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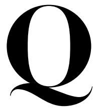

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TAX POLICY OUTLOOK FOR THE YEAR AHEAD

DR ALBERTUS MARAIS,[1] Partner: Disputes and international tax at AJM Tax

The new calendar year promises to see many tax-related developments initiated by Treasury. From publishing the requirements for a company to qualify as an unlisted real estate investment trust (REIT) to the new Tax Court Rules dealing with, among other things, the ability to engage in alternative dispute resolution (ADR) proceedings as part of the tax objection stage already, 2025 is bound to see many important regulatory developments.

With the 19 February National Budget speech looming, one can also start casting one's gaze wider and anticipate some of the policy announcements that may result in new legislative amendments proposed to be introduced soon by National Treasury as part of the new annual fiscal legislative cycle.

At least two statutory amendments are expected due to the Constitutional Court judgment in *Coronation*[2] in June last year. In that judgment, the Constitutional Court found in favour of Coronation as it related to the activities conducted by that group's Irish subsidiary. Specifically, that case involved whether the South African holding company could rely on the "foreign business establishment" exemption contained in the "controlled foreign company" (CFC) rules in section 9D of the Income Tax Act for it to escape paying tax on the foreign subsidiaries profits. Due to the finding in favour of Coronation, the court did not deal with the court a quo's (the Supreme Court of Appeal) findings concerning the understatement penalties levied by SARS because the penalty issue fell away and became moot due to the finding in favour of Coronation regarding the CFC rules' application.

The first anticipated change following Coronation is for Treasury to reintroduce its 2023 proposed legislative amendments in 2023. Those proposals were withdrawn later that year due to the Coronation case still making its way through the South African judicial system at the time. Those amendments, which dealt with when South African shareholders could rely on the "foreign business establishment" exemption, are bound to be reintroduced to counter the effect of the Coronation judgment.

The second matter from the Constitutional Court judgment involves determining when a taxpayer has made a *bona fide* inadvertent error that caused an understatement, which may be penalised. The principle is extremely important as, under the Tax Administration Act, a taxpayer who understated its tax liability cannot be penalised if the understatement arose from a *bona fide* inadvertent error.[3] The Constitutional Court in *Coronation* adopted an interpretation of the phrase that significantly impacted the understatement penalty regime, arguably to such an extent that understatement penalties can no longer be levied except in the most extreme cases. It is highly anticipated that the current disqualification from the understatement penalty regime will be addressed.

Staying with the financial industry, one can also look out for a potential reform affecting the collective investment scheme industry following the National Treasury's publishing of a policy paper in November last year. In that paper, Treasury invites comments on reforming the taxation of collective investment schemes, particularly where those funds are engaged in short-term trades. The abuse identified by Treasury involves collective investment schemes (hedge funds in particular) selling assets speculatively yet returning those profits as capital gains, which are uniquely exempt from capital gains tax.[4] Treasury made a raft of proposals to address this perceived abuse, including revisiting whether such investment funds should benefit from acquiring assets tax-free through reliance on the so-called corporate relief provisions in sections 41 to 47 of the Income Tax Act. The policy paper has received a significant response from the industry, with workshops held in the middle of January of this year. How Treasury proposes to move from here on forward is bound to become more apparent when the tax policy proposals are published as part of the National Budget in February.

"2025 is bound to hold many surprises and developments, making for interesting times ahead"

Whether activities involve financial services is always topical for VAT purposes (as we have again been reminded recently in the Constitutional Court judgment in the *Capitec* case).[5] Currently, under the VAT Act,[6] Sharia financing arrangements only qualify as such if entered into by a bank or a listed entity.[7] The effect of the regime is that those transactions do not involve a VATable transaction. There is significant lobbying from industry for the VAT Act's Sharia financing regime to be extended so that 'ordinary' companies, too, qualify for this regime. If the VAT regime for Sharia financing arrangements is extended, it will put banks, listed companies and 'ordinary' companies on equal footing on this score, ensuring that Sharia financing does not bring about onerous VAT consequences, regardless of the identity of the parties involved.

Apart from looking out for the above policy developments, there will no doubt be many other proposed amendments dealing with tax thresholds and the like put forward quite soon. Government also surprised many when it announced in 2021 that it intends to reduce the corporate income tax rate to 27%. Do not forget what the late Minister Mboweni said in Parliament when making the announcement: *"We will give consideration to further rate decreases to make our tax system more attractive."* While a further rate increase is certainly not likely to be announced in the upcoming budget speech, many also did not consider it likely in 2021. Could 2025 hold such a similar surprise? Regardless, 2025 is bound to hold many surprises and developments, making for interesting times ahead with many new developments to keep track of.

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[2] Coronation Investment Management SA (Pty) Limited v Commissioner for the South African Revenue Service 2024 (6) SA 310 (CC).
[3] Section 222(1) of the Tax Administration Act, 28 of 2011.
[4] Under paragraph 61(3) of the Eighth Schedule to the Income Tax Act, 58 of 1962.
[5] Capitec Bank Ltd v CSARS CCT 209/22 [2024] ZACC 01.
[6] 89 of 1991.
[7] Section 8A of the VAT Act.

THE FUTURE OF CARBON TAX: The Impact on South African Businesses

▸ **DUANE NEWMAN,** Partner at EY

The strategy to gradually phase in South Africa's Carbon Tax regime has meant that its impact so far has been muted, with less of a burden on our industry than we have seen in some other regimes such as the EU.

The transformation of the VAT regime has been a global phenomenon; South Africa has also made strides to ensure that its VAT system adapts to change and keeps up with global best standards.

That is expected to change from 1 January 2026, when industry should brace itself for a potential doubling of the impact, should changes to allowances and other elements of the Carbon Tax framework go through unchanged as proposed by National Treasury in November 2024.

The first phase of the Carbon Tax began in June 2019 and will run until the end of this year, 2025, with Phase 2 being introduced from the 1 January 2026.

A consultation process was launched by the National Treasury on 13 November 2024 on its proposed changes to Carbon Tax allowances, carbon offsets, the electricity levy, the renewable energy premium and the energy efficiency savings tax incentive.

Definitive new measures are due to be announced by Finance Minister Enoch Godongwana in his budget speech in February 2025, after the National Treasury has assessed the feedback received during the consultation process with the affected parties.

There were concerns that the consultation process began far later than had been expected and therefore had to be rushed. A request by business for more time was rejected. In contrast, a parallel consultation process on alcohol taxes was awarded an extension.

This leads us to believe that there was a firm intention to speed through the consultation stage, so Minister Godongwana could use the February Budget Speech to lay out the final framework for Phase 2 of the Carbon Tax.

A summary of National Treasury's proposed changes to Carbon Tax allowances:

Basic Tax-Free Allowance	The Basic Tax-Free Allowance is reduced by a large 10% in 2026 and by smaller increments of 2.5% per year from 2027–2030.
Performance Benchmark Allowance	5% increase for fuel combustion emissions (10% performance benchmark allowance for fuel combustion) The allowance remains the same for process emissions.
Carbon Offset Allowance	15% increase in the carbon offset allowance for fuel combustion and process emissions. Therefore, a 25% carbon offset allowance on fuel combustion and a 20% carbon offset allowance for process emissions.
Trade Exposure Allowance	The trade intensity index will increase making it harder for companies to benefit from the trade exposure allowance. It is proposed that to adjust for the increase in the carbon offset allowance and performance benchmark allowance, the trade exposure allowance falls away for fuel combustion.
Carbon Budget Allowance	Carbon Budget allowance falls away from 1 January 2026 (previously planned to fall away from 1 Jan 2025).
Mandatory Carbon Budgets	A higher carbon tax rate of R640 per ton CO_2e on emissions exceeding the carbon budget allocation from 1 January 2026. Legislative changes to the Carbon Tax Act will follow to enforce this.
Electricity Price Neutrality	Proposed that the carbon tax replaces the electricity generation levy from 1 January 2026, electricity generators to deduct a portion of the renewable energy premium from their tax liability where there is a difference.
Section 12L Energy Efficiency Incentive	It is proposed that eligible projects under the Section 12L tax incentive are absorbed under the carbon offset mechanism.
Tax Incentive for Green Hydrogen	Extension of the 100% depreciation allowance for solar photovoltaic (PV) to green hydrogen production in line with the recommendations from the Green Hydrogen Commercialisation Strategy approved by Cabinet in 2023.

Source: EY analysis

- The consultation document will complete the Carbon Tax framework, as the tax rates until 2030 have already been announced. They are as follows:

YEAR	CARBON TAX RATE (R/tCO2e)	Increase percentage	CARBON TAX RATE (R/tCO2e)
2023	159		
2024	190	19%	
2025	236	24%	
2026	308	31%	
2027	347	13%	
2028	385	11%	
2029	424	10%	
2030	462	9%	

The big challenge for business is that the changes proposed in the November 2024 consultation document would mean that effective tax liability will double from 2026, due to increases in the Carbon Tax rate itself, which is 31% from 2025 to 2026, and the impact of the proposed changes to allowances.

The impact is compounded by the steep decrease in the basic allowance, reduction in the trade exposure allowance and the removal of the carbon budget allowance all occurring at once.

This will be unaffordable for some businesses; so, during the consultation process, many affected businesses called on the minister to modify his proposals.

The Carbon Tax allowances are of vital importance to businesses, as they can reduce their liability and cushion the impact of the tax. Consequently, I shall discuss each of the most impactful changes in turn.

NB: Do bear in mind that I am writing this in advance of Budget Day and my analysis is based on the consultation document; the actual measures announced in the Budget Speech may differ. Indeed, if the consultation process is to be taken seriously by the National Treasury, there will need to be changes.

The basic allowance

The allowance will be 60% up to the end of 2025, where it is being suggested that it should fall to 50% in 2026, with further reductions of 2.5% in each subsequent year until 2030.

Can the industry absorb such a big initial drop—effectively a 16% reduction from 1 January 2026—before a gradual phase-down?

We are already seeing the Carbon Tax's headline rate increasing steeply and is that not enough?

I would question whether the National Treasury should be reducing the basic allowance at all before 2030, which such large headline rate increases have already announced. If it must do so, I would like to see the cuts being made much more gradually.

Carbon offset allowance

In essence, carbon offsets allow companies emitting greenhouse gases into the atmosphere to pay for another entity to pollute less, thus acquiring a carbon credit.

In South Africa, the carbon credit market is small, with very few buyers, which has resulted in few projects being developed.

The National Treasury has been proposing to increase the carbon offset allowance to enable a 20% to 25% reduction in tax liability and this seems to be intended to stimulate the carbon credit market.

However, carbon credits are not free; they cost money and so the incentive may not be sufficiently attractive.

It must also be noted that carbon offset projects can take time from the planning stage to execution—typically at least two to three years before any credits are generated. So, if you increase the carbon offset allowance from 2026, there is only a remote chance that businesses will be able to take advantage of that increase.

We must also recognise that it costs money to develop projects and some companies would rather just prefer to pay the Carbon Tax.

Carbon budget allowance

This currently stands at 5% and the plan is to remove it from 2026.

This makes sense, as the carbon budget allowance will be replaced by a carbon budget system, with the government putting a cap on emissions at a company level that the Department of Forestry, Fisheries and the Environment will be implementing.

There is concern about this, though, as the details of this new system have not yet been published, so we must remain cautious until we understand how the carbon budget process will work.

If a company goes over its target emission level, it will pay a penalty of R640 a tonne. This is a significant penalty.

How will this operate and how will an agreement be reached on company limits?

Trade exposure allowance

It is being proposed that this be removed completely from 2026 for combustion emissions. However, some businesses that are burning fuel are still trade-exposed, so it seems illogical to remove the trade exposure allowance for combustion emissions and we would challenge this move.

South Africa has developmental needs and we also have a polluter-pays Carbon Tax. We have allowances. However, since South Africa's Carbon Tax was designed, there have been important international developments which need to be taken into account.

There is the EU's Carbon Border Adjustment Mechanism (CBAM) which has higher rates than SA's Carbon Tax and will affect our country's exports in a number of sensitive sectors. Other territories, including the UK, are planning similar CBAMs.

This raises the question of whether the net rate of SA's Carbon Tax should be higher than it is.

It seems this might be what the National Treasury is trying to do with its plans for Phase 2 of the Carbon Tax.

However, not every South African business is significantly trade-exposed, so we would favour a more subtle, much more nuanced, sector-by-sector approach rather than blanket changes to the Carbon tax across all industries.

After all, that is what other countries are doing, with CBAM only affecting specific sectors such as aluminium, iron and steel and fertilisers.

"In essence, carbon offsets allow companies emitting greenhouse gases into the atmosphere to pay for another entity to pollute less, thus acquiring a carbon credit"

Carbon Tax on electricity

One proposal in the discussion document is to continue to charge an electricity levy of 3.5c per kw hour, with another option of effectively converting it to a Carbon Tax.

The paper suggests: "In this option, the Carbon Tax will start to apply, and managers of electricity generators will start to factor in the level of carbon emissions in their business decisions. There will now be an incentive to lower carbon emissions to reduce their carbon tax liability."

My concern is that this seems to fly in the face of much of the commentary in the same document, which gives an assurance that the changes in approach to electricity should be revenue neutral.

It seems self-evident that there is a big difference between an electricity levy and a Carbon Tax; the National Treasury needs to clarify its thinking on this.

Eskom will want to pass the impact of a Carbon Tax onto its customers through the Nersa price application process and it has requested this.

The structure around electricity pricing, the Carbon Tax and the electricity levy need to be rigorously looked at to ensure the consumer is not badly affected. We must bear in mind that any cost increases will affect the poor significantly more than others.

Revenue recycling

The Carbon Tax is a stick but there are also carrots. Whereas taxes on emissions penalise companies, there are incentives to give back to businesses that curb their pollution such as the Section 12L energy efficiency incentive.

It is proposed that in future this should operate as a carbon offset incentive but the challenge with this approach is that you then add all the carbon offset rules to the already onerous Section 12L rules and requirements.

This extra layer of red tape would probably make it unworkable.

- It is not clear how energy efficiency projects would be absorbed by the carbon offset scheme and the details of this will need to be clarified.

I would like to see it as a stand-alone allowance, created to reduce a carbon tax liability. Maybe companies could have a choice to reduce corporate tax or trade the allowance to those who could use it to reduce their carbon tax liability.

Consideration should also be given to a carbon tax investment allowance to encourage businesses to invest capital in carbon reduction projects. I am still unsure why the system does not allow companies to create a carbon tax 'assessed loss' that can be offset against future carbon tax liabilities. The current maximum allowance structure wants a minimum tax to be paid. I think that principle is fundamentally flawed and needs to be rethought by National Treasury.

Some companies do not pay income tax but they do pay Carbon Tax; so, this might enable them to claim something back.

Other concerns

We would recommend that clarity be sought on revised Performance Benchmarks to see whether these could be expanded to more industry sectors.

The way in which the carbon budget penalty will be levied is not clear and business needs to request clarity.

Conclusion

The overall changes in the Phase 2 consultation document are too drastic. Some need to be postponed by at least five years to give businesses time to adapt and plan.

Some industries are far more affected than others by the Carbon Tax - it is very industry-specific.

Some of the envisaged changes will be unaffordable for struggling sectors, which will see an increased tax burden; so, changes need to be more nuanced to be more affordable.

Surely, the objective of a tax system cannot be to close businesses and put people out of jobs?

A carbon tax is a fiscal instrument; however, there are also reporting requirements and incentives available to companies that adopt more sustainable practices.

With high costs and recent unreliable supply from Eskom, emissions are falling anyway—it is important to understand how much this is due to factors other than the Carbon Tax such as the increased wave of renewable energy projects.

The government needs a holistic review of all instruments at its disposal; so, surely the question our ministers and officials should really be addressing is: Do we really need to increase the Carbon Tax at all?

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SOUTH AFRICA IN THE CROSSFIRE: Trump, Tariffs, and Global Trade

▶ **DR RODRICK VAN ROOYEN,** Independent Customs and Global Trade Consultant

In the complex landscape of global trade, South Africa finds itself at a pivotal crossroads, significantly influenced by the United States (USA) and the policies of its current administration.

With the emergence of Donald Trump as a transactional president, South Africa must navigate the intricacies of international relations while considering its internal and external trade dynamics. This article aims to explore the implications of Trump's policies on South Africa, particularly regarding tariffs, trade agreements and national security concerns, while also reflecting on the broader context of governance, trade relationships and economic strategies.

The Context of trade relations

Trade has long been a cornerstone of economic development, providing countries with the ability to exchange goods, services and resources. For South Africa, the African Growth and Opportunity Act (AGOA) once represented a significant opportunity for trade expansion with the USA. However, as political analyst, Dr Frans Cronje points out, AGOA now accounts for only about 2% of South African exports. This statistic highlights a critical reality; while AGOA serves as a tool for trade, it is not the sole determinant of South Africa's economic landscape.

What may be more important within the context of USA and South African trade relations is the South African Review Act. This 'Act' plays a critical role in assessing whether South Africa poses a national security threat to the USA and potentially to other nations. Dr Cronje emphasises the importance of the South African Review Act, which is currently under discussion in the USA Congress. The discussion regarding the act raises the question of whether South Africa currently poses a national security threat to the United States. The implications of this determination are profound, as it could reshape the trade relationship between the two nations.

National Security and Trade

The conversation surrounding national security is particularly pertinent in light of South Africa's ties with countries like Iran. Such relationships can be perceived by the USA as a threat, especially under an administration that prioritises transactional relationships. If South Africa continues to develop deep connections with Iran and other countries that may advance Iranian objectives, it risks alienating a key trading partner.

Dr Cronje suggests that if South Africa were to reassess its foreign policy and reduce its engagement with nations viewed as adversaries by the USA, it could potentially foster more favourable trade relations with the Trump administration. This could align South Africa with USA interests, allowing for increased trade, financial support and investment opportunities.

"As South Africa contemplates its role in this evolving landscape, it must consider how its relationships with neighbouring countries and global powers such as the USA, China and Russia will impact its trade strategies"

The Role of a transactional presidency

Trump's past and future administration was and may be characterised by a transactional approach to foreign policy, often prioritising economic benefits over traditional diplomatic relations. For South Africa, this means that the future of its trade relationship with the USA hinges on the perception of its value as a trade ally. If South Africa can position itself as a reliable partner, the USA may offer favourable trade terms, opening up avenues for investment and economic growth.

The transactional nature of Trump's presidency may also influence how South Africa navigates its trade policies. For instance, South Africa is currently imposing anti-dumping duties on a range of nations, including the USA and several BRICS countries. However, the majority of anti-dumping duties are against some of the BRICS countries, that is, Brazil, India and China. At face value, it seems to suggest that BRICS countries potentially harm the South African domestic market more than the USA.

The Angola Corridor and regional trade dynamics

Another crucial factor in the discussion of South Africa's trade landscape is the development of the Lobito Corridor in Angola. This corridor aims to connect the Indian Ocean, that is, Angola, the Zambian copper mines to Tanzania and the South Atlantic Ocean, facilitating trade routes that could reshape regional dynamics. As South Africa contemplates its role in this evolving landscape, it must consider how its relationships with neighbouring countries and global powers such as the USA, China and Russia will impact its trade strategies.

The Lobito Corridor poses a strategic opportunity for the USA as it seeks to maintain influence in the region. If South Africa can establish itself as a key ally of the USA in southern Africa, it could improve its chances of negotiating better trade terms. To achieve this, it is important for South African ports to align with the USA rather than appearing supportive of Russia in the context of the ongoing Ukraine war.

The Pros and cons of governance models

In contemplating the future of South Africa's trade relationships, it is essential to consider the broader implications of governance models. It is possible that a smaller government and free trade advocate a hands-off approach, allowing market forces to dictate economic outcomes. This model emphasises the importance of free speech and the need to keep the state out of individuals' lives, fostering an environment conducive to entrepreneurship and innovation, which may translate into South African businesses naturally fostering trade relations with the USA.

However, the potential downsides of a minimal government approach include the risk of increased inequality and reduced support for vulnerable populations. In South Africa, where socioeconomic disparities are pronounced, a more interventionist approach may be necessary to address these challenges. Striking a balance between promoting free trade and ensuring equitable growth will be crucial as the country navigates its trade relationships.

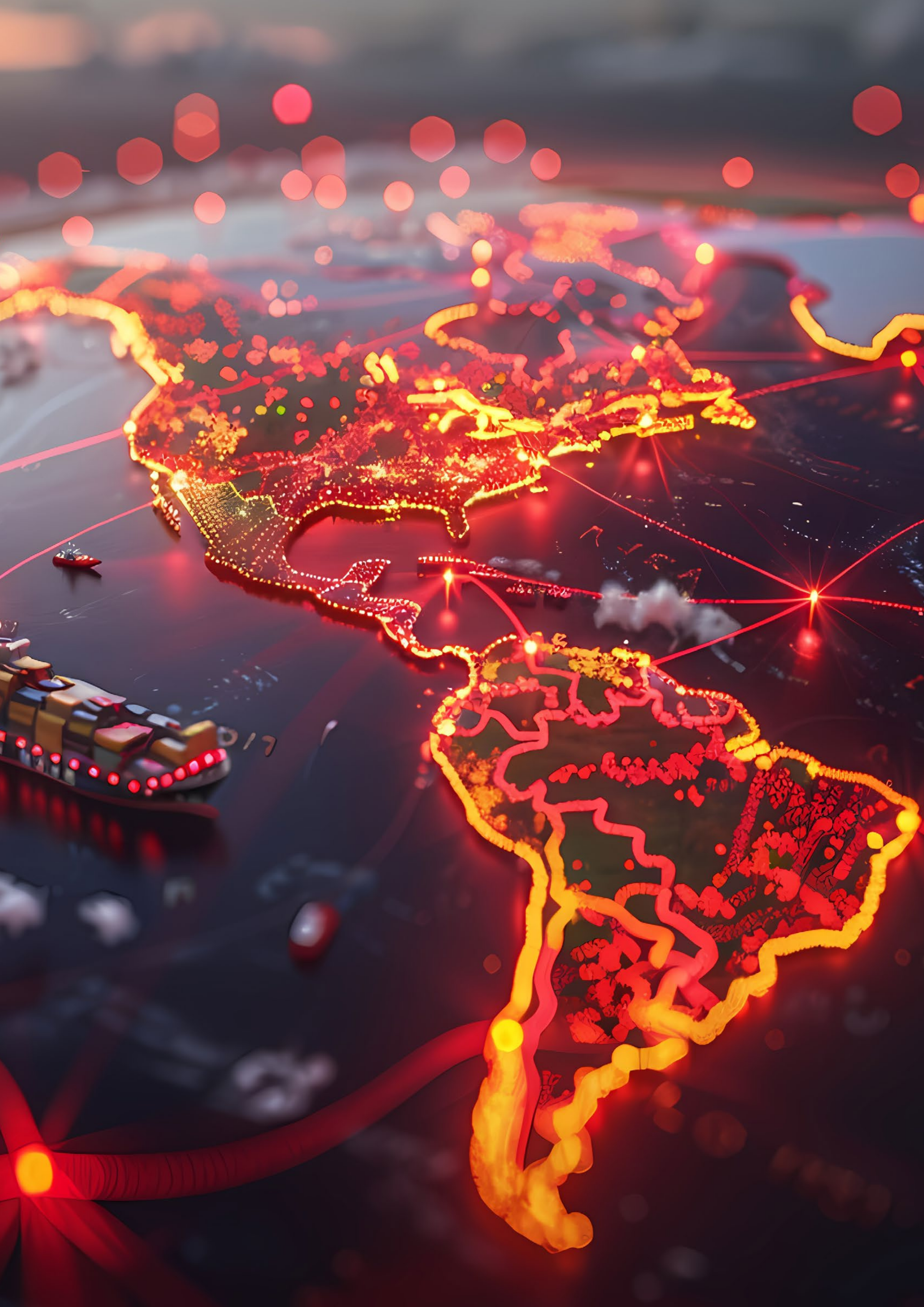
Conclusion: navigating the future

As South Africa finds itself in the crossfire of global trade dynamics, the decisions made by both its government and the USA administration will have far-reaching consequences. The relationship between South Africa and the USA will be largely determined by perceptions of national security, trade policies and geopolitical alliances.

For South Africa to thrive in this complex environment, it must carefully evaluate its foreign policy decisions, particularly its ties with nations that may be perceived as threats by the USA. By fostering a more favourable trade relationship with the USA, South Africa could unlock new opportunities for growth and investment.

Ultimately, the future of South Africa's engagement in global trade will depend on its ability to adapt to changing circumstances, embrace strategic partnerships and prioritise economic resilience. As the world continues to evolve, South Africa must position itself as a viable and attractive trade partner, leveraging its strengths to navigate the challenges ahead.

"In South Africa, where socioeconomic disparities are pronounced, a more interventionist approach may be necessary to address these challenges. Striking a balance between promoting free trade and ensuring equitable growth will be crucial as the country navigates its trade relationships"



THE BURDEN OF TRUST: Can South Africa get its affairs in order?

▶ **PHIA VAN DER SPUY,** Founder at Trusteeze

In typical South African style, until recently, few trustees have responded to the Financial Action Task Force's (FATF's) anti-money laundering and anti-terrorist financing measures introduced into our laws at the end of 2022.

Most were waiting for government to start issuing fines and penalties before they took action. Others were unaware of the total trust 're-set' since the beginning of 2023. As a member of the FATF, South Africa had to align its regulatory framework with international standards in anti-money laundering and in combating the financing of terrorism. The Trust Property Control Act was amended effective 1 April 2023 to address the shortcomings in beneficial ownership transparency for trusts in South Africa's regulatory framework as guided by the FATF. Other onerous requirements were also introduced, of which few trustees are aware.

What exactly is required of trustees to avoid a criminal offence?

Trustees are to keep a multitude of up-to-date information on beneficial owners in terms of the Trust Property Control Act, the Regulations and the SARS' requirements. Only an extract of this information should be reported to the Master of the High Court in real-time. Trustees also have to meet two additional requirements that attract penalties for non-compliance, being the recording and confirmation of their interactions with 'accountable institutions'. Firstly, trustees are to keep a real-time register in the prescribed format as per the Regulations of accountable institutions, which they use as agents to perform trustee functions and provide any services to trustees. The Regulations require trustees to understand and record details of 'accountable institutions', such as whether the trustees are using the 'accountable institution' as an agent and whether their relationship can be classified as a 'single transaction' or as a 'business relationship'. Secondly, the trustees should inform the accountable institution concerned, in writing, that they are acting in their capacities as trustees and not in their personal capacities.

Therefore, trustees must become knowledgeable in anti-money laundering legislation, as they need to know which persons and entities that they deal with qualify as 'accountable institutions'. It no longer only includes the banks but also quite an extensive list of goods and service providers such as legal practitioners (inclusive of trust advocates), trust and/or company service providers, credit providers, money or value transfer service providers, high-value goods dealers (a business that sold/has stock items of R100 000 or more—this includes motor vehicle dealers, jewellers, etc.), crypto asset service providers, and clearing system participants, to name but a few. Layperson trustees do not have the required knowledge and require the help of a professional who can assist them. Ultimately, the board of trustees remains liable for non-compliance, so they must obtain proper professional assistance to meet these new requirements.

"Only one reporting cycle remains in terms of the Action Plan in January 2025. If the FATF Plenary determines in February 2025 that we have addressed or largely addressed all 22 Action Items, an onsite visit of the Joint Group in April or May 2025 will be scheduled to confirm that assessment and make a recommendation to the June 2025 FATF Plenary to remove South Africa from the FATF grey list"

Penaltie

A trustee who is convicted of any of the offences referred to above may be liable for a fine of up to R10 million or imprisonment for a period of up to five years or to both. It should be noted that, as the law stands, such an offence will be a criminal offence, which may have severe implications for a person's life, such as the possible limitation of the ability to earn a living. There is speculation that administrative penalties for non-compliance may be introduced.

FATF's recent response

After our greylisting, government has adopted a jointly agreed-upon Action Plan containing 22 Action Items linked to the eight strategic deficiencies identified in the country's Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) regime. After a recent review by the FATF at the end of October 2024, it was confirmed that six items remained unaddressed for South Africa to be removed from the grey list in early 2025. One of these items relates to timely access to beneficial ownership information concerning companies and trusts, with noted unsatisfactory compliance rates. Only one reporting cycle remains in terms of the Action Plan in January 2025. If the FATF Plenary determines in February 2025 that we have addressed or largely addressed all 22 Action Items, an onsite visit of the Joint Group in April or May 2025 will be scheduled to confirm that assessment and make a recommendation to the June 2025 FATF Plenary to remove South Africa from the FATF grey list. However, if any items remain unaddressed by January 2025, we will be required to continue reporting to the FATF every four months until all the deficiencies have been addressed.

Government's reaction

Even though government has issued various communications since 2023, they did not seem to have reached the correct audience. The Department of Justice and Constitutional Development issued a media statement on 4 May 2023 reminding (informing) the public that these new measures have come into effect from 1 April 2023 with the heading *"Increased measures for Trusts to combat money-laundering and terrorism financing crimes"*. The Chief Master also issued Directive 8 of 2023, effective 16 October 2023, titled *"Beneficial Ownership Register"*, which reminds trustees that the requirements apply to all trusts, *"irrelevant of when and for what purpose it has been registered"*. No extension was provided to submit beneficial ownership information to the Master and it stressed that *"all South Africans are required to provide records and reports on all information about beneficial owners as from 1 April 2023"*. The Minister of Finance, Enoch Godongwana, delivered his Medium-Term Budget Policy Statement (MTBPS) on 1 November 2023. He stressed that *"there is also a significant amount of work that must still be done"* to prove to the FATF that enough is being done to remove South Africa from the grey list. The Department of Justice and Constitutional Development issued a Media Statement on 17 September 2024 titled, *"Trustees not complying with the provisions of the amended Trust Property Control Act to face harsher punishment"*. In a drive to improve the chance to exit the grey list in early 2025, the media statement set a deadline for filing the beneficial ownership registers with the Master by 15 November 2024.

- National Treasury provided a progress update on 25 October 2025, following the FATF Plenary, which took place on the same day. National Treasury also called upon all companies and professional trustee service providers to ensure registration by companies and trusts they engage with or are involved in before 30 November 2024 to increase the coverage in beneficial ownership registries significantly. The Master conducted a webinar, *"Unlocking Transparency: Paving the way for trust and accountability with our Trust Beneficial Ownership Register"* on 29 October 2024 to discuss challenges and solutions. The recording was made available on the website of the Department of Justice. Since the webinar and posting by various industry players on social media to remind trustees of their legal responsibilities to submit beneficial ownership registers, a significant improvement has been noticed in the submissions on the Master's portal. The Master also cleaned up their database of trusts with those that were historically deregistered with the Master, as well as those trusts that were never activated or used.

The Trust Property Control Act is also in the process of being rewritten. Although it was evident that government had hastily introduced these measures into our legislation late 2022 in an attempt to avoid greylisting, with some practical challenges and areas for improvement, these measures will remain entrenched in our legislation. It can be expected that government will improve its policing of these measures.

New measures here to stay

These requirements are here to stay. The FATF has already indicated that it will increase the frequency of reviews. South Africa should, therefore, remain focused on mitigating and responding to financial crimes such as money laundering and corruption. Although the goal for South Africa is to be removed from the grey list in early 2025, as mentioned above, South Africa will be required to continue reporting back to the FATF Africa Joint Group every four months until all the action items have been addressed, if the FATF Africa Joint Group assesses that South Africa has not adequately addressed all remaining action items in February 2025 to be removed from the grey list. Trustees are, therefore, advised to incorporate these compliance requirements into their normal routines as trustees in the ongoing, real-time administration of trusts. The days are certainly gone when trustees played a passive role in the administration of trusts.

SOUTH AFRICA'S GLOBAL MINIMUM TAX:

A New Era of Corporate Taxation

▶ **KEITUMETSE SESANA,** Strategic Lead for Stakeholder Engagement and Legislation

In today's globalised economy, the ease of moving capital across borders has led to significant challenges in maintaining equitable tax systems. Multinational enterprises (MNEs) often leverage differences in national tax regimes to minimise their tax burdens, which ultimately reduces the effective tax rates payable in the jurisdictions in which they operate and where these MNEs generate substantial revenue.

To combat this, the Organisation for Economic Co-operation and Development (OECD) spearheaded the development of the BEPS 2.0 initiatives. The Global Anti-Base Erosion (GloBE) rules under the Pillar Two framework is one of these critical initiatives. The aim is to impose a Global Minimum Tax (GMT) of 15 per cent, ensuring that large corporations contribute a fair share of tax no matter where they operate. South Africa has taken a significant step forward by enacting the Global Minimum Tax Act, No. 47 of 2024 (the Global Minimum Tax Act), thus aligning with international reforms and protecting its tax base.

Breaking down the Global Minimum Tax

The GMT establishes a minimum effective tax rate (ETR) of 15 per cent on profits earned by large MNEs. The GMT applies to MNE groups with consolidated revenues exceeding €750 million in at least two of the four immediately preceding financial years in relation to the tested year. Interestingly, this is the same threshold used in country-by-country reporting under BEPS Action 13. This translates to roughly R14.4 billion at current exchange rates; therefore, purely on this basis, it is not anticipated that many South African MNEs will fall within the scope of these rules. However, these rules may also potentially apply to local subsidiaries of MNEs that fall within the scope, regardless of their headquarters' location, essentially resulting in the inclusion of local subsidiaries of non-resident MNEs that are within scope. On the basis that the GMT targets larger MNE groups, smaller businesses are generally excluded from these rules, minimising the compliance burden on these types of entities.

The GMT comprises several key rules, which are plainly outlined as follows:

- *Income Inclusion Rule (IIR):* This is the primary rule where a parent company imposes a top-up tax on profits earned by low-taxed subsidiaries.
- *Undertaxed Payments Rule (UTPR):* A secondary measure allowing other jurisdictions to tax payments made to related entities when the IIR is insufficiently applied.
- *Qualified Domestic Minimum Top-up Tax (QDMTT):* A rule that enables jurisdictions to impose their own top-up tax to meet the 15 per cent minimum rate domestically, ensuring that taxing rights remain within the specified country.

South Africa's approach to global minimum tax

South Africa, like many other countries, faces challenges because of BEPS activities, where profits are shifted to low or no-tax jurisdictions. In response, the government enacted the Global Minimum Tax Act with the aim of ensuring that South Africa protects its tax base by retaining its sovereign right to tax income generated within its borders. This approach is indicative of South Africa's stance which aims to prevent the erosion of its tax revenues and ultimately supports economic stability but also promotes fairness and equity in the tax system.

The enactment of the Global Minimum Tax Axt is also aimed at safeguarding South Africa's tax base by preventing other jurisdictions from taxing profits derived in South Africa, a scenario that could arise if foreign countries impose top-up tax on profits from South African operations that are subject to an effective tax rate of less than 15 per cent.

How is top-up tax calculated?

The top-up tax under the GloBE rules is calculated as follows:

1. *Determine GloBE income:* Start with the financial accounting income of each entity, adjusted for specific exclusions and timing differences.
2. *Calculate covered taxes:* Sum all taxes related to the GloBE income, including current and deferred taxes, with adjustments for certain tax charges.
3. *Compute the ETR:* Divide covered taxes by the GloBE income for each jurisdiction.
4. *Assess the top-up tax:* If the ETR is below 15 per cent, the shortfall is calculated. This shortfall is the difference between the 15 per cent minimum tax rate and the actual ETR. To determine the top-up tax, this shortfall percentage is then multiplied by the 'Excess Profits.' Excess Profits are defined as the profits that exceed a specified threshold, which is typically calculated based on a percentage of the tangible assets and payroll costs of the entity. The calculated amount is the top-up tax required to raise the ETR to the mandated minimum level.

Implications for multinational enterprises

The introduction of the GMT regime marks a significant shift for MNEs, ushering in a new era of tax dynamics. First and foremost, MNEs that have historically taken advantage of jurisdictions with low corporate tax rates will now face increased tax costs, as top-up taxes will be levied to ensure that these entities meet the 15 per cent minimum threshold. This will undoubtedly impact the profit margins of MNEs that have significant operations in jurisdictions with favourable tax rates. Affected companies will need to overhaul their tax reporting and calculation systems (to cater for *inter alia* accurate jurisdictional ETR calculations), which will undoubtedly lead to increased administrative and business process complexities. The traditional approach to tax planning will undoubtedly need a thorough re-evaluation, as strategies are now required to adapt to a more standardised global tax landscape.

South Africa's treatment of global minimum tax

South Africa's implementation of GMT includes the IIR and the QDMTT but does not yet incorporate the UTPR, also known as the Undertaxed Profits Rule.[1] By introducing a domestic top-up tax, South Africa aims to ensure that profits generated locally are taxed at a minimum of 15 per cent, retaining the right to tax these earnings before other countries can claim top-up taxes. By way of example, if a South African subsidiary of an MNE has an ETR of 10% on profits of R100 million, the initial calculation

"The introduction of the GMT regime marks a significant shift for MNEs, ushering in a new era of tax dynamics"

would show a 5% shortfall, resulting in a R5 million top-up tax. However, this calculation does not yet take into account the Substance-Based Income Exclusion (SBIE).

The SBIE is a mechanism that reduces the amount of excess profits subject to the top-up tax by excluding a portion of the profits that are attributable to tangible assets and payroll costs. For instance, if the SBIE for this subsidiary is calculated to be R20 million, this amount is deducted from the R100 million profits, leaving R80 million as the excess profits.

[1]The UTPR is a mechanism designed to address situations where profits are shifted to jurisdictions with low or no taxation. It ensures that these undertaxed profits are subject to tax by allocating them to other jurisdictions

The 5% shortfall is then applied to these excess profits, resulting in a top-up tax of R4 million (5% of R80 million). This adjustment ensures that the top-up tax calculation reflects the economic substance of the subsidiary's operations, thereby providing a more accurate and fair assessment of the tax liability of the said entity.

Projections from the 2024 South African Budget Review

The 2024 South African Budget Review provides important insights into the expected impact of the GMT. Key insights include:

- Approximately 17 large MNE groups operating in South Africa are expected to be affected.
- The domestic top-up tax is projected to generate around R8 billion in additional annual corporate tax collection 2026/27.
- The GloBE Information Return must be submitted by the date that is 15 months after the end of the fiscal year. However, if it is the first fiscal year commencing on or after 1 January 2024, but before 1 January 2025, the return must be submitted by the date that is 18 months after the end of the fiscal year.[2] It is therefore expected that the first GloBE Information Return and payment are only due by 30 June 2026.

Global adoption and international trends

More than 140 countries agreed to enact the Pillar Two framework. South Africa has joined the cohort of jurisdictions that have officially embraced the Pillar Two rules. Major economies, including the European Union, the United Kingdom, Canada, Japan, and Australia have committed to the Pillar Two framework, each adopting varied approaches to implementing the GloBE rules. For instance, the European Union has introduced a directive requiring all member states to implement the rules by 2024, while the United Kingdom has incorporated a domestic top-up tax alongside the IIR and the UTPR. Japan and Canada have also enacted similar legislation, signalling strong global consensus. This global rollout demonstrates a collective effort to create a fairer international tax system that curtails profit-shifting and tax avoidance.

However, it is important to note that some major economies such as China, India, and Saudi Arabia have not yet signed up to the Pillar Two framework. These countries have expressed caution about adopting international tax rules that could impact their economic policies and sovereignty. They are currently evaluating the implications of such rules on their economies and fiscal policies.

where the multinational enterprise operates. This rule complements the top-up tax by further preventing tax base erosion and profit shifting.

[2]Refer to section 3 of the Global Minimum Tax Administration Act No. 47 of 2024.

Notably, a major economy, the United States, has withdrawn from the framework. Under the newly ushered Trump administration, the United States officially withdrew from the Pillar Two framework, with President Trump issuing an executive order declaring that the 15 per cent minimum global corporate tax deal has "no force or effect" in the country. The US Treasury has already been ordered to prepare options for 'protective measures' against countries that have or are likely to put tax rules in place that disproportionately affect American companies. It is said that this move aims to protect American companies from what the administration views as discriminatory foreign tax practices. Tax experts say that the impact of the United States' withdrawal from the framework would have a monumental impact on the global tax landscape, especially for countries that have already adopted or formulated rules in their domestic law for implementing the Pillar Two rules.

The absence and inaction of these major economies pertaining to the adoption of this framework highlight the challenges that still permeate in achieving the universal adoption of this framework. Arguably, the participation of these major economies is crucial for the framework's effectiveness in creating a level playing field and ensuring that MNE's are taxed fairly across all jurisdictions.

Conclusion

For affected MNEs, the impact of the Pillar Two framework marks a new era requiring heightened compliance, strategic reassessments and robust reporting mechanisms. As countries continue to implement the GloBE rules, the global tax system is evolving towards greater transparency and equity, ensuring that profits are taxed where economic activities occur. South Africa's commitment, signalled by the promulgation of the Global Minimum Tax Act, not only represents a transformative shift in South Africa's tax landscape but also signals South Africa's readiness to adapt to the changing global tax landscape while protecting its fiscal interests and encouraging sustainable economic growth.

FROZEN TAX TABLES:

How a second year of inaction could impact South African taxpayers in 2025

SUMARIE SWANEPOEL, Senior Lecturer at University of Pretoria.

For many years, it has been common practice for the government to adjust the progressive income tax tables for inflation in South Africa annually.

Over the years, commentators have often lamented that these adjustments, in reality, did not fully cover inflation and that taxpayers were being subjected to bracket creep.

'Bracket creep' is commonly understood to be the unmitigated impact of inflation on the progressive tax tables. The impact of adjustments to the tables that do not adequately cover for inflation, coupled with inflationary increases in salaries can include pushing taxpayers into higher tax brackets and diminishing the real value of rebates, credits, deductions and exemptions.

If what we had before resulted in bracket creep, then the decision not to adjust the tax tables for the 24/25 year of assessment can best be described as bracket onslaught, except that it is a stealthy move that tends to go unnoticed by most taxpayers. Taxpayers, for the most part, were simply relieved at avoiding an increase in tax rates. Therefore, it is important to discuss the areas of concern about this approach to increase tax collections so that taxpayers are not under any illusion about the actual impact of the decision.

A regressive move within a progressive tax

The taxpayers who are the least impacted by this decision are those in the highest tax bracket. They will not bear the brunt of being pushed into a higher bracket. At most, they would feel a slight pinch from the decline in value in real terms of their rebates and deductions. It is, therefore, a relatively regressive approach to collecting additional taxes; it impacts the wealthiest the least. It flies in the face of the principle of the progressivity of personal income tax. This aspect is far less visible in this form than it would be, for example, in an increase in the VAT rate (which admittedly would have a further reach) and elicits far less outrage.

Gender inequality

SARS' 2024 tax statistics make it clear that women are overrepresented in the lowest tax brackets, especially those on the cusp of the tax threshold. A decision not to adjust the tax tables, therefore, necessarily has a gendered impact. One approach could have been to at least increase the lower brackets and/or the threshold (by increasing the primary, secondary and tertiary rebates), which would have gone a long way to mitigating the gendered outcomes of this decision and would also have addressed aspects of the regressive effect discussed above. However, the impact on the middle of the bracket and the middle class should also not be underestimated.

'Black tax'

It is no secret that people of colour within the rising South African middle class pay a tax colloquially referred to as 'black tax' over and above their official contribution to the fiscus. 'Black tax' refers to the expectation that people of colour care for their immediate and extended family in addition to themselves in order to mitigate lingering systemic inequality from racial and other discrimination. Unfortunately, the SARS statistics do not include a racial breakdown and therefore, the hypothesis that people of colour, especially women of colour, would be most impacted. However, this lack of adjustment cannot be tested.

A segment of taxpayers already under pressure

Having mentioned this regressive effect and that the wealthy are the least impacted, it is important to note that personal income tax has for some time been the largest source of revenue for the fiscus. In reality, SARS' 2024 statistics show that only approximately 7.5 million personal income taxpayers actually contribute. Further analysis reveals that about 1.6 million taxpayers earning over R500 000 per annum contribute approximately 70% of all personal income taxes. It is thus clear that personal income taxpayers in South Africa, including, and perhaps especially, the wealthiest among them, are under huge pressure and have been for some time. Factoring in the recent interest rate hikes, fuel hikes and other economic difficulties, one must wonder how long the base can hold. Also of concern is that the largest portion of these taxpayers are between 25 and 54 and, therefore, still have a long time to make a real economic contribution to South Africa. This is not a base that the fiscus would want to alienate any further.

"It would be interesting to see what happens to the current South African personal income taxpayer base if the government continues to take a leaf from the HMRC's book and leaves the individual tax tables unadjusted for another year or for several more years"

The BRICS Wealth Report reveals a 20% decline in South African millionaires between 2013 and 2023. In the same period, wealth grew significantly in China and India. SARS' 2024 statistics show that between 2017 and 2023, 38 000 people ceased tax residency in South Africa. This number is not insignificant, particularly if we make the logical assumption that most of them come from the 1.6 million above. This chips away at the already extremely small personal income tax base in an untenable way; yet, we have not seen any concerted effort to address this.

Frozen tax tables are not unprecedented

It is also important to note that the freezing of tax tables is not unique to South Africa. Reuters points out that the UK has had frozen tables since 2021 and has confirmed an extension up to the 28/29 year of assessment. Political campaigns run on promises not to increase tax rates; however, they achieve the same effect by not adjusting the progressive tax tables for inflation. The British government will collect an estimated 34 billion pounds extra per annum due to its tax table freeze. Data released by HMRC shows that 26% more elderly people are paying personal income taxes due to the table freeze. A stealth tax such as this can, therefore, clearly have undesirable social consequences which tend to go unheeded and do not cause as much political upheaval as tax-rate hikes would—even though it amounts to the same thing.

Looking ahead

It would be interesting to see what happens to the current South African personal income taxpayer base if the government continues to take a leaf from the HMRC's book and leaves the individual tax tables unadjusted for another year or for several more years. As it stands, unless it gets fixed retrospectively, it is a few steps backwards that we will never recover.

South Africa is not comparable with the UK; it would be a mistake not to consider our unique circumstances when running a policy such as this. South Africa already has one of the highest tax rates in the world. However, if you look at countries near or above our highest marginal rate of 45%, including the UK, you will invariably find that their government-funded social services significantly outweigh those of South Africa.

South Africa has among the highest income inequality in the world and there is no doubt that a progressive personal income tax is necessary. Having said that, given how important their contribution is, it might be time for the government to make a more concerted effort to take better care of their extremely small base of personal income taxpayers. This could include stimulating economic growth for smaller businesses, encouraging the return of emigrants and enticing foreign skilled workers to our shores. The bare minimum to be expected in this regard would be inflationary adjustments to the tax tables. We can only live in the hope that we do not remain frozen in more ways than one.

15minutes CPD

CRYPTOCURRENCY: Are there any prospects of fattening the tax purse or is it just a drop in the ocean?

▸ **THOMAS LOBBAN,** Managing Director at Ibex Consulting (Pty) Ltd

The rapid rise of cryptocurrency (or 'crypto assets') in South Africa has opened new opportunities—and challenges—for regulators. Given that there are an estimated 5.8 million South Africans holding crypto assets (nearly 10% of the population), it should come as no surprise that SARS has been increasingly focused on the issue of crypto tax compliance.

The rise and rise of crypto assets

For more than a decade, crypto asset adoption has grown exponentially the world over, with South Africa being no exception. Indeed, the Financial Sector Conduct Authority (FSCA) estimates that 43% of the South African population will use crypto assets by 2030.

Of course, while crypto assets have been around for some time, so have the challenges they pose for tax administrations such as SARS. The digital, intangible nature of crypto assets has infamously made it easier for taxpayers to understate their crypto asset trading gains, if not evade tax on them entirely, which is evidently not lost on SARS.

SARS' position on crypto assets

In April 2018, SARS released a statement on the tax treatment of crypto assets. It came as no surprise that its position was—to put it plainly—vanilla. Crypto assets are regarded as assets as opposed to any form of currency and gains or losses would be subject to either normal income tax or capital gains tax, depending on the nature of the transaction, the overall facts and circumstances present and the taxpayer's intention.

Not unexpectedly, the April 2018 statement by SARS was a long way off from providing perfect clarity; however, it did communicate one essential thing—there would be no artificial tax holidays for errant crypto traders.

Still, much to the chagrin of compliant taxpayers and tax practitioners preaching about the importance of remaining compliant, it seemed at the time that not much was really being done. From a regulatory perspective, this was something that could not be ignored and yet, progress was slow.

Recently, however, the media has increasingly been abuzz with hot takes from various pundits and, perhaps most notably, the Commissioner Kieswetter himself. On 9 October 2024, SARS issued another statement on crypto assets, stating that it is *"concerned that these crypto assets and trades are not being declared on the tax returns of taxpayers"* and *"SARS will be including crypto assets into its compliance programmes"*, repeating its strategic objective to make wilful non-compliance hard and costly for taxpayers.

Strengthening compliance through enforcement

With SARS having broadly publicised its focus on crypto asset tax compliance, tax practitioners who regularly deal with these issues still see a widely held perception among crypto traders that SARS does not have the ability to adequately investigate these matters and, even then, that SARS has no teeth. This could not be further from the truth.

Back in 2022, SARS had requested taxpayer information from 12 crypto asset service providers in South Africa. At the time, many did not know that SARS could do this. However, it was empowered to do so, in terms of section 46 of the Tax Administration Act, No. 28 of 2011.

Today, it is apparent that SARS has not stopped adding measures to its crypto tax compliance toolkit. It has been doing so by *"increasing capability in its audit teams to support enforcement initiatives"*, as well as resorting to greater use of artificial intelligence, machine learning and algorithms to process its work. Regarding crypto assets held offshore, SARS is also able to exchange information with other tax authorities. It will soon do so automatically by way of a Crypto Asset Reporting Framework developed by the Organisation for Economic Cooperation and Development (OECD) by 2027.

Earlier this year, SARS directed query letters to certain taxpayers, confirming that the taxpayer has been identified as having potentially engaged in trades and may have omitted to correctly disclose this in their returns. For all intents and purposes, a warning shot – something that would precede an audit.

Keeping in mind that SARS is not bound by any arbitrary statute of limitations as concerns evasion, the walls are quickly closing in on non-compliant crypto traders. Put simply, the canary in the coal mine is dead.

Tax revenue: gold mine or a drop in the ocean?

While SARS' efforts in this area are commendable, the question remains as to whether these measures will result in substantial revenue for the fiscus. Is the juice worth the squeeze?

While sources for information on crypto asset trading adoption rates by country tend to be dubious at best, South Africa is generally seen as one of the highest adopters among African nations. The FSCA has previously stated that in January 2021, daily crypto asset trading values in South Africa exceeded R2 billion for the first time. This would predictably be much, much higher by today. Recently, South African crypto asset service providers have reported a massive increase in trading volumes following the United States elections—by between 200% and 400% in some cases.

Of course, with this borne in mind, perhaps it also serves to mention that the local crypto asset market remains relatively small as compared to the more traditional asset classes; so, any tax revenue from crypto asset transactions would remain modest for some time to come. Further, given the notorious volatility of crypto assets, this would not foreseeably be a consistent source of tax revenue.

So, no. Crypto assets are not a gold mine in the traditional metaphorical sense of the term. Certainly, whether it is worthwhile for SARS to continue its efforts in this area will depend on a raft of factors, not the least being the cost-benefit extent of resources it requires from SARS to ensure compliance.

It does not matter whether you are speeding in a Suzuki or a Ferrari, you are still committing a crime. The same goes for the driving instructor without a driving licence—for tax practitioners who take a non-technical, incorrect approach to crypto asset tax compliance, perhaps now is the time to consult the experts.

> **"While sources for information on crypto asset trading adoption rates by country tend to be dubious at best, South Africa is generally seen as one of the highest adopters among African nations"**

BALANCING DEVELOPMENT AND FISCAL CONSOLIDATION:

Is South Africa Managing its Debt Crisis?

▶ **NDUMISO KUBHEKA,** Chief Economist at KH Research Equity Partners

The relationship between fiscal consolidation and economic growth has been a contentious public policy conundrum across varying country contexts.

Since 2007/08, South Africa's public debt has increased sevenfold, which has necessitated ongoing efforts to manage budget deficits effectively. Average borrowing rates are elevated to R553 billion per year over the medium term due to the resultant impact of significant annual budget deficits.

This is at the back of significant social welfare needs. An unemployment rate above 30%, the highest income inequality in the world with a Gini-coefficient of 0.63 and poverty rates whereby over half of South Africa's population lives below the upper poverty bread line.

These are some of the factors that affect the country's fiscal policy framework. The domestic and global growth conundrum serves as an additional macro risk.

The importance of managing deficits

The largest manager of pension funds in the world, Black Rock, has cited the concern regarding anemic growth and not necessarily low growth. In other words, the combination of low economic growth rates, high unemployment, weak consumer- and business confidence and policy challenges are concerns for economies globally.

South Africa appears to have a combination of these factors, averaging an annual GDP growth rate of approximately 1.5% since 2009. Financing budget deficits has continued to be a risk in the South African environment due to unanticipated global- and domestic slowdown, resulting in lower revenue growth.

Reducing the debt-to-GDP ratio is a function of higher annual GDP growth rates. Therefore, the interplay between fiscal consolidation efforts ought to be framed against the extent to which growth enhancing fiscal policy can occur.

Prevailing policy tensions

From a development perspective, SA's historical context reveals a pattern whereby periods of fiscal consolidation tend to result in expenditure cuts in the areas of health, education and other important infrastructure in real terms.

This trend is not simply a question of expenditure cuts but the operational efficiency of capital allocation in the public sector, stemming from accountability and sound governance imperatives.

Since 2011, SA has faced a water infrastructure backlog exceeding R600 billion. At the level of local government, where actual fixed investment takes place, this serves as a hindrance for attracting investment.

- Other important infrastructures such as transportation and road infrastructure, schools, healthcare facilities and reliable energy supply are all important factors when considering long-term fixed investment.

Amid these headwinds, which are not only unique to South Africa, innovative financing models and public private partnerships (PPP) that are effectively governed may serve as an important enabler to the development constraints faced by communities. The fiscal space to accelerate these important infrastructure projects is limited, therefore, innovative financing models have an important role to play.

The African Development Bank has cited that 10% of projects in Africa reach financial close. This is attributed to prevailing weaknesses in the preparation of viable projects. To achieve high success rates of PPP's these factors need to be well considered.

Pilot projects in water infrastructure using this model are currently underway—an acknowledgement that resolving SA's debt management constraints should also be coupled with non-financial policy coordination efforts.

National Treasury estimates that debt-service costs could peak in the 2025/26 fiscal period at 21.7% as a proportion of revenue. To manage the liquidity constraints, withdrawals from the foreign exchange balances will be made in the medium term.

National Treasury has expressed a commitment towards a primary budget surplus over the next decade having achieved one after 15 years. Consolidated government expenditure is estimated to reach R2,77 trillion in 2027/28 from R2,4 trillion in 2024/25, registering an annual average rate of 4,9%. Debt service costs being the second largest expenditure item while infrastructure allocations will result in economic development being the fastest growing expenditure item at 7,8%.

Increasing productivity gains

In the medium to long term, the fundamental question remains in these policy implementation efforts, where will growth come from?

Increasing productivity that results in meaningful economic output for higher growth is a function of education and investment in the South African context.

Total investment continues to remain far below the National Development Plan (NDP) target of 30% of GDP, standing at 14,2 % of GDP in 2022. A 20 % contribution in private sector investment and a growth of 10% public sector investment by 2030 is required to improve economic growth and flatten unemployment.

The balancing of development and fiscal consolidation in South Africa needs a multifaceted approach that includes good governance, specific social policies and sound fiscal management.

Policymakers have to make decisions on public expenditure and revenue generation against the background of the socio-economic problems that hinder growth. In the end, this balance is crucial for creating a sustainable economic environment that benefits all South Africans.

For higher economic growth, a multifaceted approach that encompasses different high growth sectors of the economy, that promotes investment and that focuses on education and infrastructure, is required. These elements and their interactions are vital for creating a sustainable growth environment. Such policy responses can aid in resolving the policy tension between development imperatives and carefully managed debt management risks.

30minutes CPD

THE MASSIVE Scale of Money Laundering in South Africa

▸ **CHAD THOMAS,** CEO and oragnised and financial crime investigator at IRS Forensic Investigations

It goes without saying that one of the primary reasons for the greylisting of South Africa by the Financial Action Task Force (FATF) is as a result of a situation where South Africa became a conducive jurisdiction for money laundering by local and international crime syndicates.

South Africa has an inherent crime problem, which is not only related to serious violent contact crimes such as cash-in-transit heists, kidnap-for-ransom, ATM bombings and unacceptably high numbers of rape and femicide, but also as a result of complex financial crimes and a massive parallel illicit economy involving illegal mining of gold, chrome, platinum, diamonds and coal, as well as a major problem concerning illicit tobacco and counterfeit liquor. This illicit economy deprives our fiscus of hundreds of billions of rands per annum that could be added to the public purse for social development programmes. South Africa also has the added organised crime issues of trafficking in humans, illicit narcotics and endangered flora and fauna.

South Africa has become a literal playground for international crime syndicates primarily involved in the illicit narcotics trade resulting from South Africa's unique geographical location. Cocaine comes to South Africa via South America where it enters South Africa on the West Coast. Heroin from Afghanistan is transported to South Africa from Afghanistan via Pakistan, then along the East Coast via Tanzania and then Mozambique, whereafter it enters South Africa via road through the province of Mpumalanga. These illicit narcotics are then repackaged and sent to foreign jurisdictions, most notably Australia. South Africa has also emerged as a manufacturer of illicit drugs, most notably methamphetamines, which are also largely exported.

- Multiple organised crime syndicates have set up shop in South Africa, in some instances in cooperation with existing local criminal syndicates and in other instances in opposition to local crime syndicates. It is now common knowledge that there are organised crime syndicates operating in South Africa from, among others, Nigeria, the Democratic Republic of Congo, Ethiopia, Pakistan, India, China, Thailand, Vietnam, Israel, Serbia, Bulgaria, Russia, Mexico and Columbia.

Apart from running their operations in South Africa, many of these syndicates have made South Africa their home due to our infrastructure and high standard of living in certain areas of the country. This has led to money laundering on a grand scale.

In order to live the high life and be able to legitimately own property, luxury cars and all the trappings that come with being an organised crime figure, illicit funds derived from the criminal activities need to be cleaned. This often involves the establishment of legitimate businesses into which illicit funds are mingled with legitimate funds. These businesses include restaurants, bars, night clubs, beauty salons, clothing boutiques, hairdressers, barbers, car washes and churches.

There are also enablers. These enablers who are complicit in the money laundering process include attorneys, auditors, accountants, bankers, car dealerships, real estate agents, jewellers, and property rental companies. [suggested reading: The Enablers by Open Secrets https://www.opensecrets.org.za/the-enablers/]

Assets derived through funds from organised crime activity can be hidden behind a myriad of companies, special purpose vehicles, trusts, nominees and proxies. In recent years, beneficial ownership has become a statutory requirement. Those falling foul of the know-your-client (KYC) process and beneficial ownership requirements are being taken to task, as we have seen with the fine of R7,7 million issued by the Financial Intelligence Centre (FIC) against a law firm in November 2024 [see media release at this link https://www.fic.gov.za/wp-content/uploads/2024/11/Media-release-R7.7-million-financial-penalty-imposed-on-attorney-firm.pdf] and the R56 million fine issued by the Prudential Authority (PA) component of the South African Reserve Bank (SARB) in December 2024 against a well-known bank [see media release at this link https://www.resbank.co.za/content/dam/sarb/publications/media-releases/2024/pa-sanctions/capitec/media-sarb-sanctions-capitec-2024-12.pdf].

During the latter half of 2024, investigative media house, amaBhungane, reported extensively about an international money laundering syndicate operating in South Africa. The investigative series of articles was known as "*The #Laundry* [the first part of the series can be accessed at https://amabhungane.org/the-laundry-city-of-gold-part-one/].

International media house, Al Jazeera, published a television series entitled "*Gold Mafia*" in April 2023, which laid bare the money laundering operations between organised crime syndicates located in South Africa, Zimbabwe and the United Arab Emirates. Two South African banks were named as complicit and the series revealed the symbiotic relationships between different organised crime syndicates, in this case illicit gold mining, illicit tobacco and professional money laundering syndicates. In February 2024, the South African Revenue Service (SARS) announced its investigation into one of the two banks complicit in the money laundering operation [see media release at this link https://www.sars.gov.za/media-release/sars-confirms-legal-action/]. The PA and SARB fined the one implicated bank R210 million in August 2024. SARS has also instituted legal proceedings against this bank for an amount in excess of R4 billion—R4,872,327,649.27 to be precise [see SA Government news release at this link https://www.sanews.gov.za/south-africa/sars-takes-legal-action-against-sasfin-bank].

It is probable that the earliest South Africa could be removed from the FATF greylist would be in October 2025 following the June 2025 inspection, although this depends on South Africa reaching certain milestones. Legislation has been amended and new legislation promulgated to ensure that South African law enforcement agencies have the necessary tools to combat money laundering.

South Africa has an abundance of existing legislation that can aid our authorities in investigating and prosecuting money laundering, most importantly, the Prevention of Organised Crime Act of 1998 (POCA) and the Financial Intelligence Centre Act of 2001 (FICA) . However, there seems to have been a reluctance on the part of the State to investigate and prosecute stand-alone money laundering offences; instead, it has opted to investigate so-called 'predicate' offences first. An international anti-money laundering organisation known as AML UAE describes predicate offences as follows: "*Predicate offences are those crimes that are a part of the web of crimes that ultimately lead to financial crimes, such as Money Laundering (ML) and Terrorism Financing (TF). For example, illicit funds derived from predicate offences such as tax evasion or corruption are converted into legitimate income through the financial crime of Money Laundering. . . Money laundering involves the act of disguising the source of money generated from a criminal activity. The criminal activity referred to here is nothing but a predicate offence resulting in one generating proceeds of crime. A predicate crime includes various illegal activities. Say, human trafficking is a predicate offence.*

Money Laundering is not an act done in isolation. There is always an underlying criminal activity that results in illicit gains and serves as the basis for money laundering.

If predicate offences are controlled, it will naturally result in control over money laundering, and hence, Governments across the world have criminalised predicate offences to counter ML/TF."
[Source: https://amluae.com/]

Chapter 3, sections 4, 5 and 6 of the South Africa legislation POCA, deals specifically with money laundering as an offence. The wording of the act is self-explanatory:

4. Money laundering:
Any person who knows or ought reasonably to have known that property is or forms part of the proceeds of unlawful activities and –

(a) enters into any agreement or engages in any arrangement or transaction with anyone in connection with that property. whether such agreement, arrangement or transaction is legally enforceable or not: or (b) performs any other act in connection with such property, whether it is performed independently or in concert with any other person, which has or is likely to have the effect - (i) of concealing or disguising the nature, source, location, disposition or movement of the said property or its ownership or any interest which anyone may have in respect thereof, or (ii) of enabling or assisting any person who has committed or commits an offence whether in the Republic or elsewhere - (aa) to avoid prosecution; or (bb) to remove or diminish any property acquired directly, or indirectly, as a result of the commission of an offence, shall be guilty of an offence.

5. Assisting another to benefit from proceeds of unlawful activities:
Any person who knows or ought reasonably to have known that another person has obtained the proceeds of unlawful activities and (a) enters into any agreement with anyone or engages in any arrangement or transaction whereby the retention or the control by or on behalf of the said other person of the proceeds of unlawful activities is facilitated: or (b) the said proceeds of unlawful activities are used to make funds available to the said other person or to acquire property on his or her behalf or to benefit him or her in any other way, shall be guilty of an offence.

Section 6 of POCA goes on to state:

6. Acquisition, possession or use of proceeds of unlawful activities:
Any person who - (a) acquires; (b) uses; or (c) has possession of property and who knows or ought reasonably to have known that it is or forms part of the proceeds of unlawful activities of another person. shall be guilty of an offence.

It is the writer's interpretation of these POCA sections that money laundering can be prosecuted as a stand-alone offence. Towards the end of 2024, the writer was present at the Benoni Magistrates Court where an accused was charged for money laundering for making his personal bank account available to a drug dealer to launder funds through. The accused was not charged with a predicate offence—the accused was charged only with money laundering, although it emanated from an investigation into a drug dealer's activities and it was discovered that money was being laundered.

FICA imposes an obligation in terms of section 29 that accountable institutions are obligated to report unusual transactions to the FIC. The onus to report these suspicious or unusual activities is placed on any person who carries on, is in charge of, manages or is employed by a business that discovers that there may have been suspicious activities.

"Money Laundering is not an act done in isolation. There is always an underlying criminal activity that results in illicit gains and serves as the basis for money laundering"

The Prevention and Combating of Corrupt Activities Act (PRECCA) has a statutory reporting obligation in terms of section 34 for, among others, the suspicion of corruption, fraud, theft, extortion and forgery. The recent amendment in terms of section 34A makes it an offence not to report information that a person has knowledge of the potential crimes listed in section 34.

For South Africa to come off the grey list, our State law enforcement and prosecutorial agencies, together with their partners in the private sector, have to adequately address the seriousness of money laundering. One of the key preventative measures would be to hold the so-called enablers accountable for the provisions of POCA as discussed above. If the enablers are prosecuted, there will be a reluctance on the part of others to involve themselves in the serious crime of money laundering. If criminals cannot launder their funds in this jurisdiction, they will have to take their activities elsewhere.

We have to support FIC, SARS, SARB, PA, the Asset Forfeiture Unit, the Directorate for Priority Crime Investigation, the Investigating Directorate Against Corruption and the National Prosecuting Authority in this fight against organised crime. The State has to fully capacitate these units and money laundering investigations have to be prioritised. The willingness by the PA, SARB, FIC and SARS to disrupt and dismantle money laundering syndicates is a positive step that we hope will be replicated by the entire criminal justice cluster and all regulatory authorities

15minutes CPD

ESKOM'S RATE INCREASES: A Household Burden

PHUMLANI MAJOZI, Author and Independent Political Economist

Eskom's application to NERSA (National Energy Regulator of South Africa) for an electricity tariff increase of a staggering 66% over three years is another sign that the tough economic situation for South Africa's households will not be coming to an end anytime soon.

After much damage to the economy over the past fifteen years, businesses have shut down and unemployment has skyrocketed because of blackouts. Now, owing to its application for a staggering increase in electricity tariffs, Eskom has become a real liability to South African households. Eskom's application for an increase in electricity tariffs comes at a time when South Africa's economy is very weak, with households facing enormous financial challenges.

Tough economic times for South African households

According to South African Treasury helmed by Finance Minister, Enoch Godongwana, South Africa's economy is projected to grow by 1.1% in 2024. In the medium term, according to the SA Treasury, the growth forecast is 1.8%. This is not good in a country that needs at least a 4% annual economic growth rate to reduce the current unemployment rate of 32%. During President Cyril Ramaphosa's first term, South Africa's average economic growth was only 0.5%. Dismal economic growth of less than 1% makes it difficult to suppress the public debt that households must pay as taxpayers.

South Africa does not only have growth problems; debt also compounds these. According to last October's Medium-Term Budget Policy Statement, South Africa's public debt as a percentage of GDP (Gross Domestic Product) currently stands at 75%. According to Godongwana, *"for every one Rand of revenue that government raises this year, 22 cents of this is paid in debt-service costs".* The Treasury has said that the consolidated deficit will be 5% of GDP in the fiscal year that ends in March this year. This was bigger than the 4.5% deficit that was forecasted in February last year.

> **"Trade Intelligence's data shows many South Africans miss their monthly payments"**

Income taxes remain relatively high in South Africa, in contrast to other emerging markets. Increased taxes in the form of electricity tariffs will cause more harm by increasing the cost of living for South African households. In the first fourteen years of South Africa's democracy, the annual electricity tariff increases were below the inflation rate or relatively flat. But after 2007, electricity tariff increases have far outpaced the inflation rate. I expect the government will pay a portion of the money that Eskom needs to suppress electricity tariffs as they are unpopular in the country. In 2023, the SA Treasury allocated R254 billion to Eskom for debt relief. This was taxpayers money; it does not seem to have been enough, as Eskom now wants to charge South Africans sky-high tariffs. With government institutions such as Eskom imposing the high cost of living on households, it is unlikely that South Africa will effectively address its poverty problems anytime soon.

South African households are already struggling

Over the past five years, it has been clear that things like repayments of mortgages have been a struggle for households, along with overdrafts and credit cards. The heavy financial pressures on households have mostly been caused by increases in interest rates since 2022, as the South African Reserve Bank (SARB) was suppressing inflation using its repo rate monetary policy tool. SARB raised the repo rate to 8.25% in 2023, which was the highest rate in fifteen years.

Households also face the problem of very high and continuously rising fuel prices. Since January 2000, petrol has increased by 336% in South Africa, while diesel has increased by 401% in the same period, according to Car Track. Add to this the RAF (Road Accident Fund) contributions that skyrocketed 1400% for petrol road users. RAF contributions for diesel users skyrocketed 2016%, all in the same period of 2000 to 2024.

South Africa's inflation—that households endure—has risen drastically in the past five years. In 2020, the annual average inflation was 3.3%. It peaked in 2022 when it reached 6.9%. In November last year, it declined to 2.9%. Inflation destroys wealth and impoverishes citizens. On inflation, late economist Henry Hazlitt once said, *"Inflation is not only unnecessary for economic growth. As long as it exists it is the enemy of economic growth".*

South Africans are indebted, with their debt estimated at more than R2 trillion, according to SARB. More than half of this debt is tied to mortgages. Trade Intelligence's data shows many South Africans miss their monthly payments. This indicates that South African households incur debt which they cannot afford and rely on borrowing to meet their livelihood needs. According to the SARB, the repayments of debt make up more than 9% of all South Africa's household expenditure. As the SARB has increased the repo rate in recent years, the repayments on things like vehicle loans, credit cards and mortgages skyrocketed. South Africa's high debt-to-income ratio, currently at 63%, is negatively affecting expenditure of household on goods and services, since a big portion of disposable income is used to repay debt. Why make things harder for households with 66% electricity tariffs?

What will help South African households over the long-term

Of course, increasing the electricity tariffs in line with inflation is what will be reasonable for South Africa at this point. However, stronger long-term reform of South Africa's energy sector is an imperative.

What has harmed South African households is that Eskom has not been operating in a competitive energy supply environment. Eskom has been a monopoly for a very long time in the energy market. Electricity customers had no alternatives to Eskom. Monopolies abuse the market in which they operate. This is a well-known and documented fact. President Cyril Ramaphosa's liberalisation of the energy sector with the Electricity Regulation Amendment Act, which allows for increased competition in the energy sector, was a step in the right direction. This was, I believe, a major achievement by President Ramaphosa during his first term at the Union Buildings.

More competition, that is, alternatives to Eskom in South Africa's energy sector, will address challenges of energy supply and allow households to have options in the market. The advantage of a competitive energy sector is that Eskom will lose customers if it continues with its sky-high price hikes and other activities that are not in the interest of South African households.

THE ECONOMY OF IMAGINATION AND THE South African economy

▶ **RICHARD HAINES,** Professor Emeritus at Nelson Mandela University

"We do not need magic to change the world, we carry all the power we need inside ourselves already: we have the power to imagine better." J.K.Rowling

In 2023, when the cholera crisis began in Hammanskraal, the then mayor of Tswane was told by experts that the only solution was a billion-rand refurbishment of the Rooiwal Wastewater Treatment Plant. However, during a water and sanitation workshop, Mayor Cilliers Brink and National Water and Sanitation Minister Senzo Mchunu used their initiative to devise an alternative: the construction of a modular clean water plant for Hammanskraal. Sidelining a costly renovation of Rooiwal, the first phase of this modular project is completed—delivering clean water to the residents of Hammanskraal.

The ingenuity of the then Mayor Cilliers Brink and National Minister Senzo Mchunu is illustrative of J. K. Rowling's definition of the power of imagination: *"Imagination is the uniquely human capacity to envision that which is not, and therefore the fount of all invention and innovation.".*

This story highlights the concept of the 'Economy of the Imagination' (EOI)—the importance of innovative thinking and creativity in driving economic and social progress. Developed originally to examine the underappreciated and underutilised resources of South African creative economy, EOI calls attention to the importance of developing and using local resourcefulness and creativity to provide practical solutions to endemic problems.

Strategic 'snapshots' of select issues

Gregory Clark's *A Farewell to Alms: A Brief Economic History of the World* (2009) stresses the significance of human and cultural capital (educational and inheritance linked) as key factors in enabling Britain to take the lead in advancing the industrial revolution in the late 18th century. Such factors remain important today, emphasising the need to harness human and cultural capital to drive industries and economy forward.

Historically, South Africa has a tradition of ingenuity and creativity that has characterised its peoples and achievements at home and abroad. This often intangible but distinct quality that can be discerned in past and present developments carries potential for South Africa's economy and its performance on the world stage.

"South Africa, while previously high up in the list of middle-income countries, has been overtaken by Brazil and Malaysia, and is being caught up by certain other countries in the low-income list. This is because it has largely failed to diversify and deepen its industrial base and upgrade the structure of its economy"

Human and cultural capital

An EOI approach is essential as a corrective to impoverished policy and decision-making. A recent example is the impact of the inability of government to offer posts to doctors who have completed their internship and community service. An ongoing public campaign points out that presently, South Africa has around 800 unemployed doctors and an estimated 2.4 million patients without care, leading to 240 000 preventable deaths at 300 per doctor. Lack of funding has been cited as an excuse but the prevalence of particularly high salaries at state executive levels; a range of vanity projects; and many officials suspended on full pay, suggest that there are indeed ways to provide funding if the political will is there.

An EOI approach could be used to identify ways of leveraging the availability of highly trained doctors by exploring opportunities to, for example, establish public-private health care options. Instead of losing human capital to other countries, using EOI principles could turn this challenge into the means of creating better health care options for South Africans.

Hidden and undervalued assets

While the beneficiation of resources is emphasised in the policy litany, there is a disjunction between pronouncement and practice. It is thus a terrain for serious exploration. It has been estimated, for example, in the Eastern Cape that beneficiation of natural resources would add around 400% in value to exports of such resources and contribution to work creation (Stride 2024).

On a related note, there is scope for re-imagining the formal mining sector and its ecosystem. There is a good deal of hidden and underappreciated value, as well as opportunities for job creation and stronger linkages with secondary industry. In recent decades, extensive technology assets and intellectual property have been relinquished and/or neglected. One such case is that of the hydro-hydraulic technologies developed for the gold mining industry (Pogue 2006).

There is a veritable laundry list of lost opportunities regarding the beneficiation of mineral products. At the nexus of the mining and manufacturing industry sectors is the question of affordable and quality steel production.

The Defence industries and synergies

The case for the retention of the country's defence industrial sector has been made and remade on various occasions since the early 2010s. But there is ambivalence in public support and funding. In the leading emerging industrial nations, most particularly the East Asian economies, the establishment of a national sovereign defence industry is one of the national priorities. The technology spin-offs and spin-ins, and linkages with other sectors of the industrial economy are internationally recognised and appreciated (Dunne & Haines 2012). The SA defence industrial base has much untapped potential and internet protocol (IP) in the defence and aerospace sector; these should be identified and exploited.

Interestingly, two of the recent Department of Trade and Competition (DTIC) masterplans focus respectively on the Defence and Creative Industries, but neither makes any real reference to the other. Mostly unappreciated nationally, is a significant overlap between the defence and creative economies, particularly regarding mega techs such as cryptology and blockchain, Artificial Intelligence, and Virtual and Artificial Reality (SACO 2024).

Security, safe spaces and economic performance

There is a growing awareness internationally that effective security in general will enhance economic performance and development within a country. Yet in practice, especially in developing economies, such smart inventions to leverage this are rare. Finding synergies in the South African context is a field in which EOI can be brought into play. For instance, with the bulk of SA's defence forces employed as underpaid part-time reserves, there would seem to be various options for partnerships with the private and non-profit sectors. The emergence of the concept of 'safe spaces' for creative activities and production in the policy thinking of certain international development corporations (GIZ 2024) is also an area for innovative projects in South Africa. The approach is aimed at establishing dedicated physical spaces for vulnerable groups within the CCI which, in turn, will foster collaboration and exchange. This concept of safe spaces has been extended to other business sectors to test new ideas, concepts and prototypes and stimulate cooperation and innovation.

The question of railways

The railways has played a long and under-rated role in the economy and has facilitated human capital as well as industrial development across the decades (Cherry & Haines 2010). Historically, railways provided in effect a highly efficient form of industrial training to the (largely) white railway workers, which was reinforced by railway workshops. This training diversified in the later 1970s and 1980s. Work on the railways was also a means for social mobility and a network of workshops. Also, there was an established manufacturing of railway rolling stock in several cities.

The extensive deterioration of the railway is bound up with deindustrialisation. A systematic revival of the railways and associated structures, utilising smart partnerships with private and non-profit and volunteer resources would reinforce the process of industrial recovery.

'Premature deindustrialisation'

South Africa, while previously high up in the list of middle-income countries, has been overtaken by Brazil and Malaysia, and is being caught up by certain other countries in the low-income list. This is because it has largely failed to diversify and deepen its industrial base and upgrade the structure of its economy (Andreoni & Tregenna 2021). Indeed, the country has experienced 'premature deindustrialisation' (Andreoni & Tregenna 2021; Siyawela 2000).

The number of jobs in manufacturing has increased from 1,5 million in 1994 to peak at just over two million by 2008 before declining to 1,7 million in 2016 and 1 606,145 in the first quarter of 2024. The contribution of manufacturing to GDP has halved from a peak of 25% in the 1980s to under 13% (Ryan 2025).

While government has looked to reverse deindustrialisation and has instituted a process of reindustrialisation through the 2019 Re-imagined Industrial Strategy (RIS), the 2024 Industrial Policy & Strategy Review, and a series of masterplans for targeted industrial sectors. However, for several commentators, the DTIC has shown an emphasis on planning over performance. The late economist, Mike Schüssler, remarked dismissively in 2021: *"The country manufacturing the destruction of SA manufacturing is . . . South Africa."* (Schussler 2021). And a recent Centre for Development Enterprise report suggests that the thinking and policies of the current DTIC are not the future solution but rather part of the problem (CDE 2024).

The vulnerability of South Africa's industrial base is highlighted by the announcement of ArcelorMittal that it will be shutting down its steel plants in Newcastle and Vereeniging in January 2025, with an estimated 3 500 direct jobs likely to be lost and between 20 000 to 25 000 jobs with the second-round effects (Mdakane 2025). The closure will have a massive knock-on effect on communities, the supply chain, and the broader metals and engineering sector. What is of further concern is that ArcelorMittal's request for assistance from government reportedly fell on deaf ears (ibid.).

The continued importance of a dynamic industrial base for emerging economies globally is shown by the performance of the East Asian economies in their production and export of CCI (cultural and creative industry) products and services. As post-Keynesian economist Nicholas Kaldor stressed in the 1960s and 1970s, manufacturing is pivotal for meaningful economic growth and development (Targetti 2005). It is both an existential and educative experience and helps make society smarter.

Current national industrial and economic policies do not appear to have fully grasped the sheer breadth of the problems facing conventional policy-making in contemporary South Africa. Some business coverage of deindustrialisation suggests that export-led reindustrialisation is the way to remedy the situation (Ryan 2025; CDE 2024). The trouble is that such recommendations are partial, technical, and tend to assume a level international playing field.

The promotion of export-led industrialisation is far more than a technical intervention as the experiences of the East Asian economies show. Furthermore, the Japanese and East Asian industrial successes were built on a careful curation of local industries and a broader socio-economic 'embedding' of industrial activity (Wade 1993). There is an increased realisation by economists that the import substitution industrialisation (ISA) era in many Latin American economies, was a period of higher growth (often around 3%), than the post-1982 period when more market-oriented policies were brought into play (Oriero & de Paula, 2022-3; de la Torre, A & Ize). South Africa has also followed an ISI policy, to a degree, up to 1980. In any case, as Richard Baldwin (2024) argues, export-led industrialisation has been superseded by sub-contracting work between different countries in various sites within the global value chains (Bennet 2024). A clear trend is the increased emphasis on the importance of a dynamic and creative state in negotiating, securing and promoting industrial and service-led exports (de la Torre, A & Ize 2022). But South Africa has, in recent decades, been outgunned and outmanoeuvred in international trade dealings.

The re-vitalisation of South Africa's industrial fortunes entails far more than a large-scale technical policy exercise. It should be accompanied by reform of the state and reorientation of national thinking. Those countries which have linked design to their manufacturing and national branding and broadened their concept of design to include a wholesale transformation of society, have seen a growth and/or strengthening of their national competitiveness over the years. They have also seen a transformation of their national image. Singapore and South Korea are among the key examples here. Increasingly, design thinking is impacting internationally the question of policy and strategy development in the public, private and third sectors. Design, creativity and innovation constitute, for some scholars, a conceptual pyramid, with design and design thinking bringing together creativity and innovation.

We need an EOI approach, visionary thinking and a realisation of the inter-connectedness of key socio-economic issues such as unemployment and inequality and the under-development of our human and cultural capital. And we need to harness the insights and ingenuity of those South African émigrés such as Elon Musk who made their mark globally. We also need to find ways and means to access and use the polymaths (current or emerging), visionary thinkers and captains from South Africa.

Reimaging the State

In the inter-war years, South Africa, as David Yudelman (1983) suggests, built one of the world's first development states with sophisticated state machinery funded mostly from budget surpluses from the mining sector. However, in the mid-1980s, a process of partial commercialisation, privatisation and hollowing out of state-owned assets took place. By the mid-2010s the South African state had shifted from a more production-oriented model to that of an administrative one (Haines 2014). The state has become more cumbersome and costly with the country's public sector wage bill as a proportion of GDP standing at 10.5%—the third highest in the world (Comins 2024).

Entwined with deindustrialisation are high levels of unemployment compounded by the highest income inequality level (0.67) in the world. This, in fact, has increased somewhat since 1994 (Valodia 2023). Brazil by comparison also has a relatively high inequality index, but its unemployment rate of 6.4 % in September 2024 (Statistica 2024) is one-fifth of that of South Africa.

In confronting deindustrialisation in South Africa, we should remember that there is an art to good policy-making and implementation. We should reflect on best practice international examples, as well as history, to get an idea of the nature, scope and thinking behind the kinds of interventions that are required to generate positive outcomes.

The achievements of the wartime cabinet in South Africa in the early and mid-1940s, in stimulating industrial, manufacturing and agricultural production for the war effort is one historical touchstone (Paton 1964). The massive developmental programmes of the 'New Deal' of the Roosevelt Administration during the Depression years of the 1930s America, is another. Interestingly, at the height of the Depression in 1933, 24,9% of the total workforce were out of work—distinctly lower than the current levels in South Africa. In addition, the New Deal programmes also dealt with growing income inequality, with the Revenue Act of 1935 introducing the Wealth Tax, a progressive tax that took up to 75% of the highest incomes (Thorndike 2022; Nicholls 2024).
To help address South Africa's lack of work opportunities, former senior Economic adviser to government, Charles Stride, suggests raising corporate tax from the current 29% to 45%, with companies being given tax credits for formal new jobs created (Stride 2022). He argues that South African corporates, notwithstanding the economic downturn, have been making larger profits in recent years, a good deal of which has been channelled overseas (2024).

- Post-apartheid South Africa has a myriad of state-funded development agencies at national, sub-national and local levels. They have, if anything, grown in terms of size and staff complement; a good number of them have mandates that allow for some or other form of economic and/or industrial development. This plethora of institutional players presents a challenge to the coordination and logistics of countering deindustrialisation and stimulating reindustrialisation. The situation is compounded by certain logistical inability to undertake inter-governmental collaboration.

The re-imagination of the state is thus imperative. This would include current national Treasury initiative to reduce the wage bill. However, reforms need to extend far beyond this. A highly skilled and educated core of 'economic bureaucrats' drawing from Japanese and East Asian, and international best practice, need to be developed. The existing inefficient and costly procurement regime at national and sub-national levels should be replaced by a more centralised process with more controls on pricing as in the Australian federal government model (Stride 2022).

Any major smart restructuring of the state should also bear in mind the following points:

- State reform will need to occur within and without the current structures.
- Large-scale narratives generated within civil society, especially if linked with social media, have a significant impact on changing economic and even political outcomes, argues Noble Prize winner Robert Schiller (2019).
- New and creative partnerships on bilateral and multilateral bases for projects at national and especially sub-national levels are trending internationally and providing new mixed forms of funding. In this regard, the use and institutionalisation of abundant voluntary resources and voluntary capital makes good sense. For example, in 2021, unpaid social contributions, including volunteering, were valued at $287.86 billion, which was 14% of Australia's GDP (Tran & Occhipinti 2023).

Conclusion

Addressing the social and economic challenges in South Africa requires a raft of interventions that include the reforming and streamlining of state operations and spending. These efforts should be accompanied by a change in mind-set, a wholesale commitment from the public and private sectors, the third sector, and the citizens. Policymakers should consider the historical context of development in South Africa, as this will help them understand what has happened, what worked and what has been forgotten, and what might be achieved from national and comparative international perspectives.

The principles of EOI will provide a useful foundation for these efforts. Embracing EOI will allow a less-fettered, more innovative and productive approach to the interventions and projects. By prioritising ingenuity and collaboration, South Africa will be able to proactivity address current challenges and pave the way for a prosperous future.

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