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# Planting the seeds of future prosperity

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There is an old saying: the best time to plant a tree was twenty years ago. The second-best time to plant is now. The promise of a second phase of Operation Vulindlela (OV), South Africa's flagship economic reform programme, was the glue that bound the Government of National Unity (GNU) together. While it has taken the GNU almost a year, the tree was finally planted last week.

The first phase of OV literally kept the lights on. In 2021, one small change – lifting, then removing, the licensing threshold for electricity generation - unlocked 9.5GW of renewable energy. Without this new capacity, severe load-shedding would likely have persisted throughout 2024 and deep into 2025. The economy barely grew in 2024, imagine the damage if we had experienced another year of intense load-shedding?

By our estimates, the reforms initiated in phase one could raise GDP growth to nearly 3.5% by the end of the decade. Phase two aims to ensure the original set of reforms are completed, while expanding into new areas that are critical for long-term economic growth. With load-shedding sneaking back, accelerating the pace of the electricity reforms and advancing the restructuring of Eskom are priority actions.

Allowing more private sector participation in ports, rail and water also remain priorities in OV 2.0. Beyond local success with electricity, the international experience suggests this is the right way to go. When China decided to introduce private sector participation into its port system, the results were immediate and spectacular.

To be fair, improving efficiency at South Africa's underperforming ports was a core part of OV 1.0, but progress has been disappointing. The number of containers moving through South African ports has not meaningfully recovered and is still sharply down from 2018 (see graph).

Our rail system is also not up to scratch and has resulted in our missing out on prior global upswings. Take the strong rise in demand for electric vehicles and green technology, which has meant a surge in demand for manganese. South Africa has 30% of global manganese reserves and produces 36% of world demand. Moreover, US reciprocal tariffs do not (yet) apply to raw minerals. But to benefit, we need to be able to get it out.

Much of our manganese travels along the Sishen to Saldanha line. This line is ripe for private sector operation, as only a few players use it and so could help carry the cost of expanding infrastructure.

OV 1.0's water reforms have resulted in the creation of a new National Water Resources Infrastructure Agency to plan and finance bulk infrastructure; the water licensing process has been streamlined; and national water quality monitoring has been reinstated. It's a promising start but more remains to be done.

OV 2.0 adds new initiatives. It is clear that municipalities have become the major handbrake on growth. Lifting this brake, particularly in the metros, is a vital test for OV 2.0.

One of the most important pillars for fixing municipalities is to ringfence their trading services, including of electricity, water and waste. This is the simple idea that all electricity revenue, for example, should go to electricity provision. The same with water. Currently, municipalities use revenue from these trading services to cross-subsidise other areas, which are often wasteful and inefficient, leaving their utilities with insufficient funds to maintain key basic infrastructure.

The case of Joburg Water, once a flagship entity that is now financially unsustainable, is a case in point. Where is this money going? In January this year, the High Court ruled against the City of Joburg's bid to enhance the security detail of the mayor and senior officials. It was spending R3m a month on 60 bodyguards and 40 vehicles, with the mayor alone having 10 bodyguards and six vehicles.

### **Will we see more growth?**

Almost a year ago, the BER estimated that the successful and rapid implementation of existing economic reforms (OV1.0) could push growth beyond 3%. This has never become our base case, as progress on implementation has been too slow. Even on energy, the success story, the risk of load-shedding has returned while port reforms remain bogged down in legal challenges.

Can we still get to 3%? Yes, but it will be even harder now that global conditions have deteriorated. The acid test of the reform agenda is not the number of requests for information issued. It is what those lead to. We need to see the energy availability factor rise from 55% back to at least 60% or 70%. We need to see many more containers flowing through our ports. We need to see our municipalities delivering services from well-run, financially sustainable entities.

In short, we need to see actual measured improvements for sentiment to start lifting, which will then boost spending and investment. But we must sound a note of caution: one of the key elements of OV's past success was its focus on a limited number of key reforms that were largely regulatory in nature. This prevented a dissipation in focus and allowed momentum to build. An expansion in the unit's mandate, both in the number and the nature of the reforms, if not matched with a commensurate increase in capacity, places the entire agenda at risk.

Last year, better sentiment bought us time for reforms to kick in; we do not have that luxury now. We know what we need to get there. The tree of future economic success has been planted. Now it needs to be carefully tended to grow.

**Figure 1: Container volumes have stalled through our ports**



Source: Transnet

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