



# UNLOCKING POTENTIAL

PROMOTING GROWTH & BROADENING PROSPERITY IN SOUTH AFRICA



The background features a complex geometric pattern. It consists of several overlapping shapes: a large blue shape on the left, a large red shape on the right, and a central green shape. A yellow shape is positioned at the top center, and a smaller grey shape is at the very top. The shapes are separated by white lines, creating a sense of depth and movement.

# **UNLOCKING POTENTIAL**

## ABOUT THE AUTHORS

The Nelson A. Rockefeller Center for Public Policy at Dartmouth College produces non-partisan, pro-bono reports for policymakers in New Hampshire, across the United States, and around the world.

Topics in Global Policy Leadership is the capstone course for public policy students at Dartmouth. Each year, the program produces a white paper about a different country. Past countries include India, Colombia, and Northern Ireland. This year, our group produced a white paper about how South Africa might promote economic growth while broadening prosperity.

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We would like to thank all of the experts who were a part of this white paper. This report is a synthesis of expert opinions, not a creation by the authors. Without the experts we interviewed and the incredible research cited in this report, it simply would not exist.

Special thanks to James Nachtwey, who offered us the chance to showcase his photographs digitally in this report. His photographs paint a vibrant picture of South Africa, and those who look at his images are transported to the site, almost mystically. Mr. Nachtwey's photographs are identifiable with the following credit: © *All rights reserved James Nachtwey Archive, Hood Museum of Art, and the Dartmouth Rockefeller Center*. While sharing and distributing this report as a whole is permissible, it is expressly prohibited to distribute, or reproduce these images outside the context of this report.







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# CONTENTS

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	<b>SOUTH AFRICA'S PROMISE</b>	<b>1</b>
	<b>BACKGROUND &amp; HISTORY</b>	<b>9</b>
	<b>IMPEDIMENTS TO GROWTH &amp; PROSPERITY</b>	<b>18</b>
	State Capture	20
	Labor Market Rigidity & Unions	23
	Unemployment	25
	Lacking Infrastructure	27
	<b>SUMMARY</b>	<b>29</b>
	<b>RESILIENCY &amp; HOPE</b>	<b>30</b>
	<b>OPPORTUNITIES FOR GROWTH &amp; PROSPERITY</b>	<b>31</b>
	<b>An Export-Oriented Mindset</b>	<b>33</b>
	Labor & Employment	34
	Education	36
	Fiscal Sustainability	39
	Credit	43
	Monetary Policy & Debt	44
	Trade	46
	Agriculture	47
	<b>SUMMARY</b>	<b>48</b>
	<b>Laying a Foundation</b>	<b>50</b>
	Emerging from COVID-19	51
	<b>Infrastructure</b>	<b>52</b>
	Telecom	53
	Energy	55
	Water	57
	Urban Planning & Housing	60
	Transportation	62
	<b>SUMMARY</b>	<b>64</b>
	<b>Rectifying a Sordid Past</b>	<b>65</b>
	Land Reform	67
	Access to Healthcare	69
	Crime	73
	Corruption & The Zondo Commission	74
	<b>SUMMARY</b>	<b>77</b>
	<b>A Greener South Africa</b>	<b>78</b>
	Risk-mitigation in a Greener World	79
	Unlocking Renewable Potential	80
	<b>APPREHENSION &amp; HOPE</b>	<b>82</b>



*Children paid a small charge for a few minutes of time on trampolines that were moved around to various vacant lots in the townships. Soweto, 1992.*

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# SOUTH AFRICA'S PROMISE

## Executive Summary

**"Each of us is as intimately attached to the soil of this beautiful country as are the famous jacaranda trees of Pretoria and the mimosa trees of the bushveld – a Rainbow Nation at peace with itself and the world."**

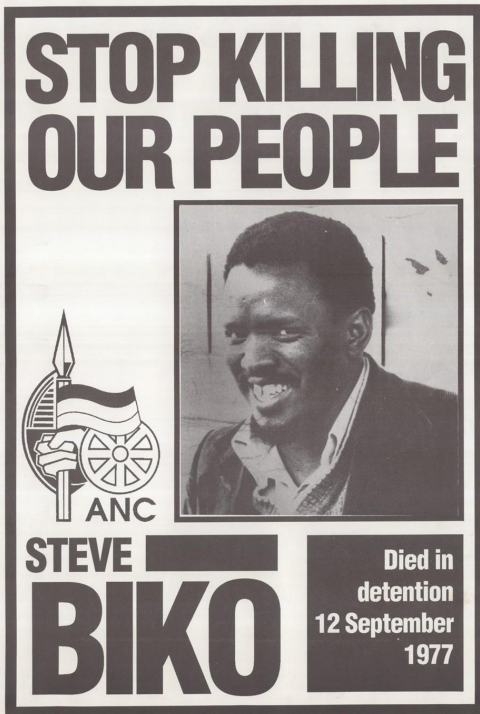
**– Nelson Mandela, 1994**

South Africa's battle to bring opportunity to all citizens following the end of apartheid has been long and painful. Post-apartheid, new institutions and a peaceful democracy initially led to improvements in economic status

1990s and 2000s have been severely undercut by year of state capture under the Zuma administration. With a Gini index of 0.65, South Africa is the most unequal country in the world, and political dissatisfaction is on the rise as

for many South Africans. The middle class expanded and diversified. Unfortunately, the significant gains made in the

voter turnout in 2018 fell to its lowest level since democratic elections. The COVID-19 pandemic has only exacerbated these weaknesses, and both illness and lockdowns have taken their toll. This policy brief provides recommendations for returning South Africa to a path towards broad economic prosperity as the coronavirus subsides.



*Steven Biko, a prominent anti-apartheid activist, was killed as a part of the white-controlled South African government clampdown on activism. Source: JSTOR Daily*

## Background

South Africa's emergence from apartheid allowed the nation to reckon with the generations-old discrimination built into every aspect of South African society, from education to wages to housing. The nation was really two nations – a small, white, wealthy one and a larger, poor one composed of black people, colored people, and other racial minorities. The grand challenge of the new democracy has been to build a peaceful state where this division gradually breaks down, and the formerly marginalized have a path to prosperity. Today, the political landscape of the rainbow nation is characterized by the dominance of the ANC, which controls most of government but has also been the center of corruption and scandal over the past decade. Political disillusionment has led to the rise of extremist parties on

both left and right. South Africans are frustrated that the promises made by Nelson Mandela and other leaders have not come to fruition as they had hoped. However, it is crucial to remember that even in amid the current landscape of stagnation, South Africa's diversity and resilience should be a source of hope for the future.



*A political poster from the DA, the ANC's main rival, capitalizes on South Africa's current failure in providing basic utilities, like power. Source: Wikipedia*

## Impediments to Growth & Prosperity

South Africa suffers from several longstanding problems that have dampened the countries' ability to weather setbacks like the COVID-19 pandemic and reduced growth. State capture by the Zuma administration has resulted in corruption permeating all levels of government— municipal, provincial, and national— increasing the costs of procurement deals and reducing the competency of officials in critical roles like the management of Eskom, South Africa's energy generation enterprise, as well as many other SOEs. As a result of state capture, inefficient spending, and longstanding inequities, the government fails to provide basic infrastructure and services like public transit and education.

As the economy stagnates, unemployment is high (43.2% among 15-34 year-olds in 2020), and made worse by excessively powerful unions and rigid labor laws. The stagnant economy and a culture of nonpayment shrink an already insufficient tax base, which prevents the government from improving provision of services, creating a vicious positive feedback loop that traps many South Africans in poverty.

## Opportunities for Growth & Prosperity

Despite the obstacles faced, South Africa has a wealth of human capital and natural resources that provide a way out of the current depression. By focusing on building export manufacturing, the nation can begin to climb the developmental curve again, and the rifts apartheid tore can heal, preparing South Africa to tackle the problems of the future, like climate change and new pandemics.

### **AN EXPORT-ORIENTED MINDSET**

#### **Labor & Employment**

- » Subsidize wages for young and low-skill workers
- » Expand public-works programs to temporarily increase employment while addressing infrastructure needs
- » Better tailor vocational training to employer needs
- » Reduce barriers to entry for SMEs
- » Provide tax incentives to promising, high growth-potential sectors of the economy

#### **Education**

- » Focus on improving primary education first
- » Tailor secondary education and training programs to the employment landscape so that graduates are prepared to enter South Africa's workforce
- » Reduce the power of teachers' unions to improve teacher quality
- » Reduce bureaucracy at universities and increase funding for both research and struggling students

#### **Fiscal Sustainability**

- » Reduce the size of the bureaucracy to avoid increasing the debt-to-GDP ratio
- » Centralize aid programs to increase spending efficiency
- » Address state capture and trust in government to increase tax compliance rather than raising taxes

#### **Credit**

- » Increase participation in local bond markets to help stem the rising debt-to-GDP ratio

#### **Monetary Policy & Debt**

- » Choose inflation measures that reflect the disparities in consumption needs across the income distribution
- » Direct debt-spending towards value-added infrastructure projects rather than corrupt procurement and state capture

#### **Trade**

- » Increase participation in intra-regional bilateral trade agreements
- » Improve trade infrastructure like storage facilities and distribution networks
- » Streamline regulatory trade policies through the SAG and NEDLC

#### **Agriculture**

- » Improve supportive infrastructure like roads, water, and trade policy
- » Emphasize high-value crops and food processing for export

Building a successful economy only works when accompanying institutions, from infrastructure, to education, to health-care, are built alongside to support the increasing human capital demands of such an economy. South Africa needs to revamp its physical and service infrastructure to support the people who will both fuel and benefit from the growth of the economy:

## LAYING A FOUNDATION

### Help Eskom address its crippling debt and capacity shortfalls

- » Invest in renewable energy generation through public-private investment and PPAs
- » Unbundling energy generation from energy transmission and distribution, creating a more competitive market for energy generators, both public and private

### Increase digital and mobile phone access

- » Auction last-mile coverage through ICASA
- » Expand partnerships between broadband companies and education facilities
- » Prioritize telecom expansion in low-income areas

### Reduce water shortages and prepare for future drought

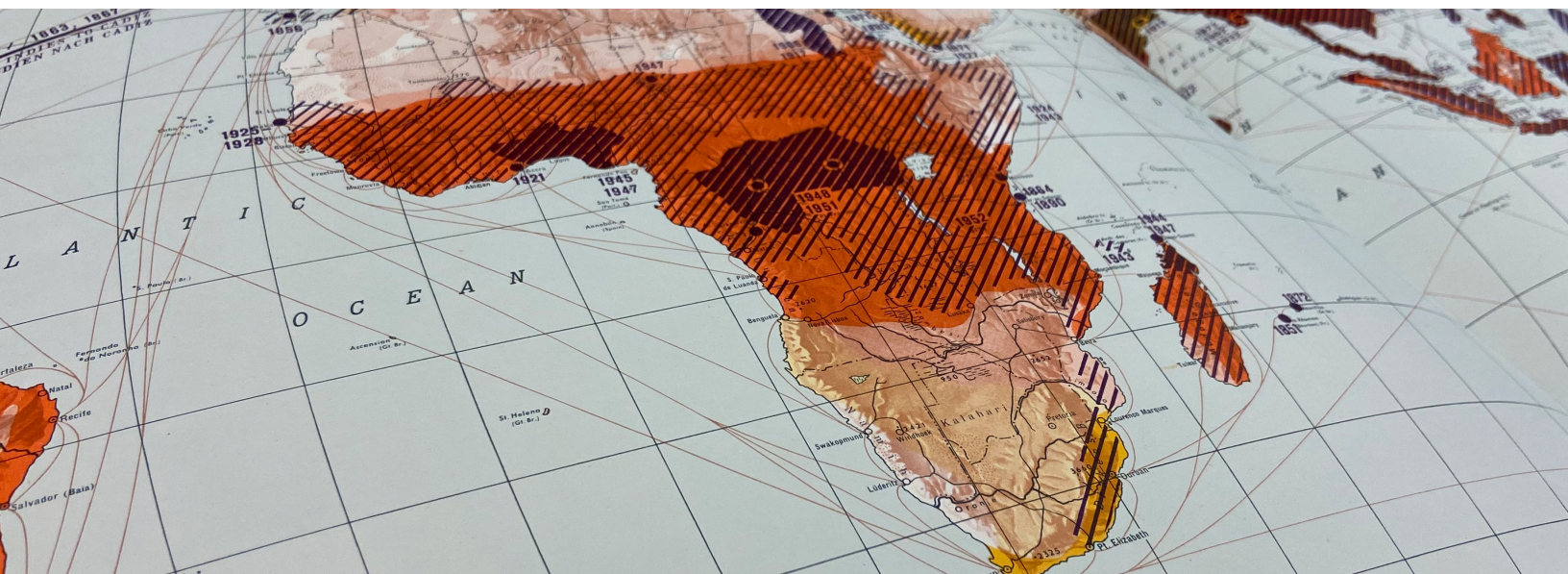
- » Complete water pricing reform to remove perverse incentives, increase funding for infrastructure improvements like stopping leaks, and increase equity
- » Welcome private sector investment in the water distribution system

### Provide adequate and equitable housing

- » Increase mixed-use zoning rather than single-family dwellings
- » Make building codes more flexible to account for differences in access to funding, technology, and expertise

### Increase mobility by upgrading public transportation

- » Reverse the incentives created by a lack of competition, passing the Economic Regulation of Transport Bill
- » Focus on the highest value, highest impact approaches to reducing inequity in transit access





The wounds of apartheid continue to drag South Africa down to this day. Crime is rampant, racial and class inequity is entrenched, and new afflictions, like the crimes committed by the Zuma administration, threaten tenuous progress.

## **RECTIFYING A SORDID PAST**

### **Address land reform efforts**

- » Avoid expropriation without compensation, while making sure that redistributed land is accompanied by the funds and education that will help new landowners make the land productive

### **Reduce violent crime**

- » Address systemic causes of violence by addressing deficits in education, employment, and economic equality
- » Integrate evidence-based policing strategies and continue support for specialized anti-gang units

### **Improve access to quality healthcare**

- » Roll out the National Health Insurance Initiative despite high projected costs to reduce the disparity in access between the public and private sectors
- » Increase the supply of public health workers like nurses through public-private training initiatives

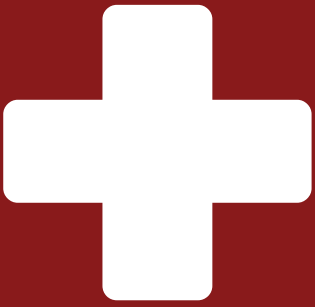
### **Seek justice for the victims of Zuma's state capture campaign**

- » Convict the guilty parties, and develop policy that protects whistleblowers, perhaps including financial incentives
- » Continue to facilitate the changeover to more competent officials installed by the Ramaphosa administration

## **A Greener South Africa**

Climate change is perhaps the greatest threat to the prosperity of future generations, and South Africa is no exception, especially given high drought risk, heavy dependence on the mining industry, and the high proportion of energy demand met by fossil fuels. However, South Africa's weakness on climate belies its advantageous position as the nation with the 6th-highest renewable energy potential in the world. The country should embrace this gift of geography and enact policy that speeds the transition to renewable energy, cementing a role as a global leader in the green economy of the future:

- » **Promote retraining for mining industry workers to air their transition to the new, renewable-fueled economy**
- » **Pursue investment in power-purchase agreements and allow net-metering to encourage proliferation of renewable energy sources so that they can compete on the grid**
- » **Look to other countries with experience managing intermittent energy resources**



## COVID-19

Much like renewable energy, COVID-19 is a crisis that presents opportunity: increasing engagement with the Africa CDC and promoting the Biovac initiative paves the way for South Africa to become its own source of vaccines in the likely event of another global pandemic. Moreover, the country has much to

learn about contagion response from other disease-prone African nations that have already weathered epidemics like Ebola. This pandemic has depressed economic activity and resulted in catastrophic loss, but South Africa can and should be better prepared for the next pandemic.

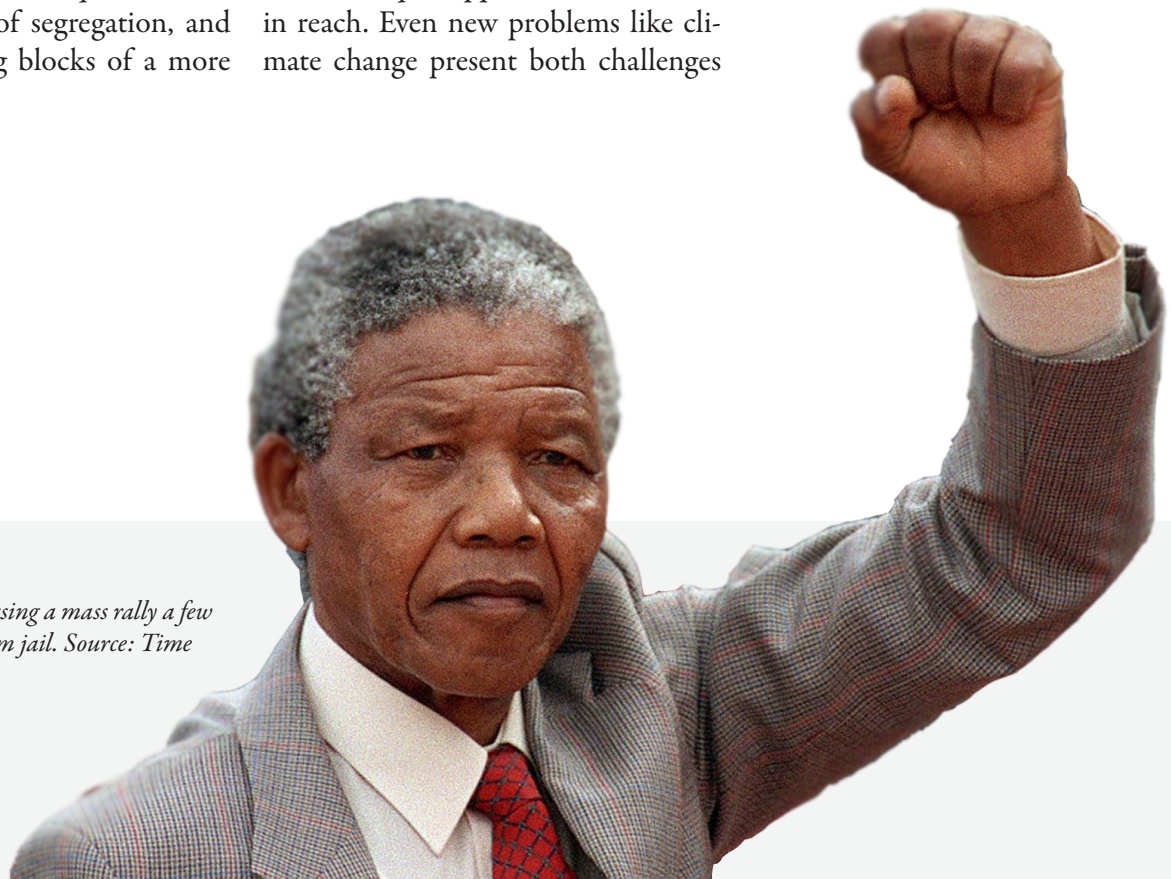
## SOUTH AFRICA'S PROMISE

South Africa's emergence from apartheid heralded a new era buoyed by the promise of widespread economic prosperity. So far, the nation has made progress, but under the Zuma administration, that progress has faltered. All is not lost, however. By wresting back control of the captured state, addressing the embedded inequalities left behind by a past of segregation, and laying the building blocks of a more

successful economy, South Africa can make good on the promise made back in 1994 with the creation of a new government and a new constitution. Nelson Mandela's vision of a South Africa as a place where, "the ideal of a democratic and free society, in which all persons live together in harmony and with equal opportunities" is within reach. Even new problems like climate change present both challenges

and new opportunities for the country to leverage an incredible bounty of natural and human resources. South Africa's promise is resilient, persistent, within reach—and this report provides the policy details needed to bring it to fruition.

*Nelson Mandela addressing a mass rally a few days after his release from jail. Source: Time*



*The Springbok is South Africa's national animal. When showing off, a male can jump over two meters in the air. Source: Wikipedia*



# **UNLOCKING POTENTIAL**



*Black South Africans waited for hour in long lines to vote in a democratic election for the first time in their lives, and in the history of South Africa*

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## BACKGROUND & HISTORY

### Getting to know the Rainbow Nation

Created almost accidentally, South Africa has evolved from a series of ports and disparate indigenous kingdoms to an increasingly complex, multi-racial, and international state. Traveling through South Africa, one can feel its history. The vestiges of colonialism, oppression, and apartheid remain as strong as the giants who overcame them. As generations pass, South Africans have prioritized passing down the memories of such accomplishments. This memo chronicles South African

history and demonstrates what vestiges of colonialism persist, and provides context for how the young nation can evolve beyond them.



## Colonization

South Africa's modern history begins with Portuguese explorer Bartolomeu Diaz, who reached the Western Cape in 1488. Diaz's voyage to the cape resulted from European desire, particularly its monarchs' desire to find a trade route to India. As a result, South Africa became a port or halfway house first for ships going to India but later for Southeast and East Asian colonies (Welsh, 1998).

The original indigenous peoples of South Africa include the Khoisan and the more recent Bantu peoples, including the Xhosa and Zulu. The indigenous peoples raised livestock and played a role in the Indian Ocean trade, as archeologists have found porcelain from China in pre-European sites (Welsh, 1998).

The first European colonists to arrive in South Africa were Dutch traders who established a trading post in 1652 under Jan van Riebeeck in what is now the Western Cape. The Dutch, specifically the Dutch East India Company, were more interested in expanding trade relations with the indigenous peoples than forming a colony. Van Riebeeck saw the Cape as a potential starting ground for a settlement of his own, which often led to disputes between him and the company (Welsh, 1998).

As the Dutch colony expanded, it soon found that trade with the indigenous peoples was not enough to sustain its population. The Khoisan peoples could not or did not adequately supply the colony with sufficient food through trade (Welsh, 1998). Demand for food expanded the colony from beyond its city walls into the grasslands (Welsh, 1998). It also brought in more settlers and slaves. Although race relations were not perfect when the colonists first arrived, the new inflow of colonists and importation of slave labor led to the first instances of racial and ethnic tension between the colonists and native peoples. The colonists conferred a burgher status in place of citizenship to those deemed worthy of honor, trust, and membership (Welsh, 1998). Some Blacks could receive burgher status, but it typically went to African-born whites and immigrants of Dutch, German, and eventually Huguenot origin.

Britain took possession of the Dutch Cape colony in 1806 during the Napoleonic wars (Welsh, 1998). The British crown, like the Dutch, valued the colony as a trade port on the way to its own colony of India. British occupation sparked resistance among the independence-minded Boers, who resented

the Anglicization of South Africa and Britain's anti-slavery policies. The Boers, who would go on to become Afrikaners, were the descendants of the original Dutch settlers of southern Africa. In 1833, the Boers began an exodus into African tribal territory, where they founded the republics of the Transvaal and the Orange Free State (Welsh, 1998). The Boer exodus



*A painting (c. 1850) by Charles Davidson Bell shows Jan van Riebeeck's Arrival at Table Bay in 1652*

into this new territory led to the discovery of the nation's rich natural resources, like gold and diamonds. The discovery of these resources increased conflict between the British and the Boer colonies. War between the two began in October 1899 (Welsh, 1998). By July 1900, British forces had captured most Boer territories, beginning a stage of guerrilla war (Welsh, 1998). On May 31, 1902, the Peace of Vereeniging was signed, ending hostilities between the United Kingdom and their new Boer citizens (Welsh, 1998). The treaty recognized the British military administration over the Boer states, but authorized a general amnesty for Boer forces (Welsh, 1998). Famously, the United Kingdom was compelled to alter the agreement by scaling back protections for Blacks against Boers. Although the British gained control, the Boers won several key battles, and the struggle against the British solidified the formation of Boer identity as rugged freedom-fighters, struggling to hold their own.

## A History of Racial Diversity

When the Dutch colonists first expanded into agriculture, they realized that their labor alone was not enough to cultivate the land. One solution to the colonist's labor shortage that Van Riebeeck often expressed was using indigenous laborers (Welsh, 1998). The Dutch East India Company denied these requests believing that enslaving and using the natives for labor went counter to creating good trade relations with the native peoples (Welsh, 1998). The company did allow for the importation of slaves, however,

which were typically from Indonesia or elsewhere in Africa. South Africa's colored and "Cape Malay" populations are descended from the mixing of these two groups; hence, there is a great diversity between indigenous Black South Africans. (Welsh, 1998).

The modern South African Indian community is primarily descended from Indians who arrived from 1860 onwards (Welsh, 1998). The first 342 of these came on board the *Truro* from Madras, but the popu-

lation represents a diverse swath of the Indian subcontinent (Welsh, 1998). These original Indians came as indentured laborers and cultivated sugarcane in Natal Colony. Approximately 200,000 Indians arrived across the next 50 years (Welsh, 1998). They helped fill the roles like miners and railway workers that indigenous peoples, who were economically self-sufficient and unwilling to subject themselves to employment by colonial farmers, did not.

## The Union of South Africa and Apartheid

On 31st May 1910, The Cape Colony, the Natal Colony, the Transvaal, and the Orange River Colony merged into the Union of South Africa, the historical predecessor to the present-day Republic of South Africa. The Union of South Africa was a signatory of the Treaty of Versailles and became one of the founding members of the League of Nations (Welsh, 1998). It received South West Africa (now Namibia) as a League of Nations mandate (Welsh, 1998).

The Union of South Africa was a self-governing dominion of the British Empire (Welsh, 1998). As such, it has been noted that South Africa was in many ways the first post-colonial African nation. At the same time, Black and colored people would not be free to self-govern until 1990, making it simultaneously the last post-colonial African nation. The Union came to an end with the enactment of the constitution of 1961, becoming a republic and leaving the Commonwealth (Welsh, 1998).

Racial segregation existed in Dutch and British-controlled South African colonies but was formalized with the enactment of apartheid in 1948, as the National Party rose to power (Welsh, 1998). The government organized its people into White, Black, Colored, and Indian, as described above. Interactions between these groups were highly regulated.

Whites enjoyed the highest standard of living in all of South Africa, comparable to most Western nations, not only despite, but because of economic subjugation of the larger Black majority. Black people often lived in domestic servitude to whites, or otherwise filled services-sector jobs, in which they competed with other Black South Africans (Welsh, 1998). Many public-sector jobs and jobs for state-owned enterprises became essentially white workers' programs, which was sustainable as white South Africans made up such a small sliver of the population. South Africa attracted foreign investment into the finance, technology, and healthcare sectors, which prioritized white workers. As such, the divide in income increased over the course of Apartheid. The Black majority remained disadvantaged by almost every standard, including income, education, housing, and life expectancy.

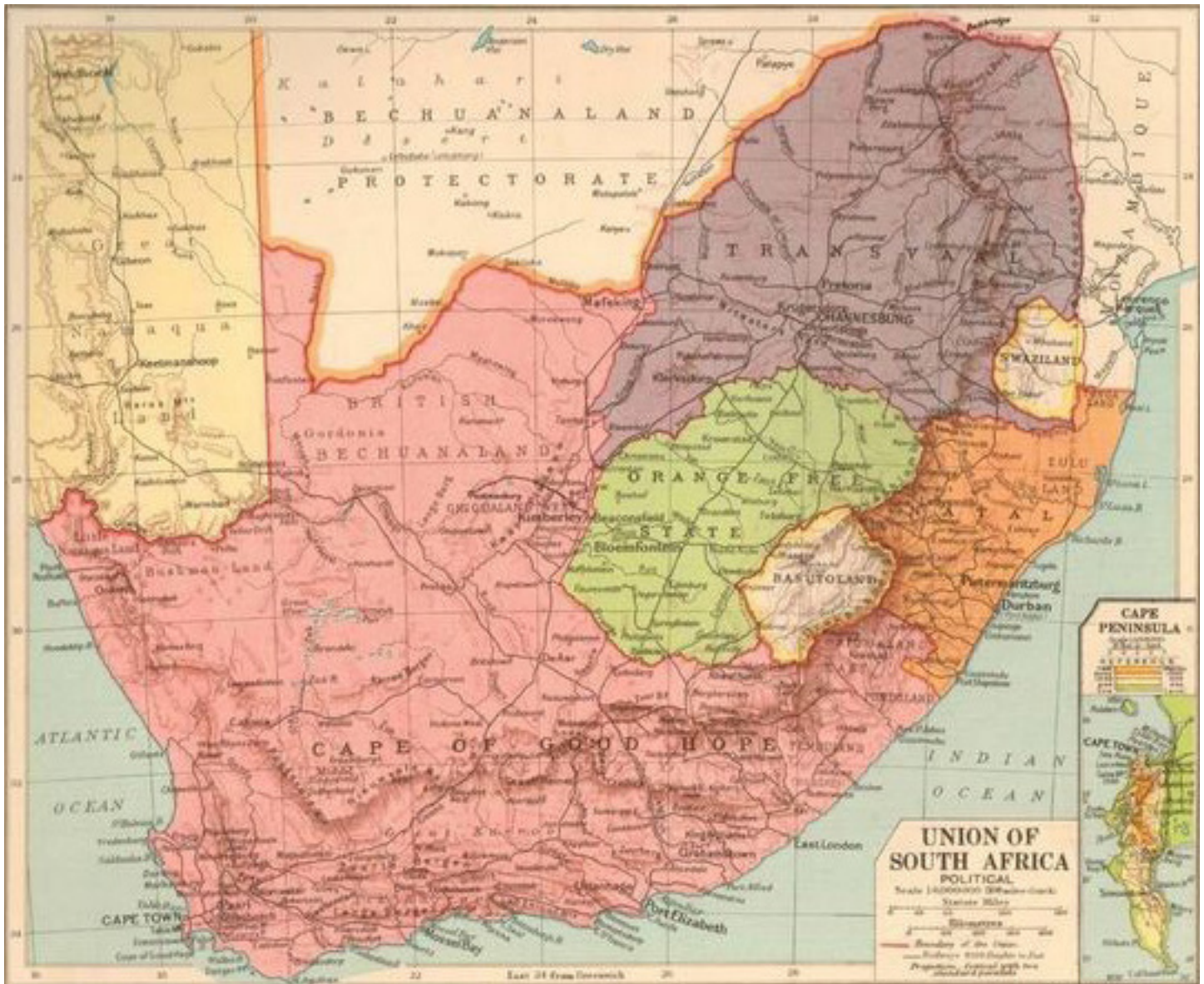
Movements against the apartheid government existed throughout its existence. The largest and most memorable organization opposing apartheid was the African National Congress or ANC. Founded in 1912 by John Langalibalele Dube, the ANC advocated for liberation against Apartheid since its adoption (Welsh, 1998). ANC membership was outlawed on April 8, 1960 (Welsh, 1998). As such, many of the ANC's leaders eventually went into exile, while those who stayed in the country turned from peaceful protest

toward guerrilla violence (Welsh, 1998). The most famous ANC leader, Nelson Mandela, was arrested in 1962 and tried in 1964. He was charged with: recruiting persons for training in the preparation and use of explosives and guerrilla warfare for the purpose of violent revolution and committing acts of sabotage, conspiring to commit the acts mentioned above, and aiding foreign military units when they invaded the Republic, acting in these ways to further the objectives of communism, and soliciting and receiving money for these purposes from sympathizers throughout Africa (Welsh, 1998).

Resistance against the apartheid regime also came from international activists and governments. The end of the colonial era and efforts to decolonize saw a new focus put on human rights. Organizations such as the United Nations, which was a historically conservative body now included

many postcolonial and African nations who advocated for the furtherance of human rights (Culverson, 1999). In the United States, Black citizens became more engaged with South Africa as the civil rights movement came to an end in 1965 (Culverson, 1999). People from across the world became more interested in Southern Africa with the independence of and civil wars in Angola and Mozambique. Foreign nations viewed South Africa through the lens of the Cold War (Culverson, 1999). The ANC had some affiliations with Marxist doctrine, although communist ideology was not a requirement for entry. Many members such as Mandela were intrigued by communist ideals, but saw the issues facing South Africa as more based in race than in class (Mandela 1995). The government used these affiliations to find support from the first world and undermine foreign support for the ANC.

*A 1930 Political Map of the Union of South Africa*





These international movements against Apartheid were largely grassroots and revolved around divestment from the country (Culverson 1999). First world governments were hesitant to act against the Apartheid regime, but were swayed by rising public sentiment. As such, many European and Western countries began to place limitations on those aiming to do business with and inside South Africa (Culverson, 1999).

With the end of the Cold War in 1990, the government lifted bans on engagement in formerly taboo political organizations such as the African National Congress and re-

leased Nelson Mandela from prison (Welsh, 1998). South West Africa was also granted independence. With approval from the white electorate in a 1992 referendum, the government and Black leaders such as Cyril Ramaphosa negotiated an end to apartheid (Welsh, 1998). South Africa held its first universal elections in 1994, which the ANC won with 62.65 percent of the vote, more than tripling the second-place National Party, which received 20.39 percent (Welsh, 1998). The newly empowered ANC implemented a new constitution built upon the principles that it had long fought for, including positive rights for all citizens. (Welsh, 1998).

*The militant, white supremacist Afrikaner Weerstandsbeweging (Afrikaner Resistance Movement), known by the acronym AWB, was formed in 1973 in the Transvaal province (now Gauteng). The AWB considered the apartheid government of South Africa too liberal and promoted a more extreme version of Afrikaner (or Boer) nationalism with the goal of re-establishing an independent, white state harking back to the Boer republics of the nineteenth century before their defeat by Great Britain. Paramilitary organizations, including youth corps were created, and its flag design bore a strong resemblance to the Nazi swastika. AWB members paraded in support of a white "homeland" to be established within a new, post-apartheid South Africa. Pretoria, 1994.*

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In 1994, Archbishop Desmond Tutu organized the Truth and Reconciliation Commission, a court-like adjudicative body meant to help establish the truth about apartheid so that the nation could move on (Welsh, 1998). The commission granted immunity to those who told the entire truth and worked on behalf of all wronged peoples. An important point in the commission's acceptance was when Desmond Tutu convinced Minnie Mandela, Nelson Mandela's ex-wife, to take the stand in her defense, granting the commission credibility and demonstrating that no one was beyond scrutiny (Welsh, 1998).

South Africa's white population reached its historic peak in 1995 with 5,224,000 people (Palgrave Macmillan Ltd, 2013). Many have since left for political, cultural, and economic reasons. There are currently 4,679,770 white South Africans (Palgrave Macmillan Ltd, 2013).

**In post-apartheid South Africa, there was a moment of euphoria and optimism. Unfortunately, that moment has passed.**

South Africa has maintained positive relations with many of its fellow Anglophone nations such as the United Kingdom, Australia, and New Zealand (Taylor, 2001). These nations have been destinations for white South African emigration. South Africa is a BRICS member-state and enjoys close and productive economic relationships with Brazil, Russia, India, and China (Taylor, 2001). South Africa's closest relationships, however, are with fellow African countries. South Africa has many people of similar ethnic backgrounds as its neighbors in Lesotho, Eswatini, Namibia, Botswana, Zimbabwe, and Mozambique (Taylor, 2001). South African-Zimbabwean relations deteriorated during apartheid as Zimbabwe was one of the leading forces in Africa against apartheid (Welsh, 1998). Namibia accepts the South African rand as legal tender. Lesotho is an enclave of South Africa and, as such, also sees a close economic relationship. Ultimately, South Africa has become a leader on the continent for international finance, diplomacy, and business, a position it should leverage in the future (Taylor, 2001).

Unemployment, and especially non-white unemployment, has remained high (Taylor, 2001). While many Blacks have risen to the middle and upper class, the overall unemployment rate of Black South Africans has worsened (McDer-

mott, 2019). The general feeling within South Africa is that there is a small select portion of the Black population who have escaped poverty, while the majority of Black South Africans, quality of life is not quickly improving.

That being said, South Africa has taken great strides since apartheid. While ESKOM struggles to supply electricity reliably and expand further, it reaches more homes today than ever before. While Black students are not proportionately represented in major South African universities, they now represent the largest racial constituency within these schools. When reading this memo, please bear in mind that, like all nations, South Africa is far more resilient than its problems might suggest. Recent South African history is defined by a singular ability to overcome significant challenges with poise and compassion. The Rainbow Nation maintains a unique place in world history and the potential to become an object of global admiration.



*A Nelson Mandela political button*

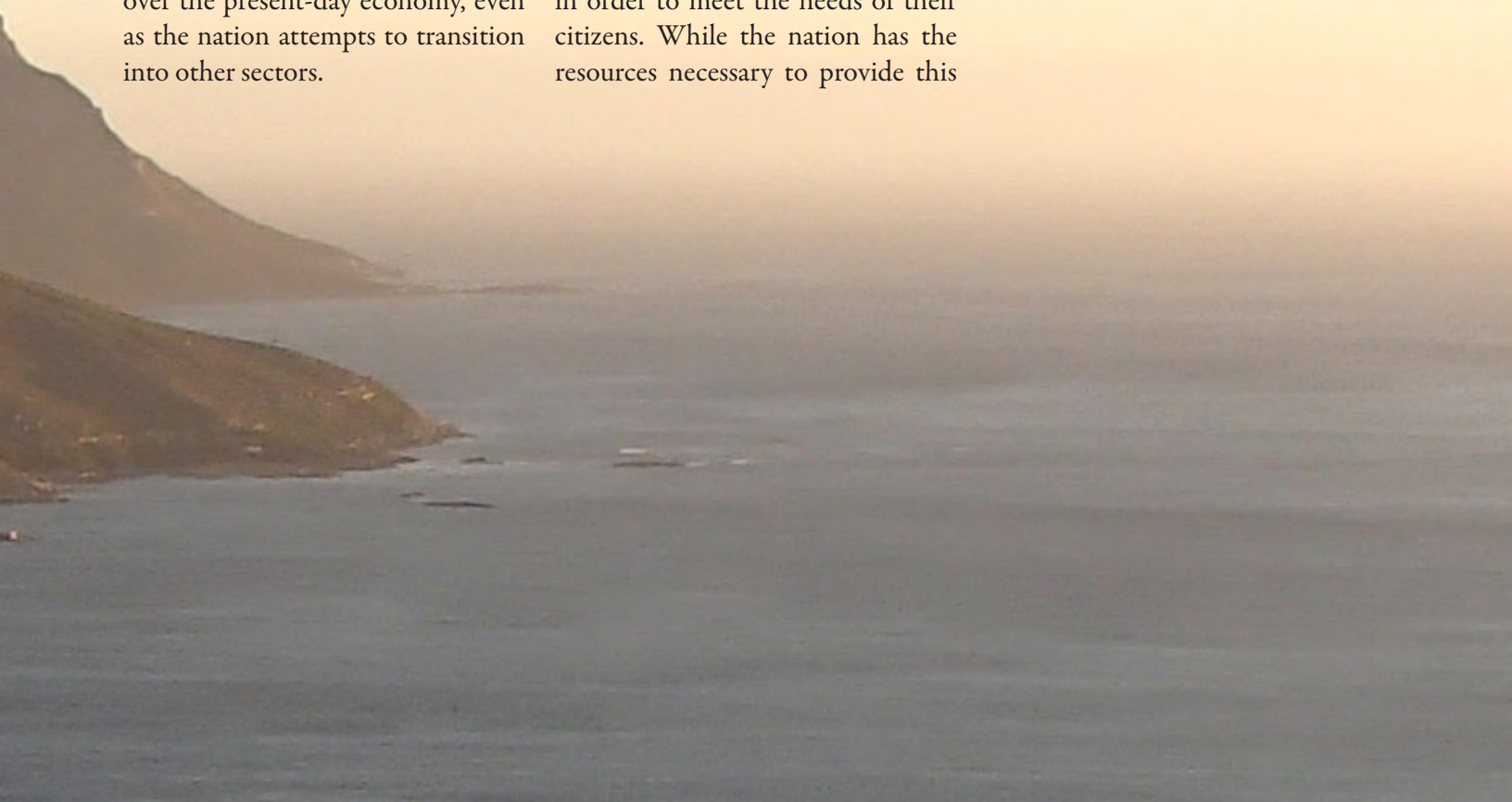
## Geography

South Africa has been handed a mixed bag of geographical blessings and challenges that has influenced its development and will continue to do so in the future. It is located at the southernmost tip of Africa, giving it a long coastline that borders the Atlantic and Indian Oceans. This proximity to the ocean offers South Africa ample access to maritime trade networks. This is reflected in South Africa's high dependence on international trade for both exports and imports (Palgrave Macmillan Ltd, 2013). On the other hand, South Africa suffers from uneven rainfalls as devastating floods are often accompanied by prolonged droughts. This presents challenges for the agricultural sector and urban planning creating concern over water access (The Economist, 2019). Finally, South Africa benefits from a wealth of natural resources. Its abundance in minerals has resulted in a historically influential mining industry that continues to have a hold over the present-day economy, even as the nation attempts to transition into other sectors.

The nation's geographical realities cannot be understood absent an examination of the apartheid policies that undergirded settlement patterns. Two-thirds of the South African population resides in its urban centers, while the rest of the population is scattered around rural areas. While traditional Black settlements were located in farming homesteads or villages, White South Africans own the majority of the rural land due to colonial and apartheid policies that consolidated land ownership in the hands of the White population (McDermott, 2019). A large portion of the Black population resides in the former Bantustan areas, which are located in the northern and eastern parts of the country. During apartheid, millions of non-white South Africans were relocated from the cities into the Bantustans to prevent integration. There is rapid urbanization in the nation's cities that is creating a need for the state to provide adequate infrastructure in order to meet the needs of their citizens. While the nation has the resources necessary to provide this

infrastructure, oftentimes, political barriers get in the way. Furthermore, lack of affordable housing has resulted in the expansion of informal settlements wherein many Black residents occupy shanties without access to services such as public transportation, water, sanitation, or electricity. This geographical division among South Africans has left some of the nation's most vulnerable members on the periphery of its economy, society, and politics.

South Africa's geographical constraints and advantages will continue to define the trajectory of its future. As climate change and increased social tensions exacerbate the pre-existing challenges facing the country, South African leaders will have to develop solutions that can maximize its blessings.



## HIV/AIDS

HIV/AIDS was first identified in South Africa in 1982, and the first death as a result of HIV/AIDS was in 1985 (UNAIDS). Initially, the infected were disproportionately wealthy; nevertheless, the lack of knowledge about HIV/AIDS and racial fear and homophobia surrounding the virus led to inadequate response from the apartheid government. By 1990, an estimated 0.8 percent of pregnant women were infected with HIV (UNAIDS). Today, somewhere between 7.5 million and 7.7 million South Africans have HIV (UNAIDS). Fortunately, the human capacity to combat the virus has improved: 71 percent of infected adults are antiretroviral treatment recipients.

## Current Political Landscape

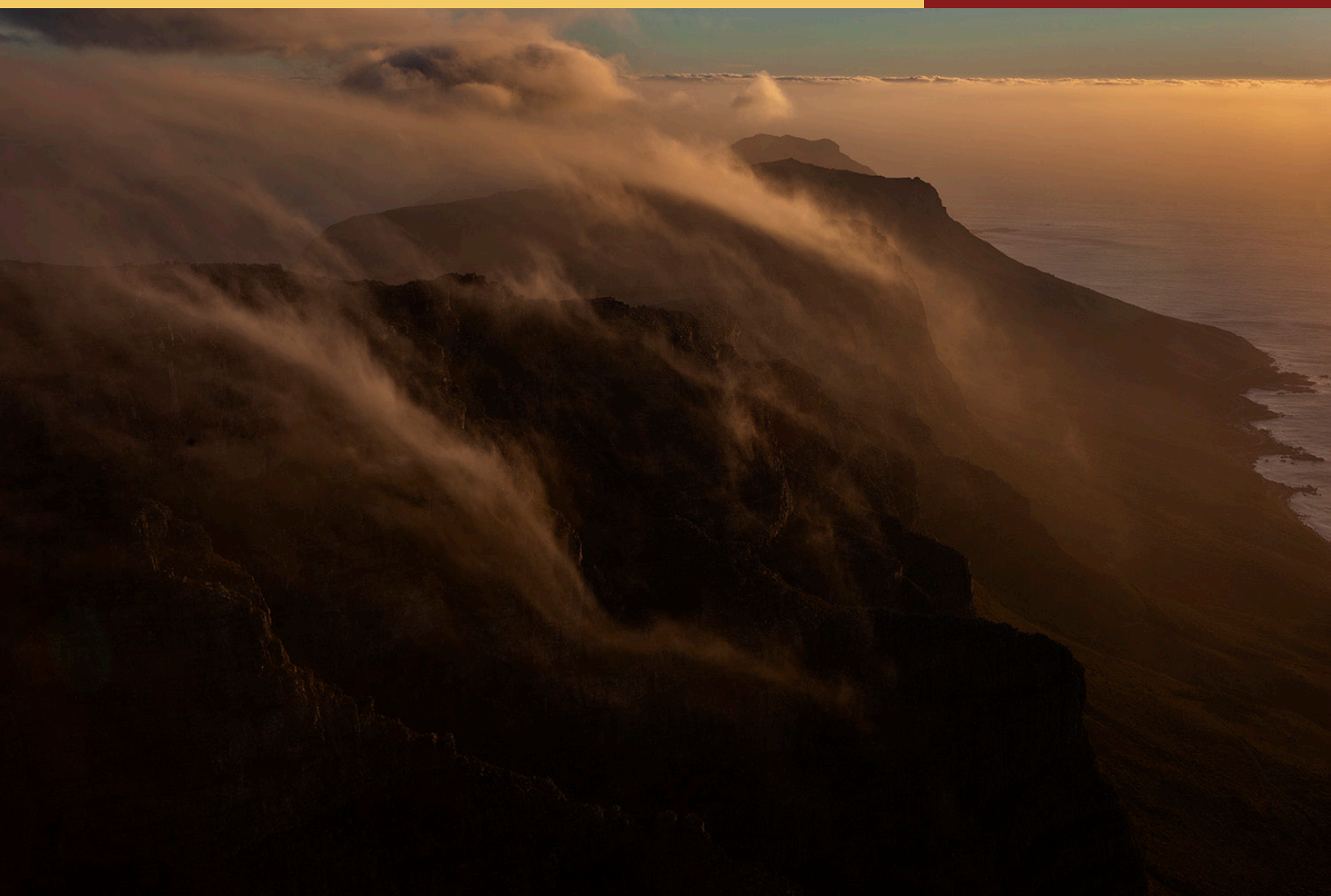
The African National Congress (ANC) drove the fight against apartheid and have remained in power ever since. Though the ANC has historically held a strong majority in Parliament, there are signs of its voters turning elsewhere. The Democratic Alliance (DA) is the mainstream multiracial opposition party to the ANC, and has seen a recent uptick in support. On the fringes of South African politics are the Economic Freedom Fighters (EFF), a far-left splinter of the ANC, and Freedom Front Plus (FF+), a far-right (and white) political party. Both have recently gained traction.

**“South African voters are already tiring of a well-meaning president who cannot keep the lights on.”**

*Some white families joined the lines of Black voters in South Africa's first democratically held elections. Soweto, 1994.*

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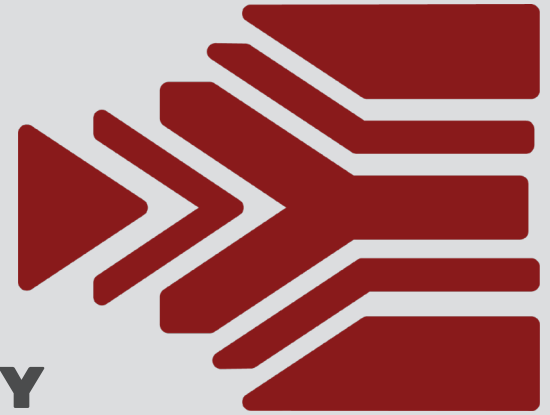


*The view from the top of Table Mountain as clouds rolled over the peaks of the Twelve Apostles mountain range. Cape Town, 2010.*

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# **IMPEDIMENTS TO GROWTH & PROSPERITY**

# IMPEDIMENTS TO GROWTH & PROSPERITY



## Why can't one of Africa's biggest economic engines rev up?

While South Africa has one of the most developed economies on the continent, it has been unable to achieve broad-based economic success since the nation democratized in 1994. Though it saw significant political progress post-apartheid, it still faces a long walk towards economic freedom. Several factors impede the nation's ability to fully realize economic growth, the first is the unequal economic system inherited from the apartheid regime. The legacy of apartheid is reflected in the unequal distribution of land and wealth; the geographic positioning of infrastructure, such as public transportation; and the modern dynamic between the labor market and workers unions. Furthermore, decades of mismanagement within key state-owned enterprises (SOEs), such as the power-utilities company Eskom, have left the state in debt hampering the nation's ability to provide basic services like energy. Additionally, state cap-

ture has rendered many regulatory institutions impotent and has degraded public faith in the government. Finally, South Africa's high levels of unemployment presents an immediate economic crisis. The current South African economy is incapable of creating enough jobs for the nation's working age population. This crisis is further exacerbated by its disproportionate impact on Black employment. In facilitating economic prosperity, South Africa must take decisive actions. As Nelson Mandela declared in 1995,

**"We must use time wisely and forever realize that the time is always ripe to do right."**



## SOUTH AFRICA'S PROMISE BACKGROUND & HISTORY



## IMPEDIMENTS TO GROWTH & PROSPERITY

**State Capture**  
**Labor Market Rigidity & Unions**  
**Unemployment**  
**Lacking Infrastructure**  
**Resiliency & Hope**



## OPPORTUNITIES FOR GROWTH & PROSPERITY



## APPREHENSION & HOPE

## STATE CAPTURE

The overwhelming optimism that enveloped post-apartheid South Africa has since receded. Corruption has eroded public faith in the government and its political leadership. *State capture* has come to broadly refer to the abuse of a government post for personal gain, at the expense of taxpayers and citizens. In South Africa, this term is sensitive, as many of the country's residents with whom we spoke feel that the country has been robbed blind by the former administration of Jacob Zuma, and this feeling lingers on through today. Both state-owned and private firms make illicit and non-transparent payments to influence the formation of laws, rule and regulations in South Africa (Hellman et al., 2000), "capturing" resources that could have otherwise benefitted South Africa's citizens. This has been done most infamously through government-awarded procurement contracts. As a former economic advisor to President Thabo Mbeki put it, "corruption is the word, procurement is the game." In a country where power outages due to state mismanagement are common, state capture is particularly frustrating.

Investments made on the part of these firms ultimately provided them with more money than what they invested in the process of state capture. In one such example, the Vrede Dairy Project, an eight million dollar grant from the Free State intended as an investment into a dairy farm, was transferred into a firm called *Gateway Infrastructure* where it was used to fund the owner's wedding and written off as a business expense (How Jacob, 2019). *Bosasa*, a logistics company, is accused of using approximately five million US dollars (USD) in bribes to secure contracts ranging from information technology to fleet management (Gevisser, 2019). These backdoor dealings occurred in tandem with the hollowing out of institutions meant to prevent those types of corruption. Under Zuma, the highly respected finance minister Nhlanhla Nene was fired for a counterpart that had been accepting bribes (How Jacob, 2019). The

**"South Africa's not very well-known for prioritization"**

- Kate Philip, President's Office

South African Reserve Services (SARS) leadership was changed once the institutions began to engage in successful tax-evasion investigations beyond their targets despite severe revenue shortfalls (How Jacob, 2019). In total, political malfeasance under the Zuma administration facilitated the siphoning of funds from SOEs into politicians and private sector actors' pockets. Estimates of state capture's direct cost during Zuma's second term point to a loss of over 100 billion USD (Alence et al., 2019).



*Former President Jacob Zuma faces corruption charges in "the Commission on State Capture," or the Zondo Commission. Source: New York Times*

A 2018 Afrobarometer survey revealed that the South African public expressed low levels of trust in political leadership at both the national and local levels as well as governmental institutions overall such as SARS (Afrobarometer, 2018). Such endemic mistrust has resulted in challenges to both the public and private spheres. Public disillusionment with the government in general and the African National Congress (ANC), more specifically, has created a volatile



political environment for the leading party. Voters are beginning to turn away from the ANC, which was recently synonymous with the country's political future, toward more extreme and populist parties. The Economic Freedom Fighters (EFF) and the Freedom Front Plus (FF+) parties both won high proportions of the 2019 presidential vote (South Africa's Election Results, 2019). Consequently, President Ramaphosa and the ANC must expend political energy toward party unity. This unification, however, breeds inaction, as the drastic reforms necessary cannot pass without alienating certain subsections of the population (South Africa's President Promises, 2019). Meaning, President Ramaphosa stands on a political tightrope. Any short-term political loss may cost his party's control of the government and the levers needed to enact change. However, a lack of decisive reform may long term, find him and the ANC out of power. As state capture continues to shake the wire, it will become increasingly difficult for the administration to stay on the rope.

State capture has also generated concerns within the private sector. Lack of governmental accountability and capacity has shaken the

confidence of both domestic and international investors. SOE mismanagement has left many wary of a public-private partnership for fear of meeting a similar fate. Additionally, the government's inability to leverage these SOEs to provide basic services, such as reliable electricity, has turned off those who are not convinced that the infrastructure exists for private sector growth. Between 2009 and 2016, waning business confidence brought about a three percent drop in investment to 20 percent of the GDP (How Corruption, 2016). Recent testimonies have revealed that firms often win contracts based on bribes to politicians and government officials (A Decade, 2019). As such, the market for government contracts has become a business environment that is less meritocratic or grounded in competition and more a mutual pocketing of what is ultimately public money. As South Africa looks toward implementing economic reforms to jump-start its private sector, it must first rein in the rampant forces of state capture to ensure effective implementation.



## STATE-OWNED ENTERPRISES (SOEs)

### "State institutions in South Africa have failed"

State-owned enterprises (SOEs) are government-owned or government-controlled enterprises that act as private enterprises. They are often entrusted with monopolies on public goods. Recent failures in delivering these goods have demonstrated the failure of SOEs individually and as policy mechanisms. As formerly mentioned, SOEs were used throughout apartheid to employ less employable white South Africans. This tactic was financially feasible because the white labor force was small relative to the tax base. After the end of apartheid, many of the same

institutions and conceptions persisted. As such, SOEs continue to serve the dual purpose of providing public services while also employing their employees. Public-sector unions have essentially monopolized labor for SOEs and have close ties with the ANC.

The largest South African SOE is Eskom, which manages South African energy production and distribution. Eskom holds both vertical and horizontal monopolies, overseeing fossil fuel extraction, energy generation, and distribution. Telkom SA SOC Limited (Telkom) has an effective monopoly over internet service and telecommunications: Telkom is a majority-privatized enterprise, but the state still holds a significant plurality

stake. Transnet SOC Ltd (Transnet) is a majority-state-owned enterprise that oversees rail transport of cargo, port management, and pipeline management. The Passenger Rail Agency of South Africa (PRASA) oversees passenger rail transportation. South African Airways is the SOE that oversees international air travel while South African Express Airways SOC Ltd oversees national air travel. In short, South Africa has hundreds of SOEs representing different public goods and services of different sizes and levels of market controls and are set up by varying levels of government. Change in the South African government, therefore, necessitates a change in its state-owned enterprises.

The poor management of SOEs in tandem with state capture has resulted in the government's inability to deliver basic services. In 2007, Eskom underwent a new capacity-building program involving the creation of two new coal-fired stations projected to generate over 9,000 megawatts of energy combined. The plan has only begun to be implemented, with each station currently generating approximately 400 megawatts of energy. Eskom's low capacity has translated into frequent

blackouts and unreliable power for the nation.

As South Africa's public sector grows, so does privatization. General mismanagement and the mismanagement of SOEs, in particular, has induced formal, informal, and semiformal markets for supposedly public goods such as education, water, and security. Competition would force SOEs to act more responsibly, but they are currently artificially supported by the govern-

ment. By allowing the formal entry of private competitors into SOE-controlled markets, the South African government can guarantee it will maintain control within those markets while also creating consequences for mismanagement. One expert we talked with recommends selling assets currently held by South African Airways and other SOEs to generate revenue in the short term in markets in which governments typically are not such active players.

## The Impact of Corruption on Tax Morality

The political corruption during the Zuma presidency, which diverted tax revenue away from public goods, has led to a decline in tax morality as the middle class and the elite are wary of paying taxes when there is a high probability that it may end up in private pockets. Ettiene Retief, a professional tax specialist at FTR Tax and Corporate Administration Services, explains that "tax morality breaks down as soon as a society, for whatever reason, loses trust and faith in the revenue agency" (Dicey, 2019). Tax scandals from political leaders have further exacerbated this crisis. To evade revelations of their state capture practices, President Zuma and other leaders actively evaded taxes

(Gebrekidan et al., 2018). Post-apartheid, SARS was originally a highly successful institution that garnered public confidence and met tax collection benchmarks equal to more established democracies such as the United States. Rampant corruption and changes in leadership have ruined the institution administratively and damaged its public trust. The disbanding of SARS units intended to chase non-compliant large business taxpayers has also weakened the institution's capacity to enforce an equitable tax system (Dicey, 2019).

The declining competency of SARS has resulted in many South Africans simply refusing to pay their taxes

(Gebrekidan et al., 2018), which is concerning for a nation where millions currently depend on government programs for housing, education, and healthcare. As the nation grows, the strain tax non-compliance puts on the government may amplify absent reform. SARS is one of many institutions that has become crippled due to political malfeasance. As the government looks toward winning back public trust, an emphasis on competence and accountability will be crucial across all institutions.



*Family and friends protest as they mourn during the burial of Isaac Monke, a bus driver who was murdered, along with two companions, when a group of men broke into his home. Michael Khoeli led the singing of the Black national anthem to commemorate the death of his best friend and co-worker. Sebokeng, 1992.*

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## LABOR MARKET RIGIDITY & UNIONS

South Africa's restrictive labor laws come from the nation's history and dealings with labor unions. In 1980, South Africa legalized the organization of Black trade unions. As the only mechanism through which non-white South Africans could voice grievances and demand better conditions, these unions became a political and social voice for millions of Black and colored laborers. When apartheid ended, the newly formed government enacted protective labor legislation, which applied equally to all workers. The government's pro-labor union stance at the time helped labor unions

increase their influence in the workplace (Von Fintel, 2016).

Unions played and continue to play a leading role in maintaining the nation's high unemployment rate. They are the leading cause of wage inflexibility and the misalignment between wages and productivity, which harms many firms' profitability. The gap between union and non-union wages has grown steadily since the end of apartheid. The common occurrence of union strikes severely disrupts firm outputs and competitiveness. In

best serving their members, unions naturally tend to be opposed to change and modernization. They seek government protection for old sectors that are no longer profitable rather than letting the country invest in innovative industries that could drive economic growth (Cohen, 2021). Essentially, unions help perpetuate South Africa's low levels of productivity growth.

Even though unions pose problems to growth and development in South Africa, union membership continues to grow because union membership means higher wages and better working conditions. For example, public sector workers in a union see an over 20 percent wage premium compared to those not in a union (Von Fintel, 2016). Another reason for the increase in union power is the extensive presence of union advocates in the South African government. Many early union leaders became politicians, such as President Ramaphosa, and thus continue to give unions deference when creating laws and policy.

**“It is really difficult to hire and fire folks”  
in South Africa’s labor landscape.**

- Former US Economic Counsel to South Africa

### **The impact of restrictive labor laws on employers**

Aforementioned, the end of apartheid led to the creation of labor laws intended to foster a more equal and representative labor market. Regrettably, the well-intentioned legislation drastically increased the costs of firing and hiring full-time labor (Leibbrandt, 2008). These acts instituted high minimum wages and rules that discouraged employers from expanding their labor force. For example, strict union and collective-bargaining rights make it incredibly challenging to discharge workers. Such policies lead to employers hiring fewer workers than they would otherwise, increasing unemployment. Employers then sought other pathways to meet their labor needs. For example, employers used to hire more part-time or temporary labor since they were not subject to the same protections as full-time workers; however, a 2015 amendment to the Labor Relations Act stated that temporary or part-time workers working at a firm for lon-

ger than three months were considered full time workers (Von Fintel, 2016). In response, employers began replacing labor with capital moving towards more capital-intensive production. There has also been an increase in firms outsourcing work when possible (Leibbrandt, 2008).

South Africa's labor legislations make it harder to create and run businesses. Strict rules and excessive bureaucratic procedures prevent many companies from formally establishing themselves and lead small businesses into bankruptcy because the rules apply equally to small and large businesses (McDermott, 2019). These laws also make it harder for entrepreneurs to access the necessary capital needed to finance their businesses. As a result, many people who could have worked in these businesses remain unemployed.

### **The impact of restrictive labor laws on rural workers**

An issue facing many South Africans seeking employment is the high cost of searching for work, resulting from the high cost of commuting. Under apartheid, the government divided the country into sections where non-white ethnic groups were forced to live. These sections were rural areas, often far from cities, where most non-white South Africans still live. Having to pay for transportation to the city is especially burdensome for an individual with no job. Even if individuals find a job, they often cannot afford to live in the city, so they continue to live in the periphery of cities and spend large portions of their time and income on commuting. Commuting costs could be resolved if more businesses set up outside of cities and took advantage of the labor in rural areas. For businesses, moving closer to their workers is often more profitable. One big obstacle to this recommendation is that minimum wage laws are the same in cities as in rural areas (McDermott, 2019). Many businesses will likely not find it worthwhile to move outside of the city into rural areas.

# UNEMPLOYMENT

In 2019, nearly 40 percent of South Africans aged 15 to 34 were unemployed. South Africa accounts for 3.2 percent of unemployed people globally (McDermott, 2019). The COVID-19 pandemic has only made the situation worse. In the second quarter of 2020, South Africa's economy contracted 17.6 percent compared to the previous year. In April of 2020, the unemployment rate stood at 40 percent. Once the country went into lockdown, 43 percent of Black workers and 17 percent of white workers were laid off. 47 percent of all households ran out of money or found themselves cashed strapped, unable to buy food, which means nearly one in two people suffered from food insecurity (Steinhauser, 2020).

exacerbated the gap that existed between low-skilled and high-skilled workers. The introduction of new technology and production methods increased the demand for high-skilled labor relative to low-skilled labor. (CEPR, 2015). As the demand for labor at the turn of the millennium was mainly for high-skilled labor, many South Africans, primarily Blacks and coloreds who were undereducated

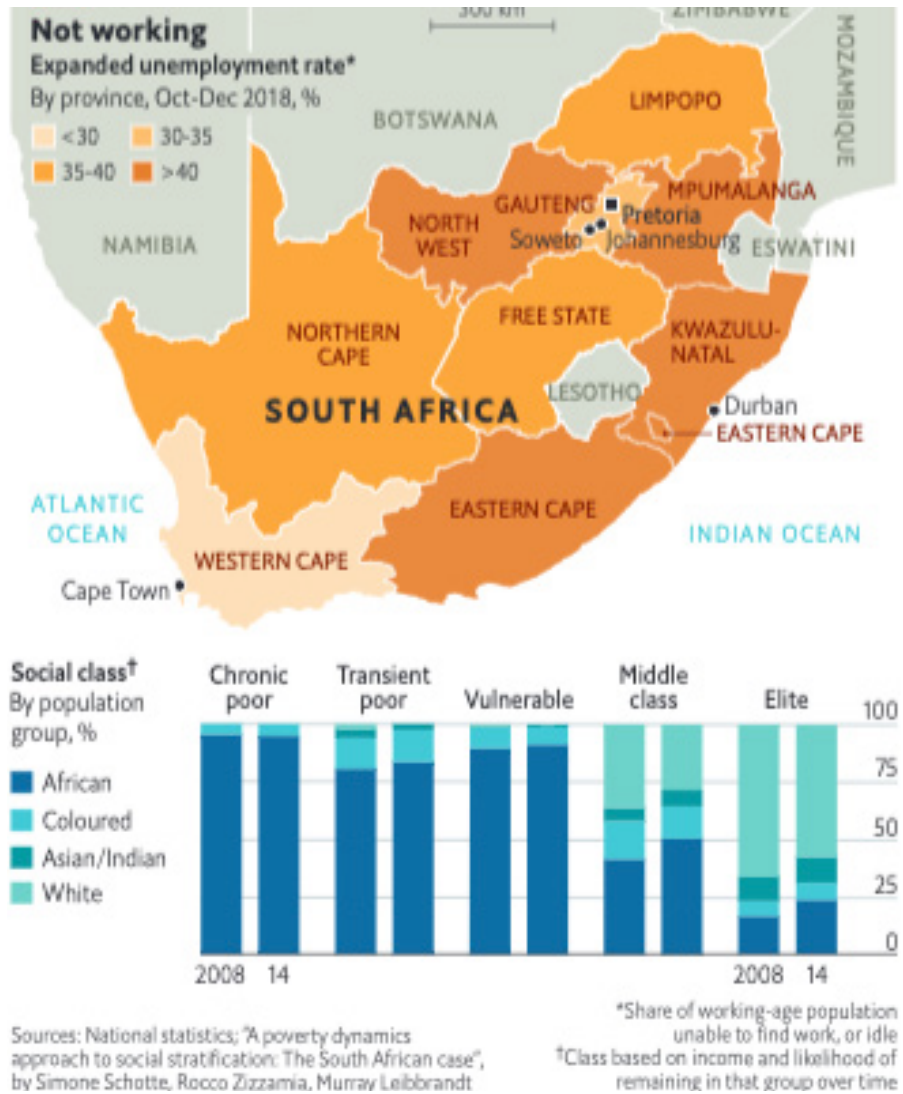
**“Being able to broaden employment is the key.”**

- Saul Musker, President's Office

This rise in unemployment increases what is already one of the world's most unequal societies. In 2019, The wealthiest ten percent of South African's owned 90 to 95 percent of the nation's wealth (McDermott, 2019). In short, without formal employment, many South African's find themselves pushed into poverty, which leads to greater dependence on government aid programs. The South African government has a generous aid program that provides income security for millions of South Africans. Since 1990, overall poverty in South Africa has decreased because of its generous social welfare program (Leibbrandt, 2008). That being said, high reliance on government aid suggests that the government has yet to combat unemployment. The government's failures are primarily because of the nation's overly rigid labor market policies.

When apartheid ended in 1994, the labor market saw an influx of new workers, most of them low-skilled. The economy struggled to integrate them (Leibbrandt, 2008). Meanwhile, new technological changes and innovations

during apartheid, found themselves unable to work. Unemployment rates post-apartheid and today resultingly vary significantly along racial lines (Leibbrandt, 2008). Today, South Africa's demand for skilled labor remains largely unmet, to the point that the country seeks to attract high-skilled workers from abroad. In contrast, the demand for unskilled labor fails to keep up with its supply, resulting in a paradoxical increase in both average wages and levels of inequality in the country.



Although labor force participation in South Africa is low, some parts of the labor market have, nonetheless, seen increased participation. Specifically, participation rates among women and people under 30 have risen. Conversely, these two groups also face the highest levels of unemployment, especially long-term unemployment (unemployment lasting for longer than a year). Likewise, many South Africans do not find work until around age 30 (McDermott, 2019). This situation indicates that the South African economy cannot create enough jobs to support the working-age population (Leibbrandt, 2008). The lack of new jobs is due to the nation's strict labor laws and high minimum wages, which creates an inflexible labor market and puts enormous constraints and costs on business, leading many employers to decide not to hire workers (Leibbrandt, 2008).

*Men warm themselves over a fire in a metal storage drum on a cold winter morning. Alexandra, 1992.*

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*Shack dwellers who lack propane cook on charcoal fires. Crossroads, Western Cape, 1992.*

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## LACKING INFRASTRUCTURE

South Africa's suboptimal infrastructure hampers economic growth and is a result of state-capture of SOEs (see *State Capture*).

Claire Barclay, a partner at Pinsent Masons LLC lays out how freight and passenger transport by rail “has steadily and then sharply declined” (Barclay, 2021). Theft of overhead cables, metro rail security, and poorly maintained stock have compounded the agencies’ problems. “Institutionally, both Transnet and PRASA have faced allegations

of poor management and procurement practices and were heavily implicated in the ‘state capture’ corruption scandal” (Barclay, 2021). Revitalizing rail will take decades to accomplish. Until freight rail becomes a competitive and reliable freight option, road networks will continue to disproportionately shoulder the wear and tear of freight trucks (South Africa Department of Transportation, 2017). Unfortunately, rail transportation is not the only important part of an export economy that needs targeted and well-managed

reinvigoration efforts.

For the past 15 years, the National Ports Act of 2005 has not been fully implemented, despite consensus on the need “to increase the efficiency and competitiveness of the ports” (Masondo, 2021). The South African Broadcasting Corporation continues to operate the country on analog instead of transitioning to digital infrastructure. Rolling blackouts have become a frequent occurrence in South Africa (Cameron, 2021). Leaky pipes lead to



Miles, *Daily Dispatch*, 13/02/2019

“25 percent of total water consumption and 68 percent of non-revenue water” (Teagle, 2015).

The government launched Operation Vulindlela to address these problems and reinvigorate the economy. Per South Africa’s national treasury, Operation Vulindlela seeks to “modernize and transform network industries, including electricity, water, transport,

and digital communications” (South Africa National Treasury, 2021). Over its first few months, Operation Vulindlela raised the licensing threshold for embedded generation, revived the blue-and green-drop water quality assessment system, and established a National Water Resource Infrastructure Agency (BusinessLIVE, 2021). The importance of Operation Vulindlela’s impact would be hard to

overstate as the infrastructure it affects is a “bedrock of economic growth . . . essential to creating a globally competitive economy” (South Africa National Treasury, 2021). The continued success and efforts to build upon it will lay the foundation for booming economic growth.



# IMPEDIMENTS TO GROWTH & PROSPERITY



## State Capture

State capture by the Zuma administration has resulted in corruption permeating all levels of government— municipal, provincial, and national— increasing the costs of procurement deals and reducing the competency of officials in critical roles like the management of Eskom, South Africa’s energy generation enterprise, as well as many other SOEs.

## Labor Market Rigidity & Unions

The end of apartheid led to the creation of labor laws intended to foster a more equal and representative labor market. Regrettably, the well-intentioned legislation drastically increased the costs of firing and hiring full-time labor (Leibbrandt, 2008). These acts instituted high minimum wages and rules that discouraged employers from expanding their labor force.

## Unemployment

As the economy stagnates, unemployment is high (43.2% among 15-34 year-olds in 2020), and made worse by excessively powerful unions and rigid labor laws. The stagnant economy and a culture of non-payment shrink an already insufficient tax base, which prevents the government from improving provision of services, creating a vicious cycle that traps many South Africans in poverty.

## Lacking Infrastructure

As a result of state capture, inefficient spending, and longstanding inequities, the government fails to provide basic infrastructure and services like public transit and education.



*A rally at Orlando Stadium. Nelson Mandela campaigned to become South Africa's first Black and first democratically elected President. Orlando, Soweto, 1994.*

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## RESILIENCY & HOPE

This memo places a focus on the problems confronting South Africa. Understandably, it can therefore place it in a poor light. When reading through it, please bear in mind that, like all nations, South Africa exceeds a sum

of its challenges. South Africa's interchange of cultures and peoples is singular but serves as a basis for the nation's role as a global example of transracial unity. Archbishop Tutu's Truth and Reconciliation Com-

mission (TRC) has become the framework for setting up TRCs abroad. South Africa's TRC was successful because South Africans dedicated themselves to overcoming the ghosts of apartheid by all means nec-

essary. With that same dedication, South Africa can surely overcome its current economic, social, and political problems.

# **OPPORTUNITIES FOR GROWTH & PROSPERITY**

# OPPORTUNITIES FOR GROWTH & PROSPERITY



## How might South Africa turn its situation around?

For South Africa to turn toward prosperity, it needs to be more open to international markets, move towards fiscal sustainability, and address the recent credit downgrade to regain its credibility. Then, it must implement preventative reforms to ensure future economic growth and strengthen its healthcare system and infrastructure. A major component of these reforms will be addressing the extant effects of apartheid. Finally, South Africa must not shy away from climate change and green energy policies. Climate change

will increase risk in all sectors of the South African economy, but it will also provide new growth and development opportunities. By implementing these recommendations, South Africa can take advantage of its strengths and reform its weaknesses, making it a prominent player in global markets.



### SOUTH AFRICA'S PROMISE BACKGROUND & HISTORY



### IMPEDIMENTS TO GROWTH & PROSPERITY



### OPPORTUNITIES FOR GROWTH & PROSPERITY

**An Export-Oriented Mindset**  
**Laying a Foundation**  
**Rectifying a Sordid Past**  
**A Greener South Africa**



### APPREHENSION & HOPE

# AN EXPORT-ORIENTED MINDSET

The government must implement economic reforms that ensure South Africa remains competitive in international markets. Meaning, any economic reform the government pursues must focus on increasing the nation's exports. If the government does not focus on increasing exports, it runs the risk of reducing the amount of foreign capital flowing into the country, which is vital to jump-starting the economy.

With that being said, several obstacles make it difficult for the government to pursue an export-oriented agenda. For example, the lack of sufficient investment into trade infra-

structures like distribution networks, border control standards, and storage facilities has crippled the nation's ability to remain competitive globally. It has also turned away many potential foreign investors. Also, increased global competition has made South Africa's current strategy of primarily exporting raw materials obsolete since most of the trade demand is for goods higher up the production chain. The last and most important obstacle that the nation must overcome is its labor and education policies. Reforms in unemployment and education will be critical in improving the nation's productive capacity and promoting sustained economic development.



## SOUTH AFRICA'S PROMISE BACKGROUND & HISTORY



## IMPEDIMENTS TO GROWTH & PROSPERITY



## OPPORTUNITIES FOR GROWTH & PROSPERITY

### **An Export-Oriented Mindset**

Labor & Employment

Education

Fiscal Sustainability

Credit

Monetary Policy & Debt

Trade

Agriculture

Laying a Foundation

Rectifying a Sordid Past

A Greener South Africa



## APPREHENSION & HOPE

## LABOR & EMPLOYMENT

Three of South Africa's most chronic problems are poverty, inequality, and unemployment. The Covid-19 pandemic has exacerbated these issues. The underlying cause that ties the three of them together is the country's labor market policies.

### Combating Unemployment

To begin combating unemployment, inequality, and poverty, South Africa must implement small solutions that bring about change in both the short and long run. In the long run, South Africa must change some of its labor policies to make the market less rigid and reduce labor union influence in the legislative process (see *Labor Market Rigidity & Unions*). In the meantime, the country must undertake smaller solutions that mitigate the existing issue. The first concern relates to the mismatch between the skills the market demands and skills worker's supply. The government can directly influence labor demand by employing the nation's unskilled labor. For example, the government could temporarily put people to work on public works projects. By participating in public work, workers would receive some form of skills training that would make them more marketable to private-sector employers (Leibbrandt, 2008). One of the main benefits of such a program is that it would create jobs where people live. Additionally, worker retraining is crucial to fostering economic growth and ensuring that workers are not left behind. The government has said it will work with SETAs (Sector Education and Training Authorities) and TVET (Technical Vocational and Educational Training) colleges to produce artisans with the skills to improve the country's infrastructure (South African Government, 2020). The government has also said it will emphasize workplace and industry training to strengthen the skillbase. Although these efforts are admirable, vocational training programs have been inefficient because they do not graduate participants with relevant, job-ready skills (McDermott, 2019). The government should not move away from such programs but instead assess the effectiveness of existing programs and implement them accordingly.

As previously stated, women and youth face the highest levels of unemployment, especially long-term unemployment. To combat the low demand for female and young adult labor, the government should implement a wage subsidy program. In this program, the government pays a portion of

the wage a young person or woman would make at a company, decreasing the cost and risk employers face when hiring these laborers (Leibbrandt, 2008). The subsidy's goal is that the human capital the workers acquire will make them more attractive to the employer. The subsidy is meant to turn workers into full-time employees within the company. The subsidy program also benefits the government: the cost of subsidizing workers is offset by an increase in the productivity of the labor force. These gains in productivity lead to greater economic growth for the nation. Such a program is ultimately a purely short-term solution, and longer-term solutions are needed.

**"In South Africa, the biggest risk for business is country risk."**

— Nick Binedell,  
Professor of Business Science, University of Pretoria

Fortunately, the government has moved towards addressing youth unemployment and the labor market skill deficiency in the long term. To accomplish this goal, the government hopes to utilize SETAs, specifically, the Presidential Youth Employment Intervention program (South African Government, 2020). The program focuses on five areas: (1) creating demand for youth employment, (2) addressing key barriers preventing youths from finding jobs like data shortages, (3) reducing commuting costs to make hiring more inclusive, (4) addressing skill mismatches, and (5) connecting young people with opportunities. The program relies on a digital platform that tracks young people's development in the labor market and connects them with opportunities. Part of the program includes a pay-for-performance system that emphasizes skills like programming and data science. The scale of this program is not yet large enough to have a sizable impact. Still, it has received substantial support and funding from international donors, with the expectation that it will continue to scale up.

## Developing key sectors to drive growth

The development of the nation's key economic sectors like agriculture and tourism is also an essential step towards economic growth (South African Government, 2020). The government should therefore directly promote growth in these sectors through subsidies and tax cuts. It should start by streamline the licensing requirements, which will lead to greater participation in these sectors. Likewise, the government should make a concerted effort to offer sector-specific training programs and provide small loans to help entrepreneurs. These interventions will be a powerful, immediate stimulus to both tourism and agriculture. Further, to foster long-run growth, the government must invest in better infrastructure, such as roads and utility access, to allow for reliable production and input returns.

## Promoting a business-friendly environment

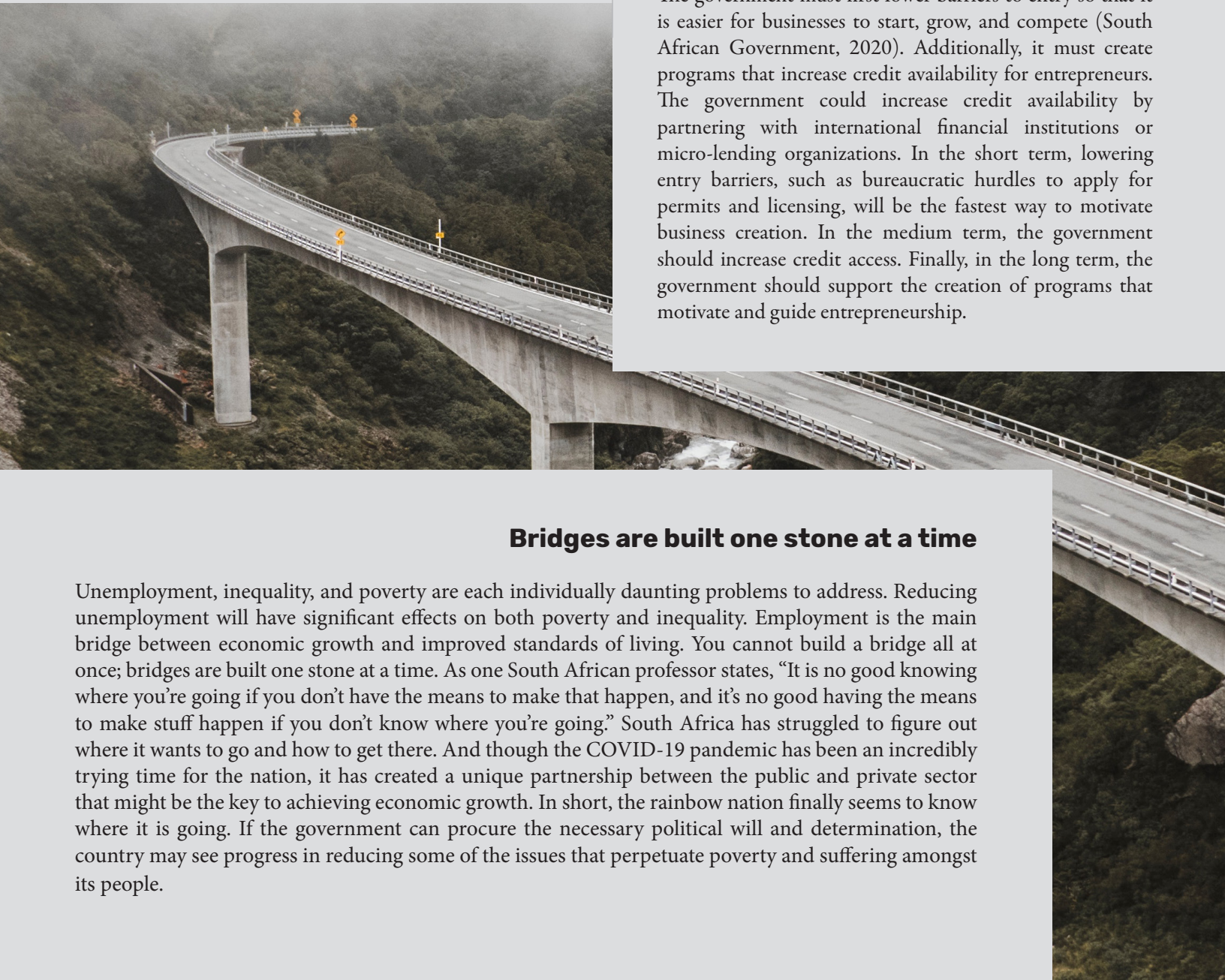
As COVID-19 overwhelmed South African hospitals the government looked for solutions to clear hospital beds; The government decided to ban all liquor sales. While this did lead to fewer hospitalizations and empier ERs, the blanked move by the government was a huge hit to South Africa's massive liquor industry, costing hundreds of thousands of jobs in a country that is already suffering from ballooning unemployment. *See more on the alcohol ban on page 72.*

The alcohol ban captures the South African business community's frustration with the lack of prioritization the government places on a healthy business enviornment. A landscape favorable to entrepreneurs will be an important driver of economic and productivity growth.

The government must first lower barriers to entry so that it is easier for businesses to start, grow, and compete (South African Government, 2020). Additionally, it must create programs that increase credit availability for entrepreneurs. The government could increase credit availability by partnering with international financial institutions or micro-lending organizations. In the short term, lowering entry barriers, such as bureaucratic hurdles to apply for permits and licensing, will be the fastest way to motivate business creation. In the medium term, the government should increase credit access. Finally, in the long term, the government should support the creation of programs that motivate and guide entrepreneurship.

## Bridges are built one stone at a time

Unemployment, inequality, and poverty are each individually daunting problems to address. Reducing unemployment will have significant effects on both poverty and inequality. Employment is the main bridge between economic growth and improved standards of living. You cannot build a bridge all at once; bridges are built one stone at a time. As one South African professor states, "It is no good knowing where you're going if you don't have the means to make that happen, and it's no good having the means to make stuff happen if you don't know where you're going." South Africa has struggled to figure out where it wants to go and how to get there. And though the COVID-19 pandemic has been an incredibly trying time for the nation, it has created a unique partnership between the public and private sector that might be the key to achieving economic growth. In short, the rainbow nation finally seems to know where it is going. If the government can procure the necessary political will and determination, the country may see progress in reducing some of the issues that perpetuate poverty and suffering amongst its people.





*At a new government-built housing project, part of the ANC's Reconstruction and Development Program, a young man practiced heading a soccer ball. Before the end of apartheid, rugby had been the sport most closely identified with white South Africa, and soccer was the most popular sport among Black South Africans. In 2010, South Africa hosted the World Cup soccer tournament, a major achievement for the new democracy. Eden Park, East Rand, 2009.*

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## EDUCATION

Education is a policy area where the government should dream big and execute small. Reforms must increase accountability, quality, and student achievement. The increased presence and power of unions, specifically the teacher's union, within the legislative process, however, make it difficult to enact effective education policy. With that being said, the government must push significant overhauls to the education system. The primary education system is plagued by ineptitude – both on an organizational scale as well as an individual one. Some schools lack flushing toilets, while others have teachers who themselves are not proficient in the subject being taught. The poor quality in primary school education makes teaching effective secondary education difficult. Without adequate secondary education, students find themselves without the skills

that the labor market demands, which leads to greater unemployment.

To address these issues, in the short term, the government might apply patchwork solutions, like doubling down on successful charter schools, granting additional charters to replace or compete with the worst performing public schools. This approach could increase the number of skilled youths entering the workforce. Long term, the government should invest in basic infrastructure and services, such as plumbing and internet access. Nonetheless, it must ensure that its long-term strategy includes increasing teacher accountability and quality as well as reducing the influence of the teacher's union in the legislative process.



## A building is only as strong as its foundation

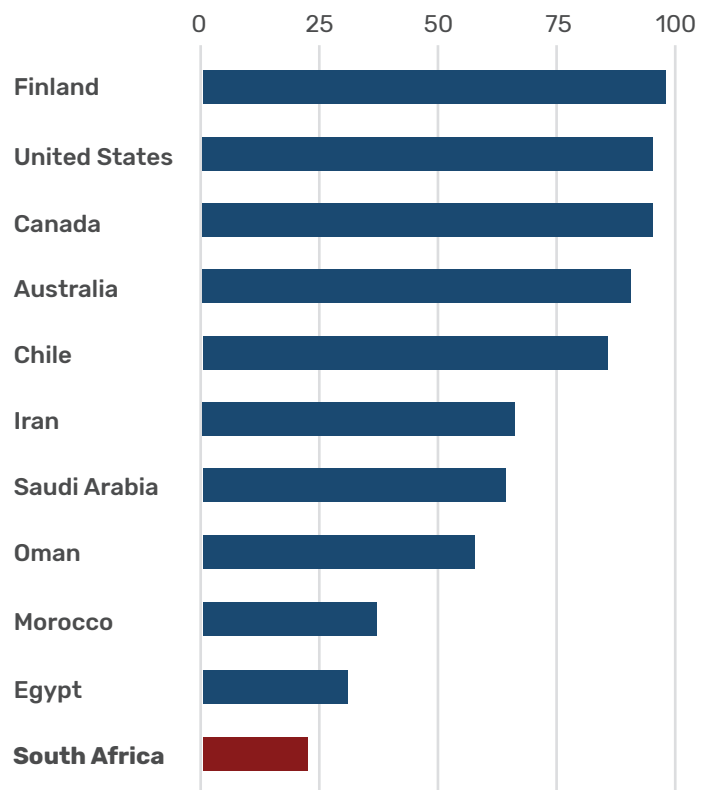
Education policy must focus on improving education for primary school-aged children. Without adequate primary education, many students are left without the foundational math and reading skills needed for secondary education, post-secondary education, and full-time employment (South Africa National Treasury, 2021). Investment in early childhood development improves long-term health outcomes, boosts earnings by as much as 25 percent, and generates a rate of return on investment of seven to ten percent. In other words, investment in primary education pays for itself.

One way to improve the overall quality of primary education is to consider funding high-performing, low-cost private schools when opening new primary schools. While some have called for these schools to take over low-performing government schools, no evidence suggests “takeover” operations are effective. A growing body of evidence contends that private schools can open and operate high-quality schools that outperform government schools at a fraction of the cost. For example, SPARK Schools, a network of private schools, can open a school for approximately two million USD, roughly half the cost it would take the government to open. It is a rare scenario for policymakers to “eat ice cream and lose weight,” but spending less on education to get better outcomes is one such scenario. Therefore, the government should allow schools like SPARK to open in place of government schools in areas with scheduled or necessary openings, either with or without subsidies.

With that being said, the government can take steps to improve public school education. One immediate solution is implementing a core curriculum that focuses on English and Mathematics; these subjects should be the initial targets before investing in others (South Africa National Treasury, 2021). A consistent core curriculum will allow for free, generalized education sessions to be streamed on television or online to provide additional learning tools to reinforce schooling, which will help improve educational attainment in the short term.

## Must try harder

Students reaching low international benchmark in reading, 2016, selected countries, %



Source: *The Economist, Progress in International Reading Literacy Test*

## Post secondary education and worker training

As previously mentioned, improving primary school education is the best way to ensure more students reach secondary school. Secondary schooling must then prepare students for higher education and employment. Currently, secondary education does not prepare students for the labor market. As one expert told us, “the average secondary school graduate does not get her first job until the age of 30. By that time, most of them will be parents.” To close this skills gap in the short term, the government should incentivize private-sector job-training programs that prepare uneducated secondary school graduates for jobs they can attain immediately after graduation. One such program is a youth teaching program, in which young adults are hired to aid teachers in the classroom. This program has improved classroom ratios and provided minimum wage employment for young people. This program could become an apprenticeship system: such a system would increase the supply of able and experienced teachers in South Africa. Longer-term, the government must improve teacher quality by creating a system that holds them accountable.

## Effective education policy demands courageous leaders

Effective accountability measures must be enforced on teachers to ensure quality. On average, South African teachers spend around three hours per day teaching – nearly four hours less than teachers in the United States (NCES). In addition, many of these teachers are unqualified or underqualified. The Economist's John McDermott notes, "Nearly four in five maths teachers cannot do the sums expected of their 12 or 13-year-old pupils" (McDermott, 2019). Addressing these issues in teaching quality cannot happen without first reducing the power and influence of teacher unions. Teacher unions are a significant barrier to necessary teacher requirements, specifically policies that increase accountability like testing. Basic education minister Angie Motshekga has taken some steps to limit teacher union power, but these steps are not enough. For South Africa to have an effective education system, Minister Motshekga must lead the nation in the right direction, even if that direction leads to an uncertain political future. Too many current and future students' futures hang in the balance; the government must

act now and without delay.

Without unions holding such legislative sway, the government could improve teacher quality. One way to do so is to provide better incentives for teachers. The profession must be seen as an essential and integral part of South African society. The qualifications and requirements necessary to achieve a teacher's degree must ensure that teachers know the subjects that they teach. The 2020 National Development Plan calls for prioritizing a "results-oriented mutual accountability system" (National Planning Commission, 2013). This system is enforced and communicated through the school principal, who must meet specific requirements to demonstrate that they are qualified for the position. Leadership is vital to enforcing teacher accountability as administrators have direct access to everyday teaching styles. Unfortunately, in 2015, the Annual National Assessments (ANA) were stopped, removing an essential mechanism for monitoring teacher performance. The ANA and other quantifiable measures should be reintroduced.

They help compare learning outcomes and school performance in similarly resourced districts, making it easier to identify and remove underperforming teachers (National Planning Commission, 2013). Increasing requirements and pay would enhance the profession's prestige and attract talented teachers that would be more dedicated to the profession.

With that being said, teacher accountability does not only concern overall performance. Safety is a fundamental component of education. It is essential to protect South Africa's youth. If students feel unsafe in the classroom, learning is not the focus point. In sexual harassment and assault cases, an established system is needed to hear concerns and impose consequences. A guilty teacher or administrator should be removed, and the unionized job security should not extend protection in these instances.

## Keeping the chicks in the nest

Having some of the most renowned universities in the world, South Africa is in a position to accelerate growth by developing domestic talent, even as South Africa's bloated bureaucracy continues to reduce the quality of the nation's universities. Universities thrive when they spend more time educating and funding research projects. Bureaucratic red tape forces South African universities to spend more time filling out needless forms. The government should therefore reduce the amount of paperwork needed to apply for

grants and other aids. It should also expand the number of funding grants it offers, especially for innovative projects. Universities should also consider increasing remote learning opportunities, which have become popular due to the Covid-19 pandemic. Online learning removes cumbersome and sometimes prohibitive costs like housing, giving more students access to advanced degrees.



*An inter-racial married couple, Felicity and Ralph, both 33, enjoyed a weekend picnic and a game of Scrabble in a part at Zoo Lake. A few years earlier they would have been committing a crime. Johannesburg, 2009.*

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## FISCAL SUSTAINABILITY

Before the COVID-19 pandemic began in South Africa, the country was in the midst of a two-quarter-long recession. The pandemic deepened the present economic suffering. Millions lost jobs and went hungry. Inequality widened and poverty deepened (South African Government, 2020). The government reacted with a stimulus plan larger than that of any other BRICS member and even larger than those of wealthy nations like South Korea or Canada. The South African Economic Reconstruction and Recovery Plan (ERRC) amounted to 500 billion rand (26 billion USD), or ten percent of the nation's GDP (Bhorat et al., 2020). The stimulus significantly increased the nations already ballooning debt, which

in September of 2020 accounted for 75.2 percent of nominal GDP (CEIC, 2020). If the nation does not address its current debt crisis, it could face severe economic downturns.

As a result of the COVID-19 pandemic, South African debt is now predicted to exceed 100 percent of GDP by 2025, which could put the nation in a precarious situation and damage its long run growth prospects (Sguazzin et al., 2020). A debt to GDP ratio of over 100 percent for a middle-income economy erodes government credibility and confidence among domestic and foreign investors. A high debt to GDP ratio can actively depress economic

growth. A World Bank study found that countries lose an average of 0.02 percentage points for every percentage point over 64 percent debt to GDP ratio (Bhorat et al., 2020). Meaning, South Africa is losing an average of 0.22 percentage points per year of economic growth to its debt alone. In times of economic crisis, increased government spending is usually a tool used to help stimulate the economy. South Africa has, however, exceeded the level of debt to GDP ratio at which additional government expenditure positively impacts growth (Burger et al., 2020). As such, the government must reform spending so that it spends more efficiently while maintaining what funding aids economic recovery.

## Achieving fiscal sustainability

To achieve fiscal sustainability, South Africa must restore international confidence in its economy, improve government expenditure efficiency, and improve revenue mobilization (Bhorat et al., 2020).

In March 2021, Moody's and other international rating agencies downgraded South Africa's debt to junk status. Poor debt ratings scare foreign investors and put undue pressure on domestic capital markets. According to a U.S. diplomat, the recent downgrade of South African debt will make it more costly to restart the economy. Several South African leaders argue that even with the debt downgrade, the best path forward is to have the South African Central Bank create more money with which the government could address the current crisis. These leaders argue that because ten percent of the nation's debt is external, the government

erode confidence in the South African economy. In short, as a prominent business executive states, "If the neighborhood where your supermarket is, is not good enough, no one will go to that supermarket." Printing money worsens the neighborhood and makes long-term economic stability and recovery less likely.

The South African government has not yet resorted to printing money but instead borrowed from the IMF for the first time since apartheid. The IMF's 4.3-billion-dollar loan to South Africa did not come with many strings attached. Many government officials were still against the loan, attacking it as a loss of sovereignty (The Economist, 2020). If South Africa continues to ignore its spiraling debt, it may find itself asking the IMF for more loans, which would undoubtedly come with stricter conditions. These conditions

may include having the government curtail fiscal spending by cutting pensions or cutting government workers' salaries and benefits.

To avoid future IMF solicitation, South Africa must improve government expenditure efficiency. Under President Jacob Zuma, South Africa's bureaucracy expanded to the point that when President Cyril Ramaphosa came into power, the government spent about 1.3 million on public service staff and around 60 percent of provincial budgets on personnel (Government of South Africa, 2021). Between 2008 and 2016, government salaries

rose 1.8 percent faster than inflation, effectively doubling by 2021 (Government of South Africa, 2021). The gap between public and private wages has therefore widened, which has increased inequality and depressed job creation. The size of the government wage bill has risen since 2009 from comprising roughly nine percent of government expenditure to roughly 12.5 percent (Burger et al., 2020). According to a recent study on COVID-19 crisis's impact on



10 Rand Note. Photograph courtesy of Becky McCray, via flickr.com

can afford to borrow more from itself and increase the debt to GDP ratio beyond 100 percent without any issue. The South African government has not yet moved in this direction, but Deputy Finance Minister David Masedo has urged the government to print more money to lessen the economic impact of the pandemic (Reuters, 2020). Printing money to deal with the current economic crisis could lead to an inflationary crisis and would only continue to

the South African economy, “the combined increase in the percentage of GDP of compensation of employees and purchases of goods and services [by the government] almost equals the adjustment required in the primary balance to ensure the stabilization of the debt/GDP ratio at 100 percent [of GDP]” (Burger et al., 2020). In other words, to address the rising debt and move towards fiscal sustainability, South Africa must diminish the large bureaucracy President Zuma built.

Another critical area of government spending is investment. Investment efficiency has deteriorated in the nation due to waste and corruption (Bhorat et al., 2020). Correcting the situation must include diminishing state capture. An important step will be reducing funds unnecessarily spent on government bureaucracy or state-owned enterprises. One solution is for the government to take a centralized approach toward aid programs. When the government seeks to address some societal issue, many microprograms sprout up from several government departments and at all levels of the bureaucracy. These programs then receive funding to address the issue at hand. While many of them succeed to some degree, funds would be better spent if they exploited economies of scale (McDermott, 2019). Such an approach to aid would increase governmental efficiency and would likely even allow the same program efficiency levels to be achieved with fewer funds.

The most crucial step towards fiscal sustainability may be improving the South African government’s revenue collection and management practices. Over 60 percent of South African tax revenue comes from personal income tax and value-added tax (VAT), which account for roughly 40 percent and 25 percent of tax revenue, respectively. The distribution of tax revenue is problematic because only 4.5 million South Africans pay personal income tax that is then used to fund social grants for 17 million South Afri-

cans (SAFPP, 2020). Corruption largens the issue, as poor expenditure creates tax immorality (see *State Capture*). In short, the South African Revenue Service (SARS) has lost the confidence of the people, and until they regain it, the country’s revenue collection will continue to suffer.

Though the South African government desperately needs to increase revenue, it can only do so by increasing tax payment compliance and boosting confidence in the SARS,



*The South African government desperately needs to increase revenue, but with low confidence in SARS and the need to promote small businesses, collecting and raising taxes is not so easy.*

not by raising taxes. Under the current economic and health crises, an increase in taxes would only contract the economy further. Without boosting confidence in the SARS, a tax increase would likely only lead to more noncompliance and even less revenue. For example, over the last five years, South Africa has been increasing its taxes without seeing a significant difference in its revenue streams. Simply put, raising taxes has no impact on revenue if there are simultaneously declining tax compliance levels as a reaction to higher taxes. High taxes also make it more challenging to create and operate a small business. The lowest tax bracket in South Africa is 18 percent of income, and the next lowest is 31 percent of income. The highest tax bracket is 45 percent of income (Mandy, 2020). These are tax levels comparable to countries like the United Kingdom and France, which provide citizens with top-quality universal healthcare, schooling, and infrastructure, amongst other things. On the other

hand, developing countries like Kenya or Mexico, whose social services are more comparable to those in South Africa, tax most citizens around 20 percent of their income and at most 30 percent. South Africa's tax rates are excessive, and they aid the unemployment problem by further discouraging formal employment and business creation.

**“In recent years, the government’s strategy has rested on structural reforms to promote medium-term growth as well as on fiscal consolidation. However, while the strategy remains in place, implementation risks have risen materially.”**

- Moody's Investor Service

Rationale on downgrading South Africa's debt to Ba2 (junk)

To increase confidence in SARS, the government can begin by demonstrating efficient expenditure. As previously mentioned, South Africa's tax rates are at the level of high-income, European nations, but it fails to provide similar services. The primary reason is state capture. Government funds get diverted toward enriching a small few. If South Africa increased its tax base and reduced state capture, it would incorporate enough tax revenue to provide better social services, improve national infrastructure, and strengthen the national healthcare system. These improvements would show South African taxpayers that their taxes are appropriately invested, thus motivating tax compliance and increasing revenue collection.

With that being said, tax compliance should not be voluntary. South Africa needs to improve its revenue collection mechanisms' efficiency and accountability, and the private sector can help. Private sector actors can offer competence and technical know-how, and digital solutions that match amounts owed with amounts received, creating a way to hold people accountable for tax evasion. Yet, taxing personal income should not continue to be the largest source of tax revenue, as more than 40 percent of South Africa's population is unemployed. The current system puts an undue tax burden on a small income tax base. Taxes should, at least temporarily, shift toward other categories such as property or emission taxes, which affect middle-class wage earners less. A particular focus should be taxing businesses and consumption goods (Mandy, 2020).

Taxing business operations and consumption goods will only be successful, however, if the government does not raise business taxes but rather monitors tax compliance more closely. Increasing taxes would deter business investment and competitiveness (Burger et al., 2020). One specific way to increase revenue from business taxes is to revise policies around VATs. VAT payments for businesses selling under one million rand (almost 70,000 USD) should be voluntary. In addition, rather than excluding specific categories or items from having a VAT, a system could be implemented so that VATs are lower for certain item categories or people who receive safety net payments or who earn under a certain income threshold (Mandy, 2020).

In conclusion, a stable and sustainable tax revenue collection system will rebuild confidence in the South African economy and the SARS. Increased confidence will correspondingly attract foreign investors and fuel domestic growth. Fiscal sustainability is crucial to South Africa's economic success and recovery. The COVID-19 crisis has forced the government to increase the nation's debt drastically and has placed it in a precarious position that might cause it to knock on the IMF's door once again. With or without the international community's help, however, South Africa needs to lessen the overgrown bureaucracy and undergo a healthy transition from expansionary fiscal policy to fiscal consolidation (Bhorat et al., 2020).



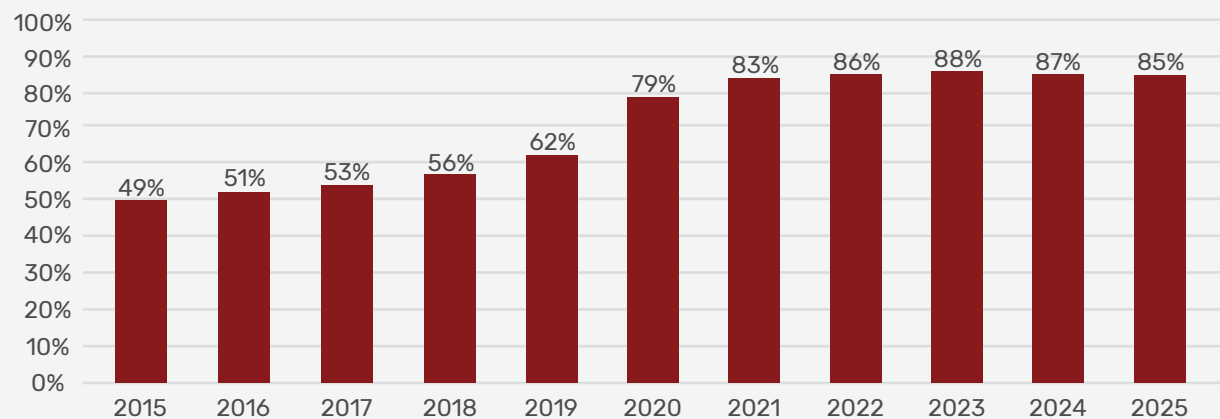
## CREDIT

The rise in the government's debt-to-GDP ratio could make it difficult for the nation moving forward. If capital continues to pour out of the country and interest rates rise, South Africa runs the risk of having the rand depreciate further in value. To prevent a worst-case scenario, South Africa must focus on increasing participation in its

local bond markets, which are well-developed. These markets provide the potential to tap debt into debt markets with more favorable terms when the national government is experiencing an economic downturn (Kganyago, 2020). Second, the government needs to establish clear and credible measures towards stabilizing its debt (see

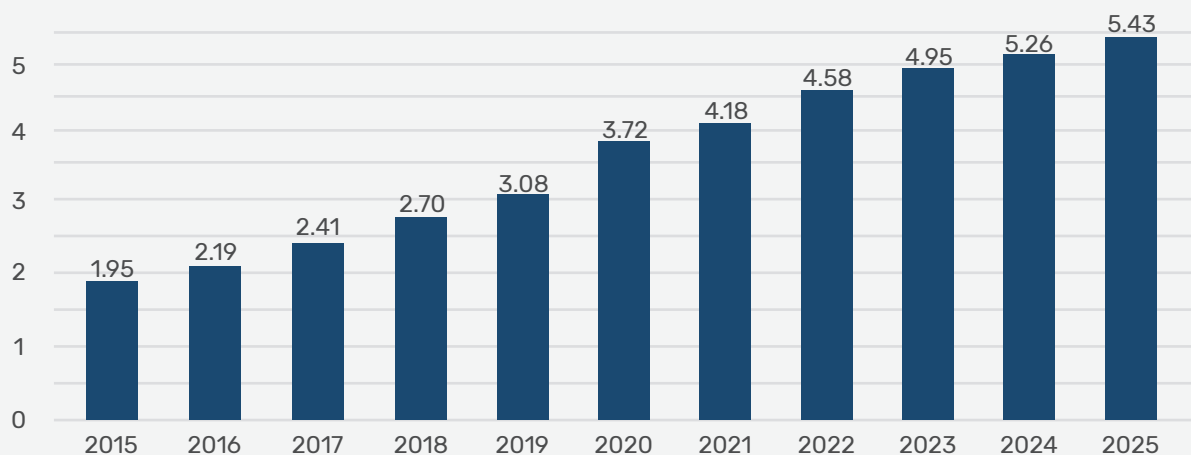
*Fiscal Sustainability*). Finally, in the long-run, South Africa must restore confidence in its long-term growth prospects by addressing its growing inequality.

### National Debt as a proportion of GDP



Source: Statista

### National Debt (in trillion South African Rand)



Source: Statista

## MONETARY POLICY & DEBT

South African post-apartheid monetary policy did bring about reasonable and necessary changes to the economy. Those changes were still not enough to rid the country of the structural inequities created under apartheid (Bhorat et al., 2016). These inequalities make effective monetary policy difficult. As a result, it may seem as if monetary policy has little to no impact on curbing unemployment and promoting growth. That is, however, not the case. Monetary policy alone may not be the key to success, but its effect on growth is not negligible (Bhorat et al., 2016).

### Economic Liberalization

Before 1995, the South African government exerted significant control over the flows of capital using a dual currency system. Under this system, foreign investments were sold using the financial rand while domestic investors and investments used the commercial rand (Leape, 2009). The dual currency system, created in the 1960s, was an effective tool in the 1980s and 1990s at combating the outflow of foreign capital, which resulted from dissatisfaction with South Africa's apartheid policies.

The end of apartheid in 1994 brought a multitude of economic changes and reforms. These changes were intended to reinvigorate the South African economy and make it more equal. Several reforms were directed towards increasing foreign capital inflows and domestic capital outflows. For example, in 1995, the government removed all exchange control restrictions on foreign investors (Leape, 2009). In addition, it gradually increased the number of foreign investments that institutional investors could have (Leape, 2009). The government also abandoned direct control of its exchange rate, moving from an interventionist fixed rate to a free-floating market-determined rate, shifting its focus towards targeting inflation (Leape, 2009).

*100 Rand Note, featuring Nelson Mandela. Photograph courtesy of ixmatex wu, via flickr.com*



### Unemployment & Inflation

During the global financial crisis in 2008, even as the SARB lowered interest rates, cyclical unemployment continued to rise. The 2008 crisis exposed two problems: the first is that it demonstrated how South Africa's monetary policy might not be able to impact short-run labor market adjustments (Bhorat et al., 2016); second, structural factors may make it near impossible for monetary policy to affect unemployment. If the regulatory environment increases the hiring and firing costs for firms, monetary policy alone cannot lower the unemployment rate, and currently, South Africa's anti business environment makes it hard for monetary policy alone to curb unemployment.

### Effective monetary policy demands reasonable inflation measures

South Africa's shift towards targeting inflation was necessary for moving the country forward post-apartheid. Inflation targeting must however consider the "inflationary experiences of households in the bottom half of the income distribution" (Bhorat et al., 2016). As one of the most unequal societies in the world, South Africa must consider how it measures inflation so that it does not fail to account for the consumption needs of poor South Africans. The

government must ensure that it considers the differences in inflation cycles that arise across income distributions (Bhorat et al., 2016). The government cannot continue to target the consumer price index (CPI), or it runs the risk of experiencing "unpredictable inflationary outcomes" (Bhorat et al., 2016).



## The merits of debt-spending

Unlike most other upper-middle-income economies, South Africa has low levels of external debt because it has a well-developed domestic bond market. These low levels of external debt have led some to argue for increased government spending to combat the Covid-19 pandemic. According to some economists, increased government spending that exceeds GDP is both necessary and safe. To finance such spending, South Africa would loan itself the necessary funds, avoiding taking a loan from the IMF. One major con-

cern of this proposal is that printing large amounts of money will likely increase inflation. According to one economist we spoke with, the government can avoid increasing inflation if it allocates those funds towards development-oriented projects and not state capture. Without an effective accountability system, there is no way of telling where funds go, and the current political environment suggests that a good amount of government-printed money would go toward political loyalists and allies. Additionally, in-

creasing government spending does not fix the underlying structural issues. At best, this solution is short-term. At worst, it could weaken the South African economy. Increasing government spending might be a viable option for developed nations like the United States, but increasing spending will likely only exacerbate South Africa's current crisis.



## TRADE

**“South Africa cannot be concerned with exporting to the world when it cannot even export to its neighbors.”**

Trade is a key driver of economic development. Effective trade policy can transform the South African economy. If South Africa wishes to compete globally, however, it must first revisit some of its restrictive trade policies and invest in its ailing infrastructure. Recent trends in the country suggest that the government is moving in the right direction. The Finance Ministry of South Africa laid out a series of recommendations to promote export competitiveness. Out of these suggestions, a few stand out with the potential to address the barriers to effective trade policy in South Africa.

The first and most important short-term recommendation is for South Africa to encourage more intra-regional bilateral relationships and trade agreements. Bilateral trade agreements are critical to ensuring that exporters have competitive access to growing markets, as it is easier to negotiate better terms in bilateral arrangements (South Africa National Treasury, 2019). Multilateral agreements tend to favor select powerful economies at the expense of most players. In South Africa's case, non-reciprocal trade agreements, including the Generalized Systems of Preferences (GSP) and the recent Africa Growth and Opportunity Act (AGOA), have proven successful as they are granted unilaterally to promote assistance and development. Pursuing these agreements, especially as a recovery effort post-COVID-19, may prove beneficial for the country.

Furthermore, South Africa's trade infrastructure is insufficient and an impediment to trade. The government must invest in regional infrastructure and logistics. These investments include better roads and distribution networks, loosened border control and standards, and more storage facilities (South African Government, 2020). As one expert explained to us, “South Africa cannot be concerned with exporting to the world when it cannot even export to its neighbors.” Pursuing an expansion in trade will boost infrastructure demand, create more jobs, and give more opportunities for workers.

On a similar note, two restrictions impede any new negotiations or re-evaluations of old agreements. First, South Africa's membership and participation in the Southern African Customs Union (SACU). The SACU requires that members first communicate with other members if they wish to engage in other partnerships. Second, South Africa's trade agreements must pass

through the National Economic Development and Labor Council, which often stands as a significant barrier. Additionally, there are many bureaucratic and legal hurdles firms must go through to export their products. South Africa should reconcile these restrictive processes. The government should work with the private sector to set up an automated licensing system for key export documentation and review border control procedures and standards to ensure that correct protocols are followed, updated, and regulated (South African Government, 2020). Together, the two can incentivize competitive export and import expansion by streamlining regulatory processes. A public and private partnership is crucial for effective trade policy. Pushing for a loosening of regulations and harmonizing trade policies will expand trade opportunities, leading to growth and development.

In short, with proper infrastructure, regulations, and distribution channels, South Africa will be positioned to en-

### Moving away from raw commodities

In the past, South Africa exported mainly commodity-based goods and has increased the trade of manufactured products (Santander, 2021). In the long-term, South Africa should continue to diversify its exports, focusing on its comparative advantages to shift toward new technologies. Technological advances and increased global competition mean that South Africa must move away from exporting raw commodities and low value-added manufactured products to higher value-added goods. Fortunately, the government has made this a priority. It must act, however, or the country may find itself unable to compete in global markets (South African Government).

## AGRICULTURE

**The McKinsey Global Institute predicts that South Africa could triple its agricultural exports by 2030.**

Despite the COVID-19 pandemic, the agricultural sector has remained resilient. Last year, the agricultural sector saw a net growth rate of 13 percent. Partnerships are starting to form, and innovative methodologies are being developed to make the sector more inclusive. For example, farming equipment has become more accessible through equipment-renting arrangements. This presents ample opportunity for revenue growth and

business development in the agricultural sector, given the right incentives.

Consumption of agricultural products throughout Sub-Saharan Africa and Asia is increasing, which presents an incredible opportunity for South Africa to capitalize on its agricultural capacity and become a major food exporter.

To achieve this potential, South Africa needs to increase agricultural production with a bold national agriculture plan that focuses on high-value crops and food processing (McKinsey & Company, 2015). Recovery from COVID-19 could put South Africa's agriculture sector on

pace to achieve pre-pandemic growth that would add 160 billion rand (14 billion USD) to annual GDP and create up to 490,000 jobs (McKinsey & Company, 2015). These gains in agriculture cannot occur unless the country has a robust and efficient trade policy, enabling it to trade with neighboring countries (see *Trade*). The government should also increase access to energy, water, and other necessary infrastructure (like paved roads) in rural areas to improve Africa's agro-processing businesses (see *Infrastructure*). Exporting finished products can be lucrative and drive more inclusive economic growth than simply exporting raw crops.

*Farm workers shielded themselves from the intense heat as a sugar cane field was burned prior to harvesting. Burning off the undergrowth makes cutting the cane stalks more efficient. While sugar cane is lucrative, the associated labor is back-breaking. Natal Province, 1992.*

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## AN EXPORT-ORIENTED MINDSET | SUMMARY

### Labor & Employment

- » Subsidize wages for young and low-skill workers
- » Expand public-works programs to temporarily increase employment while addressing infrastructure needs
- » Better tailor vocational training to employer needs
- » Reduce barriers to entry for SMEs
- » Provide tax incentives to promising, high growth-potential sectors of the economy

### Education

- » Focus on improving primary education first
- » Tailor secondary education and training programs to the employment landscape so that graduates are prepared to enter South Africa's workforce
- » Reduce the power of teachers' unions to improve teacher quality
- » Reduce bureaucracy at universities and increase funding for both research and struggling students

### Fiscal Sustainability

- » Reduce the size of the bureaucracy to avoid increasing the debt-to-GDP ratio
- » Centralize aid programs to increase spending efficiency
- » Address state capture and trust in government to increase tax compliance rather than raising taxes

### Credit

- » Increase participation in local bond markets to help stem the rising debt-to-GDP ratio

### Monetary Policy & Debt

- » Choose inflation measures that reflect the disparities in consumption needs across the income distribution
- » Direct debt-spending towards value-added infrastructure projects rather than corrupt procurement and state capture

### Trade

- » Increase participation in intra-regional bilateral trade agreements
- » Improve trade infrastructure like storage facilities and distribution networks
- » Streamline regulatory trade policies through the SAG and NEDLC

### Agriculture

- » Improve supportive infrastructure like roads, water, and trade policy
- » Emphasize high-value crops and food processing for export

*Shoppers crowded Maponya Mall, developed by black entrepreneur Richard Maponya, a pioneer in South African business. In his early struggles to break the restrictions of apartheid on black-owned businesses, he was represented by the law firm of Nelson Mandela and he became lifelong friends with the future President. Maponya acquired the land on which his mall now stands in 1979, and struggled until 2007 to have it built. Its 70,000 square meters house over 170 shops, featuring both local and international brands as well as governmental facilities. Maponya was a mentor and inspiration to black businesspeople throughout the country and beyond. His story is an example of the promise of South African business. Klipspruit, Soweto, 2009.*

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# LAYING A FOUNDATION

As South Africa embarks upon its path toward economic growth, it must lay a firm bedrock for future reforms. Many of the nation's essential services and infrastructure are in disarray and need of improvement. Its telecommunication services, which are the cornerstone of a modern economy, are expensive, low-quality, and limited in coverage. Eskom, the government-run power-utilities company, cannot provide reliable power, and current water conservation practices threaten the water supply in urban regions. Similarly,

the nation's outdated transportation infrastructure limits its economic opportunities. Transnet and PRASA, two of the nation's government-owned transportation companies, suffer from mismanagement and state capture. Before South Africa can modernize its economy, it must invest in improving its infrastructure.



## SOUTH AFRICA'S PROMISE BACKGROUND & HISTORY



## IMPEDIMENTS TO GROWTH & PROSPERITY



## OPPORTUNITIES FOR GROWTH & PROSPERITY

An Export-Oriented Mindset

**Laying a Foundation**

Emerging from COVID-19

Infrastructure

Telecom

Energy

Water

Urban Planning & Housing

Transportation

Rectifying a Sordid Past

A Greener South Africa



## APPREHENSION & HOPE

## EMERGING FROM COVID-19

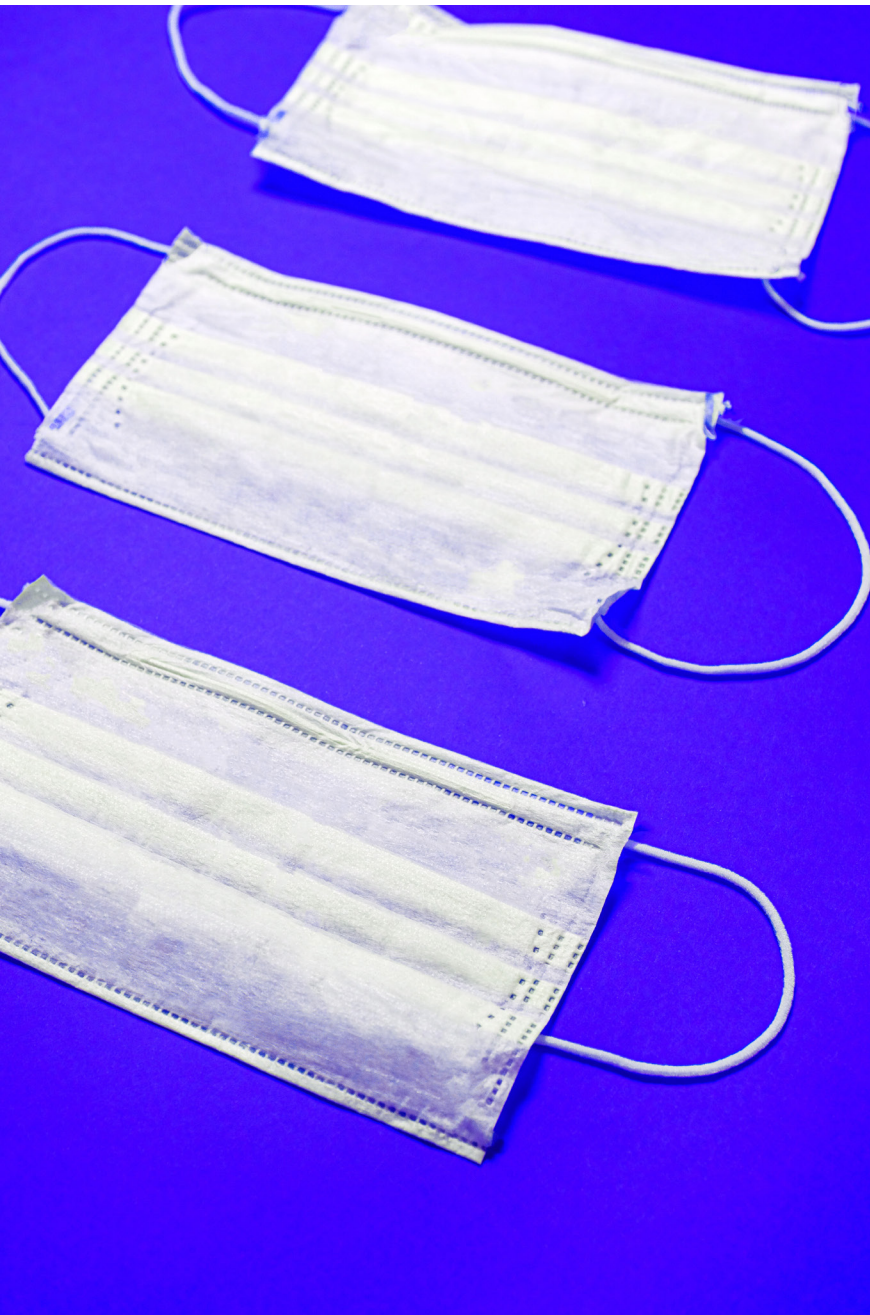
The ongoing COVID-19 pandemic has proved a significant global challenge. Hospitals have been inundated with patients struggling to breathe, and medical capacities have been stretched beyond their expected limits. Since the disease was first recorded in South Africa on March 5, 2020, there have been about 1.53 million cases and 51,500 deaths (World Health Organization, 2019). From a clinical perspective, access to sufficient medical supplies has been an issue. Corruption has not left the healthcare system unscathed; there have been reports of unfair deals to procure medical supplies like masks and gloves (McDermott, 2019).

Now that vaccines are becoming more widely available, South Africa aims to achieve herd immunity. South Africa

is a part of the Vaccine Alliance (Gavi) effort to purchase vaccines at low cost for low-income and middle-income countries through the COVAX initiative (Bhorat et al., 2021). Additionally, the South African government is acquiring doses specifically for its citizens. With both of these efforts underway, the Minister of Health, Zweli Mkhize, forecasts that South Africa will reach herd immunity by the end of 2021 (Reuters, 2021).

While COVID-19 is slowly being brought under control, the South African government should continue to collaborate with other African countries through the Africa Center for Disease Control (Africa CDC) to plan for the next pandemic. There are lessons to be learned from countries such as Kenya, which has effectively managed epidemics like Ebola and developed frameworks for controlling contagious disease (Bhorat et al., 2021). Working with Africa CDC will give South Africa an edge against future pandemics, and planning should begin as soon as possible. The implementation of the NHI and universal coverage will help coordinate response throughout the country as well.

With that being said, reliance on the availability of vaccines that are either more affordable, those that don't require cold storage, and those provided through charitable efforts like COVAX has meant that South Africans have to wait for the vaccine (Bhorat et al., 2021). Together with its neighbors, South Africa should continue to expand the existing public-private Biovac initiative. Biovac seeks to help South Africa build capacity for its vaccine development and production industries so that the country will not be forced to wait in the future. The program already has a viable framework, but funding should be increased through additional private investment and inclusion of other African nations. This effort will also help keep South Africans safe by reducing the re-introduction of future diseases by neighboring countries.



# INFRASTRUCTURE

A strong priority for any government is to ensure that its infrastructure supports both its inhabitants and the economy. Across South Africa there is agreement that “public infrastructure investment – most notably in respect of energy, water, [telecommunications], and transport – is central to achieving greater productivity and competitiveness, reducing spatial inequality and supporting the emergence of new job-creating sectors” (National Planning Commis-

sion, 2020). Operation Vulindlela outlined an action plan for some of the most pressing issues that must be dealt with to fix the inequities created under apartheid and modernize the nations infrastructure (South Africa National Treasury, 2021).



## SOUTH AFRICA'S PROMISE BACKGROUND & HISTORY



## IMPEDIMENTS TO GROWTH & PROSPERITY



## OPPORTUNITIES FOR GROWTH & PROSPERITY

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**Infrastructure**

**Telecom**

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**Water**

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**Transportation**

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**A Greener South Africa**



## APPREHENSION & HOPE

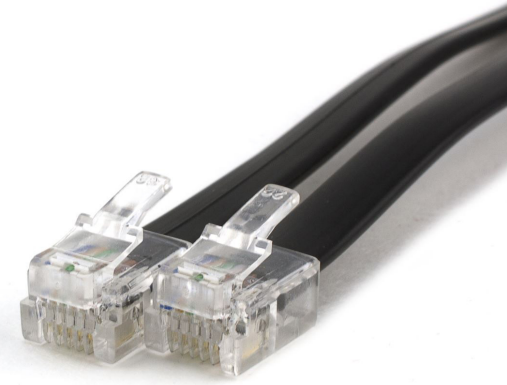


## TELECOM

### Opportunities from Investment in the Industry

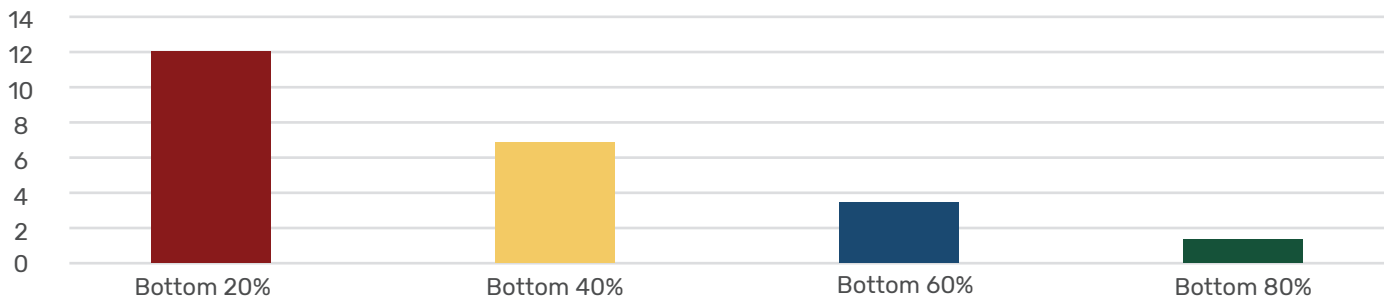
The telecommunications (telecom) industry, which includes telephone and broadband services, is important to South Africa's economic growth. The demands created by the increase in digital work have spurred additional private investment in telecom expansion, but the network still falls drastically short of where it should be. If South Africa wishes to maintain com-

petitiveness in international trade and advance economic opportunities for its citizens, it must expand its telecom network. Implementing the policies outlined below will help South Africa prepare its workforce for an increasingly digital world, increase economic activity, and improve public education, leading to even greater economic benefits.



#### The poor bear the brunt of inadequate coverage

Price of 1GB of data as a percentage of income per capita by income group



Source: *Review of Economic Progress to NPC 2020*, (87)

### Problem Diagnoses

Telecommunication services in South Africa are expensive, of low quality, and limited in availability (South Africa National Treasury, 2019). Although the country has successfully expanded cellular coverage to nearly 93 percent of the population, with even rural access exceeding 80 percent, only ten percent of households have internet in their home, and only two-thirds of the population has access to the internet (South Africa National Planning Commission, 2020). In addition, one-third of schools in South Africa have internet (South Africa National Planning Commission, 2020). Access to the internet in South Africa lags behind most upper-middle-income countries (South Africa National Planning Commission, 2020).

One reason for these inefficiencies is that the independent regulatory body charged with regulating the telecom industry, The Independent Communications Authority of South Africa (ICASA), is hampered by weak oversight and

governance (South Africa National Planning Commission, 2020). One expert stated that government reform of the telecom industry should be a priority. Telkom, the semi-privatized telecom SOE, has been beset with corruption, incompetence, and inefficient spending; however, one expert noted that the SOE has run far better since its semi-privatization (South Africa National Planning Commission, 2020). As a result, telecom expansion has come primarily from private sector investment (South Africa National Planning Commission, 2020). Telecom received a meager 177 billion rand from 2015 to 2019 (South Africa National Planning Commission, 2020). And budget cuts in 2020, in response to the Covid-19 pandemic, further reduced government investment in the industry (South Africa National Planning Commission, 2020).

## Solutions

A number of policy solutions exist to improve South Africa's digital infrastructure. The more immediate solutions include:

- » **Increasing funding and applying it more strategically**
- » **Increasing ICASA's oversight and governance capabilities**
- » **Various in-house reforms in ICASA and Telkom**

Over the medium term, the government must release a high-demand spectrum and implement policies that help lower the cost of telecom services.

### IMMEDIATE

An immediate step the government should take is to increase the funding available for telecom expansion and apply that funding more strategically. Smaller projects should be pursued over capital and time-intensive mega-projects (South Africa National Planning Commission, 2020), and investment should focus on rural communities and early education (South Africa National Planning Commission, 2020). Also, since data access is significantly reduced compared to talk minutes, increased investment should reflect this divide by focusing on expanding data access.

To increase its oversight and governance capabilities, the government should expand the ICASA oversight and power, which can be further reinforced through an emphasis on the agency's independence and separation of regulatory powers from procurement and provision powers. One specific independence measure that should be pursued is a clear demarcation between the agency's economic, regulatory powers, and line departments (South Africa National Treasury, 2019). To incentive the agency properly, the agency should be partially funded from industry levies (South Africa National Treasury, 2019). Finally, ensuring open access conditions in the industry will support and require the extension of properly funded regulatory powers to oversee the open-access requirements properly.

There are two common-sense approaches to in-house reforms at both ICASA and Telkom. The first is to solidify policy and decisions since uncertainty can deter investment. The second is to hire better leadership. Unfortunately, neither approach is straightforward, but both are necessary to support telecom expansion across South Africa.

### MEDIUM-LONG TERM

In the medium term, after determining an appropriate process, the government must release high-demand spectrum. The release of spectrum will permit a rapid expansion of telecom projects that are currently restricted by bureaucratic delays. When releasing spectrum, rigorous wholesale regulations are essential and should be combined with allocations or set-asides for smaller, new, or capital-restricted telecom companies (South Africa National Planning Commission, 2020). Reserving spectrum for such companies prevents Telkom and other larger entities from expanding their oligopoly, thereby lowering prices for consumers. Local loop unbundling, which authorizes multiple telecom companies to utilize the same infrastructure, also diminishes price-setting (South Africa National Treasury, 2019).

The most beneficial solution to South Africa's telecom struggles is the development of various Public-Private Partnerships (PPPs), as is true for many economic sectors in South Africa. PPPs increase access through competition, which drives down prices, ultimately creating a favorable economic outcome for the entire country. In telecom, the growth in investment must come from the government, while directing the focus of private investment to rural communities and early education. Numerous PPP opportunities exist in telecom, of which this memo focuses upon three.

- » **First**, ICASA can implement an auction for telecom companies to provide infrastructure to rural communities and early education schools that remain unconnected to broadband. Necessarily, the bids must be awarded with certain requirements, most importantly with open access conditions guaranteed. Preferential loans or subsidies could also incentivize companies to invest in extending coverage.
- » **Second**, the response to COVID-19 inspired a strong partnership between universities and telecom companies to rapidly expand broadband access in response to the surge in demand for virtual platforms. This model could be expanded to early education schools and in-need businesses, with government support and direction.
- » **Third**, low-income access must remain a priority for telecom expansion. To support expansion into low-income households, the government should partner with the private sector to implement a voucher program for broadband so these households can access critical internet services without undue financial burdens (South Africa National Treasury, 2019).

## ENERGY

As our group settled into one of our first expert interviews, our interview subject warned us that his power might go out. Power outages are all too common in South Africa, which many attribute to poor management by Eskom, South Africa's main energy provider. Like that of many other SOEs, Eskom's story is characterized by a decade of state capture under Zuma led to an incredibly high level

maintenance and upgrades. If South Africa cannot control its energy system by expanding capacity and reducing debt to manageable levels, it will be difficult or even impossible to strengthen its economy.

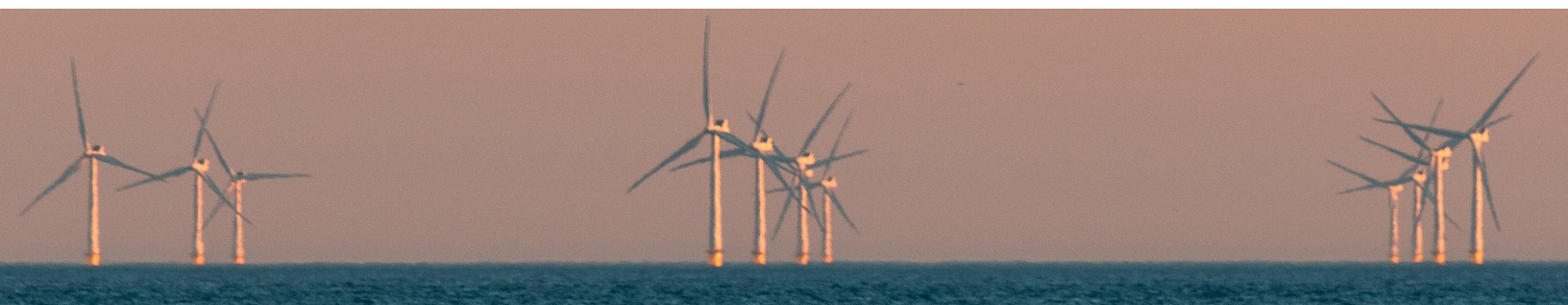
Fortunately, South Africa already has an excellent energy plan to solve the problems outlined above as part of the

**“There is a new realization in Eskom management that the future lies in solar and wind... they are really for the first time embracing that future.”**

- SOE Expert, Anonymous

of debt. Years of corrupt procurement deals have hindered Eskom's ability to increase generation capacity. Eskom has become a significant burden on the economy, as the cost of its debt skyrockets to over 450 billion rand (Reuters, 2020). Recently, the construction of three new coal plants took years longer than planned and resulted in facilities that could only operate at half of the contracted capacity, costing billions of rand and failing to make up for generation shortfalls fully. Swiss firm ABB was forced to pay Eskom 104 million USD to settle claims of improper payments and lack of regulatory compliance over the Kusile coal power station. This intersection of energy interests with the mining industry has led to a prolonged reliance on coal for generating electricity, even as the levelized cost of renewable energy and natural gas generation is now below that of coal. As a result, “load-shedding” or controlled regional blackouts when demand surpasses generation are frequent in South Africa. The Council for Scientific and Industrial Research reports that Eskom spent ten percent of the previous year engaged in load-shedding (Cameron, 2021). The problem will likely not improve in the near future, and in fact, load-shedding may increase throughout 2021 (Cameron, 2021). Moreover, years of debt have left the entire distribution and transmission infrastructure sorely in need of

National Development Plan 2030. The problem, as with many sectors of the economy, is in the effective and timely implementation of the plan. Ramaphosa's administration is slowly rotating out current Eskom administration officials so that more competent executives take control of the enterprise. This gradual process will enable Eskom to make more progress towards solvency. One key change is already taking place: the unbundling of energy generation from transmission and distribution. The creation of an Independent System Market Operator (ISMO), based on effective models from other countries, separates generation from the rest of the energy system and enforces neutrality on transmission lines, so that independent power producers (IPPs) can invest in their own generation. The Ministry of Energy has announced that by the end of 2021, significant progress will be made towards the separation of South Africa's generation and transmission capabilities. This separation will enable private investment in renewable energy and lower-cost backstop technologies like natural gas to address demand gaps and end load-shedding while competitively selling their energy on a newly independent grid. It will also open the door to upgrading the grid itself, which will enable more IPPs to connect.



The unbundling process and Eskom's emergence from bankruptcy will take time. In the shorter term, South Africa should implement a net metering policy to enable small-scale power producers, like single households, to produce their own power. This policy would further reduce excess demand on the grid and make it more affordable for families to take advantage of South Africa's enormous renewable energy potential. Additionally, an expansion of PPA programs like REAP would provide significant economic benefit as the government invests in renewable energy through more efficient private programs of construction. While nuclear power has controversially been under consideration, especially during the Zuma years, natural gas is

a much cheaper and more flexible energy resource to support a transition to renewable energy resources. McKinsey & Company, for example, recommends that South Africa build up natural gas infrastructure to help carry additional demand during off-peak hours of wind and solar energy production. South Africa should take advantage of global knowledge networks and seek expertise from other countries that effectively manage large proportions of intermittent energy sources, like Costa Rica, Denmark, the United States, and others. Matching load to generation under these conditions is difficult, but with the influx of new and more capable management, Eskom should be up to the task.

*A different kind of energy: At the Kilimanjaro nightclub, Faith (foreground), a partner in the Black-owned Shortleft Advertising Agency, danced with colleagues. Johannesburg, 2004.*

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## WATER

In 2030, water demand is predicted to reach 17.7 billion cubic meters, 2.7 billion cubic meters more than the projected supply of 15 billion cubic meters (South Africa National Treasury, 2021). These projections do not predict the impact of climate change, which will only worsen the problem. A government official expressed the severity and fear many have saying,

**“In next ten years South Africa will face an extreme shortage of water because we have an infrastructure that is crumbling.”**

### Water Conservation Practices

Water is not effectively priced in South Africa, and the water supply suffers from overuse. Therefore, the government must immediately set an effective price for water to “stop the current vicious cycle” where people are not paying for water, resulting in the system not being paid for or maintained. Independent water regulators should manage this new water pricing system. However, like electricity in South Africa, a water system without proper investment will crumble.

In addition to implementing a regulated water pricing system, the government should enact a National Water Conservation Program, which will help reduce overuse in the short term while larger reforms are underway (South Africa National Treasury, 2021).

## Agriculture & Irrigation

It is important that the government improves the quality and quantity of the water supply because water is paramount to agriculture and irrigation. Agriculture provides an opportunity for employment and economic growth (see *Agriculture*). This industry only has potential, however, with an adequate water supply. Addressing leakages caused by poor maintenance and system inefficiencies in irrigation infrastructure in particular is essential to ensuring that agriculture plays a role in South Africa's export oriented growth strategy. (South Africa National Treasury, 2021).

## Efficient Implementation Strategy: Water Infrastructure & Pricing

Independent water suppliers are essential to this structural transition. The government alone fails to run the water system. SOEs dominate the sector, in particular, the Trans-Caledon Tunnel Authority (TCTA) (South Africa National Treasury, 2021). There needs to be a shift to a semi-privatized model, which will increase the system's capacity. In this semi-privatized model, accountability and efficiency can be achieved through an independent water regulator (South Africa National Treasury, 2021).

## Widespread access to water is a vital part of broadening prosperity

Proper water and sanitation infrastructure is necessary for improving people's health, increasing business, and improving schooling. Schools that are without running water are negatively impacted. The educational experience that is paramount to South Africa's

employment and growth should not be disrupted by the inability to fulfill the basic needs like running water and flushing toilets.

Water policy is both a foundation for long-term, inclusive growth, and

an essential human need (Economic Transformation, 2019). It is a specific policy area, but also a significant one that calls for short term solutions and immediate implementation.



*A significant percentage of Black South Africans lived in makeshift squatter shacks, prompting the ANC to prioritize more adequate housing on a massive scale. Since 1994, the Reconstruction and Development Program has built millions of homes for low-income families and individuals, but undoing centuries of exploitation, poverty, social inequality, and injustice is an ongoing challenge. The new housing has often been built quickly and cheaply. In many locations, the houses are small and crowded together. Problems with sufficient water, sanitation, and public services continue to exist. Soweto, 2009*

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*An impromptu squatter camp was set up on a piece of vacant land at the edge of central Johannesburg. An influx of Black South Africans as well as migrants from neighboring countries seeking jobs and better opportunities created a housing shortage within the city itself. During the apartheid era, Blacks were required to live in townships on the fringes of the cities. Johannesburg, 1997.*

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## URBAN PLANNING & HOUSING

### Surveying the Landscape

In and around South African highways and cities stand countless shanty towns and informal settlements (Harvard Kennedy School of Government, 2001). Unfortunately, Black and Colored peoples are the primary residents of these settlements. Black South Africans, for example, are roughly 83 percent of the urban population yet reside on only two percent of the land in urban areas (Levy, 2019). These inequities are further exacerbated by the fact that informal set-

tlements and shantytowns put workers living in them at a disadvantage. As one South African Professor of Business Science notes, “Only in South Africa do the rich, live in the center and poor, live on the periphery.” Meaning, poor workers “have to pay for transportation” to seek formal employment opportunities. These transportation costs are burdensome for the poorest South African households, who spend 20 percent of their household’s income on transportation.

**Inclusive economic success begins with environments in which South Africans can thrive. These environments require necessary infrastructure, intentional planning, and opportunities for private action.**



## Constructing Capacity

The biggest roadblock to effective planning and housing reform, like with other policy areas talked about in this report, is state capture. State capture has diminished government capacity to the point where only eight percent record a clean audit, and 79 percent of municipalities are in financially concerning positions or require intervention. In addition, municipalities spend only half of their infrastructure budgets leaving money not spent on completing projects or investing in desperately needed infrastructure (Harvard Kennedy School of Government, 2001) (South Africa National Planning Commission, 2013).

Even with poor financial management, the national government and municipalities can improve capacity. For example, Municipalities should remove administrative barriers to development projects, which will incentivize private sector investment in housing and business. Planning and building plan approval procedures should also be expedited without cost to remove unnecessary regulatory red tape. In addition, the government should reassess the role of building inspectors across communities. Meaning, officials in economically disadvantaged areas should identify appropriate standards to ensure the health and wellbeing of residents while mitigating the extra costs imposed on residents. Local officials should also look to increase the number of local services like property agents, conveyancers, planners, architects, quantity surveyors, and engineers. This can be done by establishing programs to formalize informal micro-developers through private training and mentorship.

## Installing Infrastructure

For the government to build capacity, infrastructure projects must de-emphasize mega projects in favor of many smaller, affordable and flexible projects. Additionally, the government should encourage public-private partnerships to help with infrastructure maintenance and housing development to help meet demand and minimize population displacement.

The government can increase investment in existing settlement areas by ensuring these areas have energy, transportation, water, and telecommunications infrastructures. With the necessary infrastructure in place, private investment will be encouraged to invest in areas that continue to suffer from the legacy of apartheid policies. This method of housing development contrasts with current policies of building public housing on the periphery, which further increases inequality by placing poorer residents further from economic activity with limited access to transport.

## Denser Development

South Africa needs to build together with prodensity policies. By encouraging denser development in areas, services and infrastructure are less costly to provide to the same population and encourage business to be located in these areas. Denser mixed-use areas also decrease the need for long range transportation as residents can live, work, and play in their communities. The government can encourage more density by reforming zoning codes to allow for broader zoning use categories, end single-family only zoning, or move to form based coding practices, which can help to incentivize mixed-use development (Nel, 2016). The government should also look at enabling accessory dwelling units and removing parking minimums from the South African Parking Standards (Hitge and Roodt, 2006). Decreasing the cost to build housing and business spaces will empower private development to meet public demand.

With that being said, more dense areas will lead to higher demand on transportation networks. Therefore, the government must provide funding for the development of multi-modal transportation networks. This means focusing funding on sidewalks, road maintenance, and a rapid bus network in the short and medium-term. In the longer term, local passenger rail systems can be included or reinvigorated to meet transportation needs. However, these development projects cannot be successful without local government support. Local Governments must integrate local public transport and land use planning while collaborating with regional entities (South Africa National Treasury, 2021).



*Because non-whites were restricted to living in townships, often far from where they worked, trains were a crucial mode of public transportation. Soweto, 1992.*

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## TRANSPORTATION

“South Africa’s high transport costs have been attributed to a lack of competition due to the existence of natural monopolies and the presence of state-owned companies in the sector. This situation is further exacerbated by the fact that South Africa has a fragmented approach to transport economic regulation and there are inherent

incentives for inefficient cross-subsidies that cover up the true cost of service provision.” – South Africa National Treasury, 2019. Over the past decade, use of rail has “steadily and then sharply declined” (Barclay, 2021). Overhead cable theft, metrorail security and unmaintained rolling stock have increased (Barclay, 2021). Transnet and PRA-

SA have been mismanaged and implicated in numerous corruption scandals (Barclay, 2021). For South Africa to become a competitive exporter, the government must reform the nation’s rail and maritime transport systems.

## Reforming South Africa's Maritime Port Systems

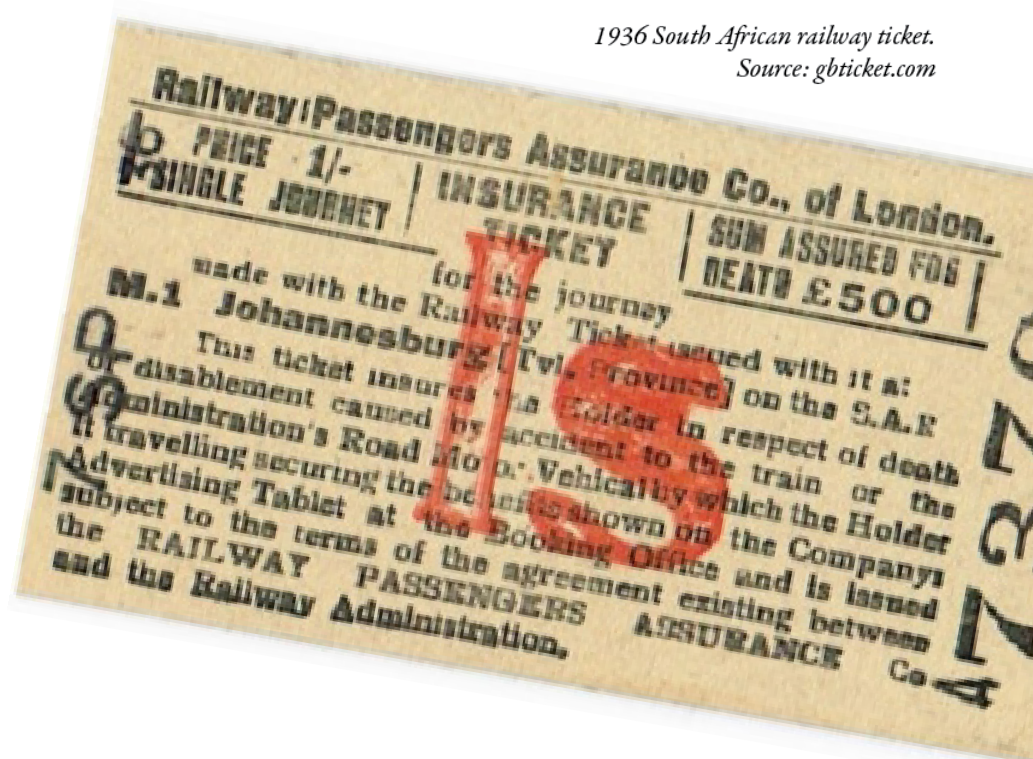
Transnet is composed of the following six operating divisions: Transnet Freight Rail (TFR), Transnet Rail Engineering, Transnet National Ports Authority (TNPA), Transnet Port Terminals (TPT), Transnet Pipelines, and Transnet Property (Transnet). With all these operating divisions, many allege that Transnet has spread its resources too thin. One solution to this problem is for Transnet to separate accounting divisions or separate audited ring-fenced financial statements for its operating divisions, which will add transparency for cross-subsidies. This transparency will promote informed planning, appropriate regulation, and swift action on necessary reforms (South Africa National Treasury, 2019).

In the short term, the government should first update, finalize, and approve the White Paper of National Rail Policy draft from 2017. Second, Transnet and the Department of Public Enterprise should develop a policy for third-party rail access and issue requests for proposals with implementation to occur. Third, the government should finalize and pass the Economic Regulation of Transport Bill to remove perverse incentives from the regulation of the transportation industry (South Africa National Treasury, 2021).

In the medium term, TNPA should be corporatized as is mandated by the National Ports Act of 2005. Operation Vulindlela plans to corporatize TNPA by December of 2023 (South Africa National Treasury, 2021). This reform will release TNPA from entanglement with other Transnet divisions strengthening South Africa's export capacity.

In the long term, rail must be rehabilitated as a fast and robust mode of transportation for both people and goods as outlined by the White Paper of National Rail Policy of 2017 (South Africa National Treasury, 2021). This white paper provides a firm plan for rerouting rail efforts towards a productive, competitive, and sustainable future. Rehabilitating rail as a mode of transportation is a lengthy endeavor, requiring both local and national planning, that needs to begin now.

*1936 South African railway ticket.  
Source: gbticket.com*



## LAYING A FOUNDATION | SUMMARY

### **Help Eskom address its crippling debt and capacity shortfalls**

- » Invest in renewable energy generation through public-private investment and PPAs
- » Unbundling energy generation from energy transmission and distribution, creating a more competitive market for energy generators, both public and private

### **Increase digital and mobile phone access**

- » Auction last-mile coverage through ICASA
- » Expand partnerships between broadband companies and education facilities
- » Prioritize telecom expansion in low-income areas

### **Reduce water shortages and prepare for future drought**

- » Complete water pricing reform to remove perverse incentives, increase funding for infrastructure improvements like stopping leaks, and increase equity
- » Welcome private sector investment in the water distribution system

### **Provide adequate and equitable housing**

- » Increase mixed-use zoning rather than single-family dwellings
- » Make building codes more flexible to account for differences in access to funding, technology, and expertise

### **Increase mobility by upgrading public transportation**

- » Reverse the incentives created by a lack of competition, passing the Economic Regulation of Transport Bill
- » Focus on the highest value, highest impact approaches to reducing inequity in transit access

# RECTIFYING A SORDID PAST

## In South Africa, Race Intersects with nearly All Economic Reform

Though the end of apartheid was met with enormous optimism, for many Black and colored South Africans, apartheid policy placed them and future generations in a cycle of poverty that remains seemingly unbreakable. Apartheid created insurmountable structural barriers for non-whites that would take a significant amount of time to remedy. Whether it is land reform, healthcare, or economic reform, South Africa cannot ignore apartheid's legacy.

**“Having looked the beast in the eye, having asked and received forgiveness, let us shut the door on the past, not to forget it, but to allow it not to imprison us.”**

– Archbishop Desmond Tutu



### SOUTH AFRICA'S PROMISE BACKGROUND & HISTORY



### IMPEDIMENTS TO GROWTH & PROSPERITY



### OPPORTUNITIES FOR GROWTH & PROSPERITY

An Export-Oriented Mindset

Laying a Foundation

**Rectifying a Sordid Past**

Land Reform

Access to Healthcare

Crime

Corruption & The Zondo Commission

A Greener South Africa



### APPREHENSION & HOPE



*Government riot police opened fire with shotguns at demonstrators. In 1992, various South African security forces caused the deaths of over 140 township residents, in spite of increasing political pressure to curtail the use of deadly force during demonstrations. Orange Free State, 1992*

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*Nelson Mandela offered encouragement to the residents of a squatter camp outside of Johannesburg that had been the scene of recent violence. Phola Park, 1992.*

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## LAND REFORM

Early colonial settlement focused on land ownership, which spurred rapid territorial expansion and land dispossession. Afrikaner farming groups settled far from the Cape. As colonial communities grew, land possession and skin color became a form of social distinction. The expansion of colonial settlements left the Black population with small portions of land that were further limited by law (Welsh, 1998). The Native Lands Act in 1913 left the Black population with ten percent of the land even though they made up 79 percent of the population at the time. In 1950, the Group Areas Act and other laws under the apartheid government restricted Black South Africans to “homelands” (McDermott, 2019). This forced displacement left the non-white South Africa population with lasting spatial inequalities as

former homelands are now some of the most impoverished urban settlements (Kennedy School of Government Case Program, 2001). These spatial inequalities in these urban neighborhoods are made worse by underserved infrastructure. In short, land dispossession and apartheid policies continue to limit growth and opportunity among South Africa’s non-white population.

## Complexity of the Issue

The ANC land reform policy must adhere to property rights while also working toward its 2014 goal of transferring 30 percent of white-owned land to Black ownership (McDermott, 2019). The 1996 post-apartheid constitution, which is widely respected for its progressive agenda and its inclusion of positive rights, like education and housing, complicates land redistribution. The post-apartheid constitution prohibits the “arbitrary deprivation of property” (McDermott, 2019), protecting current landowners’ property rights and investments. Even so, some parties like the EFF support land seizures without compensation. The EFF’s push for land seizures has pressured the ANC and President Ramaphosa to announce support for land seizures without payment and efforts to change the constitution.

## Land Restitution and Agricultural Investment

With no guarantee that the seized land will not go to political allies and insiders, land seizures are not a practical solution. Additionally, taking large swaths of land does not address the underlying issues. The eventual solution will be to enact effective urban planning and housing policy that improves living conditions in impoverished neighborhoods (see *Urban Planning & Housing*). These neighborhoods lack access to adequate healthcare and education. Infrastructure is immensely underserved, resulting in poor access to water, telecoms, and transportation. The government must address these structural issues.

If the government ultimately decides to pursue any form of land restitution, it must invest in the agriculture and infrastructure necessary to benefit from the land (South Africa National Treasury, 2019). It cannot implement a one-size-fits-all approach to land reform policy since each case differs. We believe the following recommendations below are necessary:

- » **Form a transparent approach to land restitution.** This will institute trust after the uncertainty and corruption of land reform policy under President Zuma.
- » **Uphold private property rights.** Expropriation without compensation overlooks decades of landholder investment on private property. Full state control of the land is unmanageable and will likely curtail economic growth. The solution must balance both “the expectations of the dispossessed and the uncertainties of landowners” (South Africa National Treasury, 2019).
- » **Investment in the land is key to successful land reform.** Although we do not believe that land restitution is a practical solution, if the government decides to pursue such a policy, it cannot be successful without investing in the people who own the land and the land itself. Those who receive land must be educated and equipped with the skills necessary to pursue commercial farming. Around 90 percent of land redistributed to Black South Africans is not effectively used. Instead, it is used for squatter camps or personal subsistence farming. The government should provide new landholder agriculture education and technology training.

## Complexity should not block progress

South Africa’s history of displacing and segregating its Black population to undesirable land complicates land reform. The government must ensure that policies increasing growth and agricultural opportunity are adequately funded. It should also work towards implementing policies

that address spatial inequalities that reinforce intergenerational poverty. Working toward land restitution through a fair, transparent, and well-invested strategy that maintains private property rights will help make the process less prone to political ideology and maleficence.





*A caregiver bathes an AIDS patient at a hospice run by the Thola Ulwazi Home Based Care and Training, a grassroots NGO that cares for the seriously-ill, especially those with HIV/AIDS. Soshanguwe, 2009.*

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## ACCESS TO HEALTHCARE

Health burdens pose a significant threat to South Africa's development. The country faces five main health burdens that the government must address (World Health Organization, 2018). They are as follows:

- » **HIV/AIDS**
- » **Tuberculosis Infections**
- » **Maternal and Child Mortality**
- » **Violent Crime**
- » **Infectious Disease**

To reduce crime, the government should integrate evidence-based policing strategies into law enforcement protocols (see *Crime*). Maternal and child health and infectious disease could be addressed by improving the public healthcare system so that pregnant women, children, and the sick receive adequate care. The solution to HIV/AIDS, which we discuss further in a separate paragraph below, is to increase access to contraceptives and continue to change the culture surrounding their use.



## Inequities in South African Healthcare

South Africa is plagued by corruption and inequality, and the healthcare system is no exception. The country has two very different public and private healthcare systems. The public system is severely overburdened, serving eight percent of the population with only 30 percent of the nation's healthcare workers (Malakoane, 2020). As a result, the public system is characterized by long wait times, rationing of critical services like dialysis, supply shortages, poor sanitation, and high error rates (Malakoane, 2020). The private system houses some of the most advanced medical facilities and professionals globally (Malakoane, 2020). These outcomes occur even though overall, per capita spending on healthcare is on par with other middle-income countries like Brazil that manage to achieve better health outcomes (Rispel, 2018). The problem lies in how corrupt, poorly managed, and fragmented the healthcare system is. Municipal, provincial, and national sectors each administer parts of the public system (Rispel, 2018). Fortunately, the government has outlined plans to implement a National Health Insurance Program (NHI), which they argue will improve the medical system's efficiency and expand coverage to all South Africans.

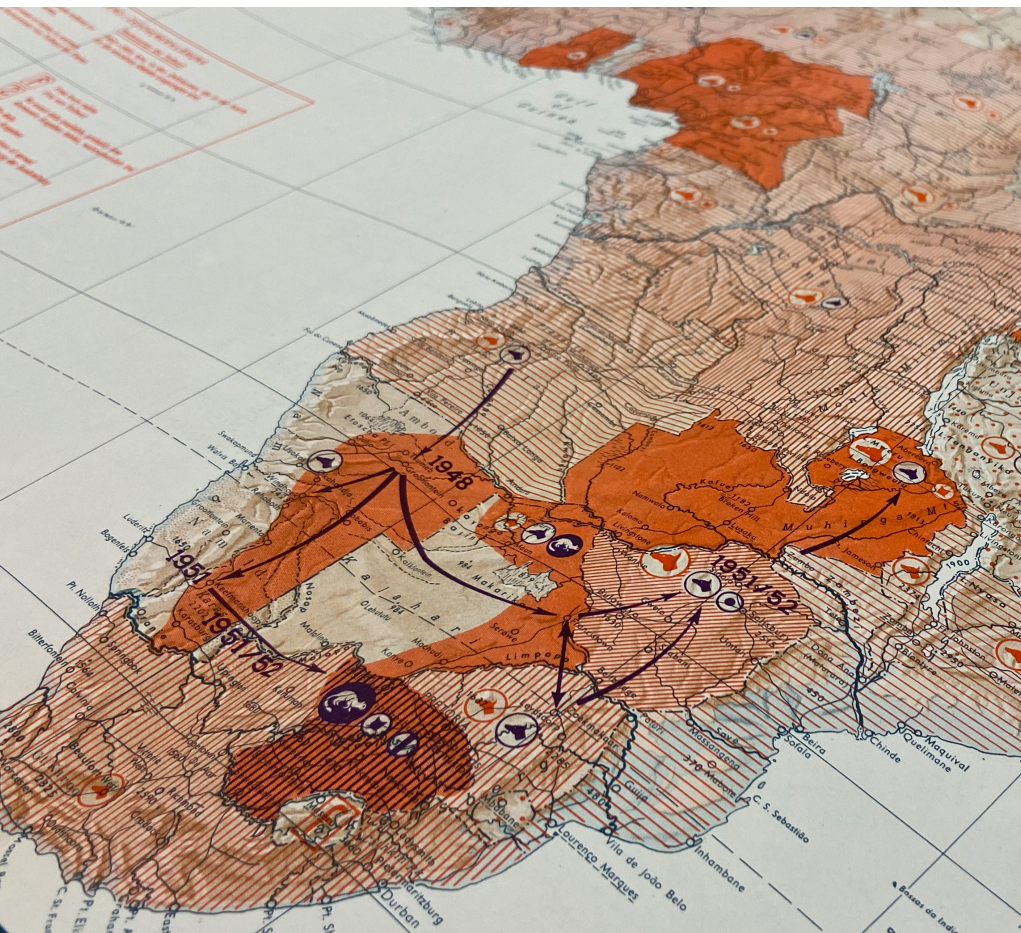
## NHI: Ways Forward to Universal Coverage

The NHI system is based on similar models in countries like South Korea and Thailand. In those systems, the government procures services in bulk and at a lower rate than individuals would. It then manages the distribution of those services (Blecher, 2019). The system is financed via taxes, pooling risk and therefore helping to eliminate adverse selection. The cost thus does not fall more on those needing care. As such a system would be challenging to administer through South Africa's three levels of government, Contracting Units for Primary Healthcare, or CUPs, have been created to regionally deliver the new low-cost healthcare service (Blecher, 2019).

Though the NHI system sounds promising, there are two problems. First, the system is costly. It is forecasted to cost as much as 216 billion rand per year, which is as much as the country collects in income tax annually (Blecher, 2019). One solution is to continue replacing incompetent and corrupt officials with health experts to increase the program's efficiency. Even this, however, will not be enough to reduce costs. The second issue is that with an

already understaffed public system, increasing demand by providing affordable healthcare to all may not be feasible given the current number of healthcare workers available. The shortage of healthcare workers is estimated at around 97,000 people, with 80,000 of those needed to sustain the existing public sector (Malakoane, 2020). There are a few things South Africa can do to reduce this shortage. One promising solution is working closely with the private sector to increase the number of public-private nurse training programs. Likewise, increasing incentives to attract foreign healthcare workers could provide a stopgap solution in the shorter term (Bhorat et al., 20201). South Africa should also look to work more with Africa CDC to implement international solutions since the continent faces a shortage of healthcare workers (Bhorat et al., 2021).

*The spread of disease across Africa. Source: World Atlas of Infectious Diseases*



## HIV/AIDS

The government has taken some action to mitigate the HIV/AIDS crisis, but it has not succeeded. HIV/AIDS continues to be a widespread epidemic in South Africa. Innovative solutions have the potential to protect those at risk of infection, mitigating the future costs of supporting those living with AIDS through spending on antiretrovirals. For example, contraceptives designed to put women in control can reduce their risk

of exposure. Unfortunately, a major impediment facing the treatment of HIV/AIDS is the stigma surrounding prevention and treatment. As such, contraceptive availability programs have been unsuccessful in uptake. The government should therefore continue to focus on public awareness surrounding HIV/AIDS, which work alongside disability entitlement payments offered to those with HIV/AIDS.

*A family member visits an AIDS patient at the Thola-Ulwazi Home Based Care and Training hospice. Soshanguve, 2009.*

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## COVID-19, Vaccines, and Future Preparedness

The ongoing COVID-19 pandemic has proved a major challenge for nations around the world, and South Africa has been no exception. Since the disease was first recorded on March 5, 2020, 1.53 million South Africans have been infected and nearly 51,500 have died.

While COVID-19 is slowly being brought under control, the South African government should continue to collaborate with other African countries through the Africa CDC to develop plans for the next pandemic. South Africa can learn from countries like Kenya, which has effectively managed epidemics such as Ebola and developed frameworks

for controlling contagious disease (McDermott, 2021). Working with Africa CDC will give South Africa an edge against future pandemics, and planning should begin as soon as possible.

In addition to working with international allies, South Africa should focus on increasing domestic vaccine development. Reliance on the availability of more affordable vaccines and those that do not require cold storage and those provided through charitable efforts like COVAX has meant that South Africans have had to wait for the vaccine. Together with its neighbors, South Africa should continue to expand the exist-

ing public-private Biovac initiative. Biovac seeks to help South Africa build capacity for vaccine development and production industries so that the country does not need to wait in the future (McDermott, 2021). The program already has a viable framework, but if possible, the government should increase funding through additional private investment and include other African nations in a vaccine development coalition. Including other nations will help to keep South Africans safe by reducing the re-introduction of future diseases from neighboring countries.

## Serving up Controversy: South Africa's Alcohol Ban and its impact on Health

Many in the medical community argue that South Africa's alcohol ban saved lives. Before the COVID-19 pandemic, "emergency rooms [across the country] filled up with drunk people injured from fights" (National; Public Radio, 2021). When the first cases of COVID-19 reached South Africa, the government responded with strict social distancing guidelines and lockdown policies, including a ban on the sale of alcohol. The government issued the ban hoping to prevent people from gathering (Peralta, 2021). Those in the medical community attribute this ban to the decline in emergency room

trauma patients, as such cases dropped by 60 percent (BusinessTech, 2021). However, some in the business community, primarily those in the liquor industry, argue that the ban was not the reason for the decline in trauma patients, as other countries like the United States, the United Kingdom, Ireland, and Italy did not have alcohol bans and saw similar declines. According to them, the alcohol ban did more harm than good for South Africans. As one CEO, Susisiwe Mavuso, notes, the ban resulted in 200,000 job losses, and the government lost tens of billions in tax revenue (BusinessTech, 2021).

In March 2021, the government lifted the ban. We believe that the government should not attempt to reinstate the ban, as it is economically and culturally unsustainable. The liquor industry employs 300,000 people (Peralta, 2021). A ban on alcohol sales would only increase South Africa's already high unemployment. Nonetheless, alcohol abuse is a problem in South Africa. Any new alcohol policy in South Africa should therefore focus on drinkers who are at high risk of hurting themselves and others.



## CRIME

South Africa has one of the highest murder rates globally, at around 36 people per 100,000. It is also a hotspot for other violent crimes, including armed robbery, assault, and rape (World Bank, 2021). The high rate of crime in South Africa stems from apartheid policies. The highly unequal society created by apartheid paved the way for gangs to infiltrate communities as people were forced to find livelihoods outside traditional employment avenues (Heinecken, 2020). High crime rates hurt those involved and pose an economic cost to the community (Institute for Economics and Peace, 2020). Additional consequences to crime are as follows:

- » Individuals who commit crimes forego the chance to

Deficiencies in other aspects of development contribute to conditions that encourage criminal activity, and addressing these shortcomings may reduce crime rates in the long term without direct interventions. These long term solutions to crime are discussed in other areas of this report. They are as follows:

- » Reduce inequality (see *Labor & Employment*)
- » Provide sufficient employment opportunities (see *Unemployment*)
- » Improve education outcomes (see *Education*)

**“High crime rates hurt those involved and pose an economic cost to the community.”**

- Institute for Economics and Peace

spend that time productively. If they are arrested or become repeat offenders, the opportunity cost of that criminal activity is compounded.

- » Violent crimes often impose high costs of healthcare on the victims. Those victims may have to spend additional time recuperating.
- » The atmosphere of uncertainty and fear created in areas with high crime rates may increase stress, reducing the productivity of the people who live there. Stress itself is associated with poor health outcomes that may impose additional costs in the future.
- » A culture of crime and lack of respect for law enforcement may dissuade foreign investors and highly-skilled immigrants from participating in the South African economy if they see those factors as hindering economic growth or if there are similar opportunities for growth in safer locales.
- » Police forces and the equipment they need cost money. The larger the force required to maintain public order, the higher the cost.

**In total, the Institute for Economics and Peace estimates that the cost of violent crime in South Africa was equal to 13 percent of GDP, or 145 billion USD, in 2020.**

In the short term, the government can integrate evidence-based policing strategies into law enforcement protocols, which will help South Africa more effectively deter crimes and provide redress for victims (Guy Lamb, 2021). While some measures, such as restorative justice, gun control, and targeted patrols around crime hotspots that are demonstrably effective, an evidence-based framework must include mechanisms for adaptation and continued learning over time (South African Dialogue Forum, 2020). This enables police to customize law enforcement for the community’s specific needs (South African Dialogue Forum, 2020). Reducing violent crime incidence is entirely feasible, and taking these steps would lead to safer communities.



## CORRUPTION & THE ZONDO COMMISSION

### Steps Toward Re-Capture

While state capture has left its mark on the South African political and economic environment, sources of optimism still remain, as the nation looks toward reform and accountability.

In January 2018, President Ramaphosa formed the Zondo Commission, a Judicial Commission of Inquiry tasked with investigating and exposing state capture. This marks an important step towards increased government accountability and transparency.

Nicky Newton-King, the former Johannesburg Stock Exchange CEO, describes the Zondo Commission as “an economic TRC on state capture.” As such, the commission seeks to draw out the truth and use it to punish those responsible. The Zondo Commission has launched investigations on high-profile political and business figures, such as the former President Zuma and the Gupta family. The commission is also tasked with conducting inquiries into various institutions such as the South African Revenue Service to chronicle the root of the corruption and identify those that reaped benefits (A Decade, 2019). The hearings are broadcasted on the radio and television and streamed on youtube daily to give the public easy access to the commission’s findings.

While the commissions are an essential step towards rebuilding public faith in the ANC and broader governmental institutions, **convictions must be made when there is sufficient evidence of malfeasance.** Doing so will prove to the public and potential partakers in state capture that there are consequences for engaging in political corruption. Lumkile Mondli, a Lecturer at the School of Economics and Finance, explains in the quote above:

**“What we are really waiting for is the first big fish to be caught so that we can go and cut pieces of this fish that has become fat from feeding on public funds and so that we can all have our shot back”**

Moving forward, the state should also seek to revitalize its institutions and SOEs by once again prioritizing competent leadership. President Ramaphosa has already taken steps in this direction. He has replaced the former head of SARS with Edward Kieswetter, who has a strong history as deputy SARS commissioner (White, 2019). Shamila Batohi, the new head of the National Prosecuting Authority (NPA), is a well-respected lawyer (A Decade, 2019). The new leadership in Eskom seems to be committed to changing and fixing its internal problems.

Continued investment into meritocratic institutions will ensure effective good-faith implementation of developmental projects instead of lagging follow-through and disappearing funds. Improved delivery of government services will also help to restore public faith in the long run. Many of these services, such as tax collection and energy, act as political competence temperature checks for South Africans. Performance improvements will restore confidence. Finally, each leader’s reforms in their respective arenas should seek to safeguard against future corruption. For SARS, these safeguards must include the revitalization of its tax noncompliance units. For SOEs, they may include increased oversight and scrutiny of company expenditures. As the national and political energy shifts toward anti-corruption, leaders must capitalize on the momentum to guar-

antee substantial and long-lasting reforms.

Finally, to guarantee long-term oversight, the government should facilitate whistleblowing. Whistleblowers have already shed light on state capture machinations in the Zondo commission (A Decade, 2019). They will be similarly integral in the prevention of backsliding into corruption. Current whistleblowing laws protect public and private sector individuals who disclose information in good faith (OECD, 2008). The government should also seek to create additional incentives for whistleblowers, including payments (Msomi, 2020). The financial cost of incentivization will be significantly smaller than what would otherwise be lost via state capture. A program that brokers negotiations with individuals who have committed lesser degrees of corruption will also be advantageous. Lower-level offenders

often have information on corruption occurring at a larger scale but are afraid to come forward due to their own offenses. A program that offers a clear path for such individuals to come forward would help reign in the offenders who engage in corruption at a larger scale.

The path to recovery from state capture is not a simple one, but South Africa holds great promise as it has already committed to the initial steps. A continued effort will be necessary to ensure that the nation can continue its long walk toward reform.

*Apprehension & Hope, Then and Now: Youngsters stood behind an ANC poster of Nelson Mandela listening to the candidate speak during his campaign for President. Orange Free State, 1994.*

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*A Nation In Motion: South African citizen welcomed their Olympic team home from Athens. The team won six medals, including one gold, three silver, and two bronze at the fourth Olympic Games in which the nation competed after the end of apartheid. Due to its official policy of extreme racial discrimination, South Africa was barred from the 1964 Tokyo Olympic Games and was expelled from the International Olympic Committee in 1970. It did not compete again until the 1992 Barcelona Games, following the release of Nelson Mandela from prison. Johannesburg, 2004.*

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## RECTIFYING A SORDID PAST | SUMMARY

### Address land reform efforts

- » Avoid expropriation without compensation, while making sure that redistributed land is accompanied by the funds and education that will help new landowners make the land productive

### Reduce violent crime

- » Address systemic causes of violence by addressing deficits in education, employment, and economic equality
- » Integrate evidence-based policing strategies and continue support for specialized anti-gang units

### Improve access to quality healthcare

- » Roll out the National Health Insurance Initiative despite high projected costs to reduce the disparity in access between the public and private sectors
- » Increase the supply of public health workers like nurses through public-private training initiatives

### Seek justice for the victims of Zuma's state capture campaign

- » Convict the guilty parties, and develop policy that protects whistleblowers, perhaps including financial incentives
- » Continue to facilitate the changeover to more competent officials installed by the Ramaphosa administration

## A GREENER SOUTH AFRICA

Climate change is the largest threat to modern civilization. While no nation will be untouched by increasing temperature, rising seas, and severe weather events, South Africa's position is strong. Naturally well-endowed with renewable energy potential from wind, waves, and sun, the nation has a unique opportunity to transform into a global powerhouse of renewable energy and associated technologies. Green technology could reinvigorate this coal-dependent economy and refocus development to meet the growing demand. With adequate planning, the risks posed to citizens by drought and mosquito-borne disease can be managed so

that South Africans can thrive on a rapidly changing planet. Moreover, as the world transitions away from fossil fuels, a coal-dependent nation like South Africa may find itself left behind if it fails to invest in green technologies. With the opportunities the COVID-19 pandemic presents to revitalize the economy, now is the time for South Africa to make sure that this recovery is a green one.



### SOUTH AFRICA'S PROMISE BACKGROUND & HISTORY



### IMPEDIMENTS TO GROWTH & PROSPERITY



### OPPORTUNITIES FOR GROWTH & PROSPERITY

**An Export-Oriented Mindset**

**Laying a Foundation**

**Rectifying a Sordid Past**

**A Greener South Africa**

**Risk-mitigation in a Greener World**

**Unlocking Renewable Potential**



### APPREHENSION & HOPE

## RISK MITIGATION IN A GREENER WORLD

This report identifies three primary threat areas facing South Africa as the climate, both natural and political, undergoes a rapid transition with the emission of carbon into the atmosphere. These threat areas include: drought, infectious disease, and changes to the international economy.

### Drought

South Africa already struggles with shortages of water and high amounts of waste in the distribution system. Rising temperatures and changing weather patterns will only exacerbate the consequences of problems in the water delivery sector. People will face dehydration, illness and even death. Consequently, the inequities caused by systemic racism mean that these issues will mostly be faced by poorer Black and colored citizens. Preparing to face extreme drought is therefore an issue of public health and environmental justice. By implementing the solutions described in the Water section of this report (see *Water*), the nation will be more able to handle drought in the future (South Africa Department of Environmental Affairs, 2016).

### Infectious Disease

As temperatures rise, the animals that carry infectious disease will become increasingly prevalent at the southern tip of Africa, as they are in the more centralized areas today. This increases the risk of disease spread, especially amongst mosquito-borne diseases such as malaria, typhoid, and yellow fever. Though the use of DDT itself poses an environmental hazard, research shows that it can be used effectively with minimal environmental damage to prevent mosquito-borne infection. For example, the use of treated bed nets has been shown to reduce malaria infections. Additionally, taking steps to increase the availability of vaccines for those diseases that have them through the above-described Biovac initiative would go a long way to preventing these diseases (see *Health*). The other interventions described in the health section are similarly crucial because even with preventative measures, more people will be infected. The current healthcare system is already overbur-

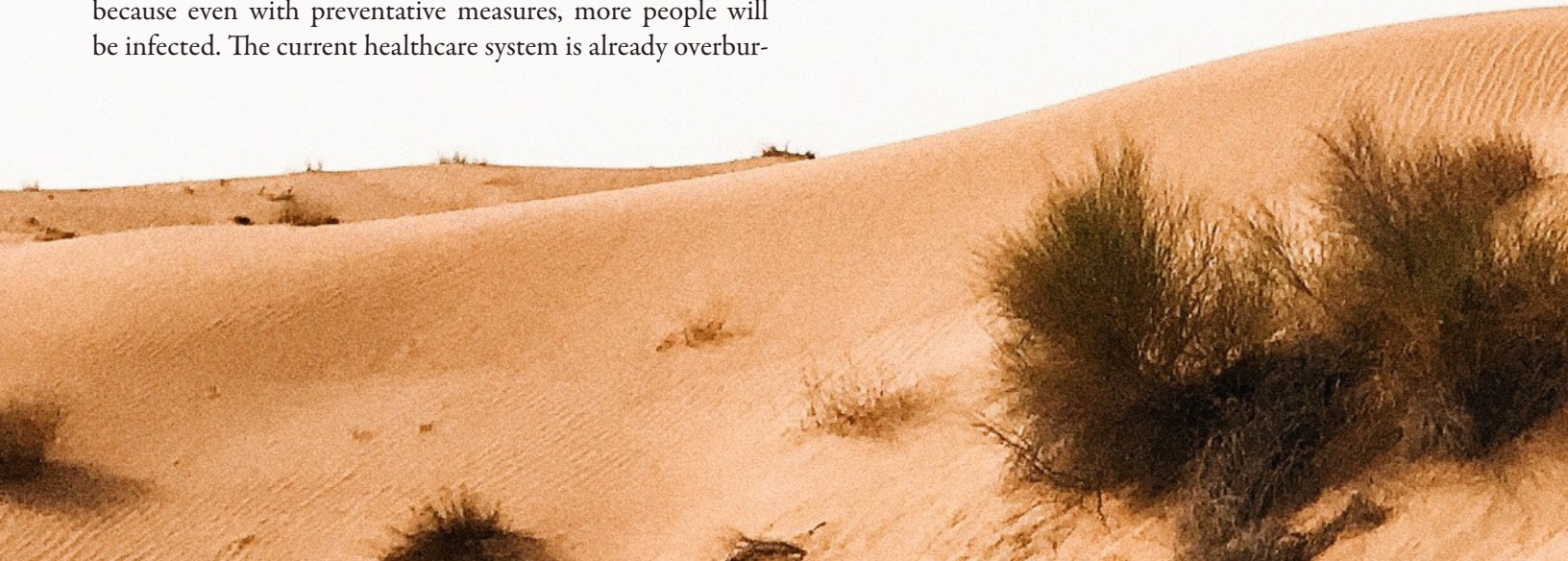
dened and cannot handle an increase in the spread of diseases. Therefore, these recommendations must be implemented quickly so that healthcare workers are ready to help those that fall ill (South Africa Department of Environmental Affairs, 2016).

### Changes to the International Economy

Aforementioned, climate change is not an issue unique to South Africa. The proper response to it will ultimately need to be international. Many political scientists believe that one incentive toward embracing green energy will be the threat of sanctions against those who do not. With South Africa's best interest being in export-oriented growth, it should avoid these sanctions at all costs. By beginning to move away from fossil fuels and coal mining in particular by developing green energy resources, South Africa can avoid the threat of sanctions.

### The Indirect Cost of Ignoring Green Energy

Indirectly, a failure to transition to a low carbon economy also poses a risk to South Africa's future prosperity. While costly to install, green technologies tend to produce significant savings over time, and therefore any country that fails to implement low-carbon initiatives risks losing a competitive economic edge on the world stage. For South Africa to continue to grow its GDP, it must be cognizant of global trends and take steps to ensure that renewable energy development is favored and that the manufacturing sector advances less carbon-intensive processes to produce more environmentally friendly products for its export-oriented economy.



## UNLOCKING RENEWABLE POTENTIAL

The threat of climate change does not necessarily mean South Africa will fail to develop. The country has the sixth-highest renewable energy potential globally, mostly from wind, tidal and solar resources. The necessity of transitioning to a low-carbon economy, therefore, presents an enormous economic opportunity for South Africa (McDermott, 2019). By developing the country's renewable energy generation, South Africans can gain the necessary expertise to become leaders in the global industry. Though climate change presents significant challenges to economic growth and stability, South Africa is poised to tackle it head-on. The government can start its climate plan by encouraging the integration of independent power producers (IPPs) onto the grid, incentivizing renewable technology development, and disentangling the mining-energy complex. These initiatives will help the nation look to better energy sources rather than relying on fossil fuels (South Africa Department of Environmental Affairs, 2016).

Many shorter-term policy changes are already in motion. One such change is a change in leadership of the nation's SOEs. For example, changes to the leadership of Eskom will lead to the prioritization of renewable energy capacity.

**“To unlock that whole new green economy and the private investment that comes with it, you have to reform the industry and regulations.”**

– Saul Musker, President's Office

With the unbundling of Eskom (see *Energy*), IPPs will be able to sell electricity onto the grid competitively. Therefore, it is imperative to accelerate this process to the greatest extent possible (South Africa Department of Environmental Affairs, 2016). In addition, Eskom and the Minister of Energy should install policies that encourage power purchase agreements (PPAs), which are commonly used to finance large-scale renewable energy projects (McDermott, 2019).

The mining industry may pose one of the larger challenges to South Africa's progression towards a green future. Mining represents a significant portion of economic productivity, and 90 percent of Eskom's current energy needs are fuelled by coal. Unions representing those affiliated with the coal industry are deeply connected with the ANC. Fortunately, pressures on the private sector are already pushing the nation to embrace energy efficiency and low-carbon technologies. If South Africa can convert its energy dependence from fossil fuels to renewable technology, the future is bright. It is worth noting that many of the reforms needed to help South Africans weather a changing climate match the reforms necessary to ensure broader economic prosperity following recovery from the COVID-19 pandemic. Prosperity increasingly overlaps with environmental consciousness. Climate resiliency is not defined by economic stagnation; rather, green policies will strengthen the economy's upward trajectory.





**SOUTH AFRICA'S PROMISE  
BACKGROUND & HISTORY**

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**IMPEDIMENTS TO GROWTH & PROSPERITY**

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**OPPORTUNITIES FOR GROWTH & PROSPERITY**

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**APPREHENSION & HOPE**

# **APPREHENSION & HOPE**

## APPREHENSION & HOPE

South Africans are in a place of apprehension. The euphoria of overcoming apartheid has dulled as its memories linger and the permanence of its vestigial institutions become more apparent. The ruling government's inability or unwillingness to cast aside its interests for the nation's erodes any chance of the country prospering. Nevertheless, hope remains. South Africans understand that the nation can overcome

its problems. After all, other nations around the world and across different eras have overcome similar problems. The missing ingredient in South Africa is leadership. South Africa's leaders have frozen in place. For the nation to move forward, a courageous leader must emerge. President Cecil Ramphosa must be that leader. He must make difficult political decisions so that the nation can succeed. This cen-

tury presents tremendous opportunities for South Africa and the continent. Whether it can take advantage depends on how President Ramphosa and other leaders act.



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*The Zionist sect is composed of thousands of small congregations, each with its own spiritual leader, its own ceremonies, dances, and costumes. They have no church buildings, but worship in parks, on beaches, in underground garages, or any open space where they might find some seclusion. This group gathered for a healing ceremony in the Indian Ocean before dawn. Durban, KwaZulu-Natal, 2009.*

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*The South African gold fields are a massive ridge of gold-bearing rock, known as Witwatersrand, that extends from the northeast of Johannesburg in Transvaal (renamed Gauteng) into the Orange Free State (renamed Free State). They contain the world's largest gold deposits, and its mines are responsible for the world's highest production of gold. The miners who performed the hard labor were by-and-large Black migrant workers who spent many months each year away from their homes and families, lived in workers' quarters at the mine, and were paid a fraction of the wages earned by white miners. South African gold mines are the deepest in the world, reaching a depth of 2.5 miles. Temperatures can reach 140 degrees Fahrenheit, and the mines are cooled by pumping in a mixture of ice-slurry and salt. Witwatersrand Region, 1992.*

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*Nelson Mandela and his second wife, Winnie, hosted a party to celebrate the engagement of their daughter, Zindziswa, or Zindzi, who grew up with her mother in exile in the Orange Free State. Mandela married Nomzamo Winifred Zanyiwe Madikizela in 1958. She was an influential anti-apartheid activist and ANC member but became involved in corruption and violent intimidation during Mandela's 27-year imprisonment. She eventually lost her political standing. The couple separated in 1992, and their divorce was finalized in 1996. Orlando West, Soweto, 1992.*

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*The southeastern region of South Africa has been the home of the Xhosa people for centuries. During the time of apartheid, the area became designated as a "homeland," known as Transkei, where the population were deprived of the 'rights' of national citizenship. Many long-standing traditions continue to be practiced there. Initiates into manhood live for a month in a communal hut outside their village with their faces and unclothed bodies covered in white clay. They receive daily visits from village elders who instruct them in their responsibilities as men. On the day they enter manhood, they walk to a nearby stream, wash off the white clay, then, clothed only in blankets, re-enter their village where they receive a new set of clothes and are welcomed as men. Qanda, Eastern Cape Province (formerly Transkei), 2009.*

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*Transkei, 1992.*

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The background features a complex geometric pattern. It consists of several overlapping shapes: a large blue shape on the left, a large red shape on the right, and a central green shape. A yellow shape is positioned at the top center, and another yellow shape is at the bottom center. The shapes are separated by white lines, creating a sense of depth and movement.

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