and municipalities. Implementing a more refined tiered pricing structure enabled by digital meters could also allow minimal payments above a certain threshold to maintain incentives for energy efficiency and reduce stigma. Finally, linking FBE with other social programmes, such as water and housing initiatives – which have more effective indigent-targeting mechanisms – could create a more comprehensive safety net.



Figure 4.14. Low take up of free basic electricity contributes to high electricity spending by households A. Electricity prices in the residential sector

2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018 2019 2020 2021 2022 2023







Source: IEA Data Services; and IEA (2023), Shares of home energy expenditure in average household incomes in major economies, 2021-2022, IEA, Licence: CC BY 4.0; and Ledger (2021).

Ultimately, in municipalities with limited capacity, alternative tools such as vouchers, grants, or subsidies could be considered, as they may be more efficient than in-kind benefits. These alternatives could leverage central transfers based on social databases, reducing administrative complexity by eliminating the need to monitor electricity consumption among indigent households. However, this approach comes with its own challenges, including the potential use of financial support for other purposes given competing needs for limited resources while the risk of greater reliance on alternative energy sources, such as burning tyres, may pose significant health and emission concerns.

Reducing non-payment among consumers would also help reduce budget strain in municipalities and raise room to target support to those most in need. Evidence suggests that non-payment of electricity bills is a significant issue for many municipalities, with their financial performance reduced by ZAR 291 for every ZAR 1 000 increase in bad debts written off (Murwirapachena, Kabange and Ifeacho, 2022[62]). Non-payment is typically less of an issue in large municipalities and municipalities receiving a high share of grants to support free basic electricity. To assist municipalities struggling to improve revenue collection, the National Treasury included a SMART Meter project as part of the Municipal Debt Relief Programme and issued a transversal tender for SMART metering. However, challenges remain, including high installation costs for municipalities and concerns about reduced electricity access for low-income communities. Public relations might also be used to reduce non-payment. Some suggest involving traditional leaders and influential community members to promote a culture of payment (Enwereji and Potgieter, 2018[63]). Ultimately, a key factor in fostering this culture is improving service delivery and ensuring accurate billing.

Box 4.7. Key strategic plans and legislation

The *Integrated Resource Plan (IRP)* is a national policy document that outlines the country's energy mix and electricity generation capacity for the next decade. It was first published in 2011, then updated in 2023. Further revision is under discussion.

The **Transmission Development Plan (TDP)** assesses South Africa's network requirements and proposes plans to meet projected future electricity demand and the renewable electricity that will need to be integrated in the next 10 years. The latest plan covers the period 2025-2034.

The *Energy Action Plan (EAP)*, established by President Ramaphosa in 2022, is a strategic planning document that lays out goals and possible actions to reduce electricity consumption, including increasing energy efficiency and procuring more renewable electricity. The National Energy Committee (NECOM) oversees the plan's implementation and coordinates the many government agencies involved.

The *Just Energy Transition Implementation Plan (JET IP)* sets out several interventions and investments to reducing emissions and become more resilient to climate change over the period 2023-2027.

The *Electricity Regulatory Amendment Act (ERA)* lays the legislative foundations for establishing a fully independent Transmission System Operator (TSO) in the coming five years. The ERA Act will provide for additional electricity generation capacity and infrastructure and for an open-market platform that allows for competitive electricity trading. It was signed in August 2024 by the President, amending the Electricity Regulation Amendment Act 1999.

The *Renewable Energy Independent Power Producer Procurement Programme*, launched in 2011, is a competitive tender process designed to facilitate private sector investment into grid-connected renewable electricity generation.

Table 4.2. Main findings and recommendations to achieve electricity security and reduce emissions

MAIN FINDINGS	RECOMMENDATIONS (Key recommendations in bold)			
Boosting electricity generation by scaling up renewables				
The debt relief programme has helped prevent Eskom's bankruptcy by providing financial support, subject to strict conditions on new debt issuance.	Continue monitoring the debt relief programme and moratorium for Eskom.			
Bidders in the Renewable Energy Independent Producer Procurement Programme (REIPPP) are evaluated on a range of non-economic criteria that may have slowed the pace of new renewable electricity projects coming online.	Make full use of the REIPPP by reducing the gap between bid windows to further ensure continuity in renewables supply. Streamline selection criteria to prioritise cost-effectiveness and pricing.			
Limited financial and technical capacities hinder municipalities from being effective electricity distributors and establishing bilateral contracts with Independent Power Producers.	Progress with establishing a single procurement system reducing the complexity of contracts alongside technical support. Encourage pooled projects across municipalities to leverage operational capacities.			
Higher import tariffs on solar photovoltaic (PV) panels may risk slowing the expansion of renewables generation.	Consider phasing out recent tariff increases on solar technologies.			
Transforming the electricity sector: enhancing a pro-competit	ion environment and revamping municipality distribution			
There is insufficient competition in generation. Barriers to entry are high for renewables generators, with entry of utility-scale actors limited to the independent producers auction programme and only a few bilateral agreements between independent producers and municipalities.	Conclude the reform of trading rules (market code, vesting contracts, tariffs regulation) to ensure market integrity and a level playing field of the upcoming wholesale market.			
Third-party access to the grid is granted by Eskom and municipalities.	Move forward to establish a fully independent entity to neutrally manage the transmission grid as soon as possible and empower it to allocate grid connections based on competitive criteria.			
Eskom remains a key operator in distribution and generation segments, reflecting slow progress towards unbundling.	Accelerate the unbundling process of the generation and distribution segments from Eskom.			
Budgetary constraints led many municipalities to use electricity revenues to fund other services, bringing underinvestment in the electricity grid and low service delivery. The growth of distributed generation reduces electricity-based revenues and squeezes municipal profit margins on electricity sales.	Earmark electricity revenues to investment in the distribution network and better regulate cross-subsidisation of other services. Revise the municipal funding model and explore alternative revenue sources to reduce reliance on electricity revenues, such as enhancing recurrent property tax collection (through improved administrative capacity and regular valuation updates). Consider establishing concessions for distribution and the necessary legal framework to support this transition.			
Overdue payments from end users contribute to municipalities' financial pressure, which partly feed into arrears owed to Eskom, exacerbating its financial strain.	Improve end-user payment habits by expanding metering systems. Encourage financially distressed municipalities to join the debt relief programme while maintaining reimbursement obligations to Eskom without compromising poverty reduction goals.			
Most distressed municipalities lack the operational and managerial skills to run their electricity distribution grid. Fragmented management across municipalities undermines distribution effectiveness.	Support capacity building in distressed municipalities before allocating new funds. Delegate electricity distribution to Eskom for the most distressed municipalities. Reestablish the regional distribution network.			
A lack of transparency reduces incentives for cost improvement and leaves room for mismanagement.	Make information on municipalities' cost structures, outage performance and investment publicly available. Encourage the systematic use of a unique portal to publish procurement information and ensure information is easily accessible, for instance on the National Treasury e-Portal.			
Reducing financing barriers to expanding the transmission network				
The installation of new transmission lines must accelerate to ensure electricity security and facilitate decarbonisation, despite Eskom's and the government's limited financing capacity.	Focus the majority of public investment in the sector on expanding the transmission grid and leverage private finance through Independent Power Transmission projects.			
The scope for using sovereign guarantees to facilitate investor access to finance is limited given the high level of investment needed and the government's already high exposure to contingent liabilities.	Reduce the reliance on sovereign guarantees using specific de-risking tools, such as the Credit Guarantee Vehicle developed with the World Bank and securing a portion of Eskom's revenues in a protected account.			
Financing barriers may be particularly high for transmission projects given their specific characteristics, which result in higher risks for investors and limit access to finance.	Foster an investment-friendly environment for independent transmission investors, securing pre-payments, streamlining administrative processes and reducing regulatory uncertainty in land acquisition.			

Reforming electricity pricing and supporting access to electricity for vulnerable households and businesses		
Eskom benefits from large subsidies, including large fiscal transfers and an exemption from the carbon tax up to 2026, hindering incentives to transition away from coal-based electricity generation and weighing on government debt.	Reduce net subsidies to Eskom, including by reducing direct transfers and ramping up the net effective carbon tax starting in 2026. Reallocate funding to support renewables, grid expansion and mitigate the effects on the most vulnerable households and SMEs through targeted subsidies.	
The current tariff methodology does not balance cost-reflectiveness with affordability and incentives for cost-effectiveness.	Progress towards cost-recovery prices to support Eskom's financial sustainability while boosting efficiency incentives.	
The current electricity billing system fails to accommodate the shift towards decentralised production, undermining incentives for self- generators to connect to the grid and risks rising municipal financial stress.	Progress with establishing national tariff guidelines to support new generators' use of the distribution network, incentivising net selling while ensuring adequate returns for grid investment.	
Public subsidies to support investment in rooftop panels disproportionately benefits higher-income households.	Improve access to rooftop solar panels to low-income households by reducing upfront payments, for instance through the development of secured loans and subsidies. Accelerate the electrification programme by providing adequate funding and the effective implementation of off-grid solutions such solar home systems and smart grids in remote areas, using carbon tax revenues.	
The take up of the Free Basic Electricity programme, a free allowance of 50kWh, is low and the amount is insufficient to meet basic needs.	Increase take-up of the Free Basic Electricity grant by making the allocation of funds to municipalities conditional on its take-up alongside measures to improve oversight and accountability. Increase the amount of free basic electricity grant for the most vulnerable households alongside increasing electricity prices.	

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South Africa's growth has been subdued over the past decade and boosting employment is a priority. Prudent macro-economic policies are a pre-requisite for growth. On the fiscal side, debt sustainability would benefit from reinforced spending rules and a broader tax base, as well as better allocating public spending, notably through higher public investment. On the monetary policy side, a lower inflation target could better support growth. Durably boosting growth and employment would require wide-spread structural reforms. Reducing regulation can spur business dynamism, while enhanced public transport could better connect people to jobs. Despite recent improvements, constraints on electricity supply remain a strong impediment to long-term growth. Boosting supply include higher renewable energy generation backed by a competitive wholesale market, expanding the transmission grid, and facilitating electricity distribution. Finally, South Africa faces challenges in meeting climate commitments and gradually increasing the net effective carbon price will be key.

SPECIAL FEATURES: ENHANCING JOB CREATION AND WORKFORCE INTEGRATION IN A CHANGING ECONOMY, SUPPORTING CLIMATE-CHANGE MITIGATION AND ADAPTATION, REFORMING SOUTH AFRICA'S ELECTRICITY SECTOR.



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